NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2006

1. GENERAL INFORMATION

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

The Company is an investment holding company. Details of the principal activities of the principal subsidiaries and jointly controlled entities are set out in notes 32 and 16 respectively.

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

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

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS/OTHER RESTATEMENT

In the current year, the Group has adopted a number of new or revised International Accounting Standards ("IASs"), International Financial Reporting Standards ("IFRSs") and Interpretations (hereinafter collectively referred to as "new IFRSs") issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and are effective for accounting periods beginning on or after 1st January, 2005. The adoption of the new IFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new IFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

Share-based Payments

In 2004, IASB issued IFRS 2 "Share-based Payment", which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of IFRS 2 on the Group is in relation to the expensing of directors' and employee's share options of the Company. Prior to the adoption of IFRS 2, the Group did not recognise the financial effect of share-based payments.

Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company as share premium.

The Group has taken advantage of the transitional provisions set out in IFRS 2. In relation to share options granted on or before 7th November, 2002 and share options granted after 7th November, 2002 and vested before 1st July, 2005 (effective date of IFRS 2), the Group has not recognised and expensed those share options. As all share options granted in prior years were vested before 1st July, 2005 and no options were granted during the current year, the adoption of IFRS 2 has no impact to the Group's financial statements of the current year.

Financial Instruments

In the current year, the Group has applied the revised IAS 39 "Financial Instruments: Recognition and Measurement", which is effective for accounting periods beginning on or after 1st January, 2005, retrospectively.

In prior years, interest-free loans were stated at their nominal values. The revised IAS 39 requires that all financial assets and financial liabilities to be measured at fair value on initial recognition. Interest-free loans are measured at amortised cost using the effective interest method at subsequent balance sheet dates. Comparative figures have been restated. The Group's retained profits as at 1st July, 2004 have been increased by approximately HK$84,018,000. Profit for the year ended 30th June, 2006 has been decreased by approximately HK$2,488,000 (2005: HK$1,613,000) (see Note 2A for financial impact).

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS/OTHER RESTATEMENT (continued)

At the date of authorisation of these financial statements, the following new standards, amendments and interpretations were in issue but not yet effective:

IAS 1 (Amendment)	Capital disclosures[1]
IAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
IAS 21 (Amendment)	Net investment in a foreign operation[2]
IAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
IAS 39 (Amendment)	The fair value option[2]
IAS 39 & IFRS 4 (Amendments)	Financial guarantee contracts[2]
IFRS 6	Exploration for and evaluation of mineral resources[2]
IFRS 7	Financial instruments: Disclosures[1]
IFRIC 4	Determining whether an arrangement contains a lease[2]
IFRIC 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
IFRIC 6	Liabilities arising from participating in a specific market - waste electrical and electronic equipment[3]
IFRIC 7	Applying the restatement approach under IAS 29 Financial reporting in hyperinflationary economies[4]
IFRIC 8	Scope of IFRS 2[5]
IFRIC 9	Reassessment of embedded derivatives[6]
IFRIC 10	Interim financial reporting and impairment[7]

1 Effective for annual periods beginning on or after 1st January, 2007
2 Effective for annual periods beginning on or after 1st January, 2006
3 Effective for annual periods beginning on or after 1st December, 2005
4 Effective for annual periods beginning on or after 1st March, 2006
5 Effective for annual periods beginning on or after 1st May, 2006
6 Effective for annual periods beginning on or after 1st June, 2006
7 Effective for annual periods beginning on or after 1st November, 2006

The Group has not early adopted these new standards, amendments and interpretations in the current year's financial statements. The Group is in the process of determining whether these new standards, amendments and interpretations will have any material impact on the financial statements of the Group in the future periods.

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior periods are as follows:

	2005 HK$'000	**2006 HK$'000**
Imputed interest income on non-current interest-free loans made to a jointly controlled entity	24,662	**23,244**
Imputed interest expense on non-current interest-free loans made by outside joint venture partners to a jointly controlled entity	(26,029)	**(25,463)**
Imputed interest expense on non-current other interest-free loan	(246)	**(269)**
Decrease in profit for the year	(1,613)	**(2,488)**
Decrease in profit attributable to equity holders of the Company	(1,613)	**(2,488)**

Analysis of decrease in profit for the year in accordance with the presentation of the consolidated income statement:

	2005 HK$'000	**2006 HK$'000**
Increase in other income	24,662	**23,244**
Increase in finance costs	(26,275)	**(25,732)**
Decrease in profit for the year	(1,613)	**(2,488)**

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS/OTHER RESTATEMENT (continued)

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (continued)

Effect on the balance sheet as at 30th June, 2005 are as follows:

	As originally stated HK$'000	Effect of revised IAS 39 HK$'000	Effect of revised IAS 1 HK$'000	As restated HK$'000
Balances with jointly controlled entities	1,201,151	(106,156)	–	1,094,995
Bank and other loans - non-current portion	(4,600,399)	12,467	–	(4,587,932)
Balances with outside joint venture partners	(790,986)	176,094	–	(614,892)
Total effect on assets and liabilities		82,405	–	
Retained profits	1,937,600*	82,405	–	2,020,005
Minority interests	–	–	33,109	33,109
Total effect on equity		82,405	33,109	
Minority interests	33,109	–	(33,109)	–

The financial effects of the application of the new IFRSs to the Group's equity on 1st July, 2004 are summarised below:

	As originally stated HK$'000	Effect of revised IAS 1 HK$'000	As restated HK$'000
Retained profits	1,701,458*	84,018	1,785,476
Minority interests	–	32,239	32,239
Total effects on equity	1,701,458	116,257	1,817,715

* The retained profits shown above include dividend reserve previously presented as a separate item in reserves.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values. The principal accounting policies adopted are as follows:

Basis of consolidation

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

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

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

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 entity so as to obtain benefits from its activities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in jointly controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

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

Additional investment cost in jointly controlled entities

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

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

Property and equipment

Property and equipment other than construction in progress are stated at cost less accumulated depreciation and impairment losses, if any.

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

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

Depreciation of toll expressways is calculated to write off their costs, commencing from the date of commencement of commercial operation of the toll expressways, based on the ratio of actual traffic volume compared to the total expected traffic volume over the remaining period of the 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 expressways is recognised at the time of usage and when the tolls are received and receivable.

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

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 renting of machinery and equipment to local contractors and leasing of spaces along the toll expressway for advertisement, is recognised on a straight-line basis over the term of the relevant leases.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's operations outside Hong Kong (including comparatives) are expressed in Hong Kong dollars using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) 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 in the income statement in the year in which the foreign operation is disposed of.

Borrowing costs

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

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

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense 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 expenses represent the sum of the tax currently payable and deferred tax.

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

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of such assets to be recovered.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

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

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

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

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

Inventories

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

Financial instruments

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

Balances with jointly controlled entities, other receivables and other receivable from an outside joint venture partner

Balances with jointly controlled entities, other receivables and other receivable from an outside joint venture partner are initially measured at fair value and subsequently measured at amortised cost using effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the assets are impaired. The allowances recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Held-to-maturity debt securities

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

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest method, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and are subject to an insignificant risk of changes in value.

Bank and other loans

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

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

Other payables, other interest payable, other payable to a jointly controlled entity, and balances with outside joint venture partners are initially measured at fair value and subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company, including the warrants that allow the holder to subscribe for the Company's equity instruments in exchange for a fixed amount of cash, are recorded at the proceeds received net of direct issue cost.

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at 30th June, 2006, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

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

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

As an established policy of the Group, the total expected traffic volume is reviewed regularly by management of the Company. Independent traffic studies will be performed in order to ascertain any appropriate adjustments should there be material changes in assumptions. The total expected traffic volume applied by the Group for the determination of depreciation of toll expressways and amortisation of additional investment cost in jointly controlled entities for the year ended 30th June, 2006 was based on an independent traffic study performed in 2003. In current year, the Group reported depreciation of toll expressways and amortisation of additional investment costs amounting to approximately HK$252,829,000 and HK$51,772,000 respectively. The Company's management consider that these are the best estimates on the total expected traffic volume and there should not be material different from the actual traffic volume.

(b) Deferred tax assets

Deferred tax assets are recognised for unused tax losses carried forward to the extent it is probable that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgement regarding the future financial performance of the particular legal entity in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences and the periods in which estimated tax losses can be utilised. The carrying amounts of deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the carrying forward tax losses, the asset balance will be reduced and charged to the income statement.

5. TURNOVER AND SEGMENT INFORMATION

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

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

6. OTHER INCOME

	2005 HK$'000 (restated)	**2006** **HK$'000**
Interest income from:		
A jointly controlled entity (interest-bearing loan)	20,272	**31,060**
An outside joint venture partner	16,683	**–**
Bank deposits	26,507	**108,187**
Held-to-maturity debt securities (net premium amortised of HK$3,914,000 (2005: HK$40,826,000))	24,494	**3,822**
Imputed interest income on interest-free loan made to a jointly controlled entity (note 2A)	24,662	**23,244**
Net exchange gain	–	**146,272**
Rental income	20,734	**7,897**
Management fee income from jointly controlled entities	4,400	**3,962**
Others	6,572	**12,277**
	144,324	**336,721**

7. FINANCE COSTS

	2005 HK$'000 (restated)	**2006 HK$'000**
Interest on:		
Bank loans	174,965	**246,161**
Loan made by a jointly controlled entity	20,877	**–**
Loan made by an outside joint venture partner (interest-bearing loans)	296	**295**
Other loan wholly repayable within five years	4,793	**5,078**
Imputed interest on:		
Interest-free loan made by outside joint venture partners (note 2A)	26,029	**25,463**
Other interest-free loan (note 2A)	246	**269**
	227,206	**277,266**
Other financial expenses (note)	–	**8,942**
	227,206	**286,208**

Note: The amount represents the fees and related charges in connection with the revolving credit and term loan facilities in the aggregate amount of HK$3,600,000,000 offered to the Group by a syndicate of banks which is available for a period of 5 years commencing from 13th October, 2005. At 30th June, 2006, the Group did not utilise any part of such facilities.

8. PROFIT BEFORE TAX

	2005 HK$'000	**2006 HK$'000**
Profit before tax has been arrived at after charging (crediting):		
Auditors' remuneration		
Current year	1,004	**1,632**
Overprovision in prior year	(145)	**(215)**
	859	**1,417**
Net exchange losses	6,299	**–**
Staff costs (excluding directors)	69,865	**73,171**
Amortisation of:		
Additional investment cost in jointly controlled entities	45,829	**51,772**
Prepaid lease payments	4,435	**4,620**
Depreciation of:		
Toll expressways	215,598	**252,829**
Other property and equipment	5,817	**11,005**
(Gain) loss on disposal of property and equipment	(80)	**11,059**
Loss on disposal of held-to-maturity debt securities	751	**–**

9. INCOME TAX EXPENSES

	2005 HK$'000	2006 HK$'000
The tax charge comprises:		
PRC income tax	34,819	**84,738**
Deferred taxation (note 28)	28,601	**26,559**
	63,420	**111,297**

The PRC income tax charge represents the Group's proportionate share of the provision for the PRC foreign enterprise income tax of 廣深珠高速公路有限公司 Guangzhou-Shenzhen-Zhuhai Superhighway Company Limited ("GS Superhighway JV"), a jointly controlled entity of the Group, amounting to approximately HK$84,530,000 (2005: HK$34,544,000) which is calculated at 7.5% (2005: 7.5%) of the estimated assessable profit for the year (2005: estimated assessable profit for the period from 1st January, 2005 to 30th June, 2005 after the 5-year exemption from the PRC foreign enterprise income tax expired on 31st December, 2004) and the provision of PRC withholding tax on the income received and receivable from the Group's jointly controlled entity amounting to approximately HK$208,000 (2005: HK$275,000) which is calculated at the rates prevailing in the PRC.

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 exemptions and reliefs from PRC foreign enterprise income tax. The normal tax rate applicable to the taxable income of a foreign investment enterprise in the PRC is 33%, comprising the standard national tax rate of 30% and the local tax rate of 3%.

Pursuant to an approval from the Guangdong Provincial Tax Bureau, the rate of foreign enterprise income tax payable by GS Superhighway JV in respect of its income arising from the operation of toll expressways and related service facilities (excluding hotels and entertainment facilities) is 15% and GS Superhighway JV is entitled to a 5-year exemption from foreign enterprise income tax for such income commencing from the first profit-making year, as computed under PRC accounting standards and tax regulations. The first year for which GS Superhighway JV recorded profits for the PRC tax purposes was the year ended 31st December, 2000 and the 5-year exemption from foreign enterprise income tax expired in December, 2004. For the next 5 years, it will enjoy a 50% reduction in the rate of foreign enterprise income tax payable in respect of such income. Pursuant to another approval from the Guangdong Provincial Tax Bureau, GS Superhighway JV is also exempt from paying a local income tax (currently set at the rate of 3%) in respect of income arising from the operation of toll expressways and related service facilities for 10 years commencing from the first profit-making year.

Pursuant to an approval from the Guangzhou branch of the State Tax Bureau, the rate of foreign enterprise income tax payable by 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 the toll expressway is 15%. Pursuant to an approval from the Guangzhou Municipal Government, Ring Road JV is entitled to a 5-year exemption from foreign enterprise income tax for such income commencing from the first profit-making year, as computed under PRC accounting standards and tax regulations. For the next 5 years, it will enjoy a 50% reduction in the rate of foreign enterprise income tax payable. In respect of income arising from the toll expressway operations and related service facilities, Ring Road JV is also exempted from paying a local income tax (currently set at the rate of 3%) for 10 years commencing from the first profit-making year. Because Ring Road JV has not yet commenced its first profit-making year for PRC tax purposes, the exemptions from paying foreign enterprise income tax and local income tax have so far had no effect on Ring Road JV.

廣東廣珠西綫高速公路有限公司 Guangdong Guangzhou-Zhuhai West Superhighway Company Limited ("West Route JV") commenced its operation in April 2004 and is now in the process of applying for certain exemptions and reliefs from the relevant tax authority. No provision for PRC income tax for West Route JV has been made as the jointly controlled entity has available tax losses carried forward for the year ended 31st December, 2005 to offset future profit for PRC tax purposes.

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

	2005 HK$'000 (restated)	2006 HK$'000
Profit before tax	980,551	**1,260,215**
Tax at normal PRC income tax rate of 33%	323,582	**415,871**
Effect of concessionary rate on income tax expenses	(222,835)	**(201,260)**
Tax effect of income not taxable for tax purposes	(33,130)	**(79,300)**
Tax effect of expenses not deductible for tax purposes	52,247	**68,560**
Differential tax rate on temporary difference of jointly controlled entities	(56,444)	**(92,574)**
Income tax expenses	63,420	**111,297**

10. DIVIDENDS

	2005 HK$'000	**2006** **HK$'000**
Dividends paid		
Interim dividend paid of HK11.50 cents (2005: HK10.25 cents) per share	296,043	**337,707**
Final dividend paid for year ended 30th June, 2005 paid of HK12.75 cents (2005: year ended 30th June, 2004 paid of HK12.50 cents) per share	360,303	**368,310**
	656,346	**706,017**
Final dividend proposed of HK17.00 cents (2005: HK12.75 cents) per share	368,274	**504,547**

A final dividend in respect of the financial year 2006 of HK17.00 cents per share amounting to a total of approximately HK$504,547,000 is proposed by the Board. The dividend is subject to approval by shareholders at the forthcoming annual general meeting and has not been included as a liability in these financial statements. The proposed final dividend is calculated based on the number of shares in issue at the date of approval of these financial statements.

11. EARNINGS PER SHARE

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

	2005 HK$'000 (restated)	**2006** **HK$'000**
Earnings for the purpose of basic and diluted earnings per share	899,304	**1,128,490**

	2005 Number of shares	**2006** **Number** **of shares**
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,884,047,244	**2,905,096,514**
Effect of dilutive potential ordinary shares:		
Warrants	18,516,745	**15,766,115**
Share options	380,009	**281,586**
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,902,943,998	**2,921,144,215**

Impact of changes in accounting policies

Changes in Group's accounting policies during the year are described in detail in note 2. To the extent that changes have had an impact on results reported for 2005 and 2006, they have had an impact on the amounts reported for earnings per share. The following table summarises that impact on both basic and diluted earnings per share:

	Impact on basic earnings per share		**Impact on diluted earnings per share**	
	2005 HK cents	**2006** **HK cents**	2005 HK cents	**2006** **HK cents**
Figures before changes in accounting policies	31.24	**38.94**	31.03	**38.72**
Effect on changes in accounting policies (note 2A)	(0.06)	**(0.09)**	(0.05)	**(0.09)**
Figures after changes in accounting policies	31.18	**38.85**	30.98	**38.63**

12. RETIREMENT BENEFITS PLANS

The employees of the Group participate in the Mandatory Provident Fund ("MPF") Scheme operated by its ultimate holding company. Mandatory contributions to the scheme are made by both the employer and employees at 5% of the employees' monthly relevant income capped at HK$20,000 per employee. At 30th June, 2006, there were no forfeited contributions available to reduce future obligations. The contributions made by the Group to the MPF Scheme for the year are approximately HK$363,000 (2005: HK$359,000).

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$6,196,000 (2005: HK$4,625,000).

13. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

Directors' emoluments

The emoluments paid or payable to each of the 12 (2005: 12) directors were as follows:

	2005					**2006**				
	Directors' fees HK$'000	Salaries and other benefits HK$'000	Bonus HK$'000	Contributions to retirement benefits plans HK$'000	Total HK$'000	**Directors' fees HK$'000**	**Salaries and other benefits HK$'000**	**Bonus HK$'000**	**Contributions to retirement benefits plans HK$'000**	**Total HK$'000**
Gordon Ying Sheung WU	300	3,000	–	–	3,300	**300**	**3,000**	**–**	**–**	**3,300**
Eddie Ping Chang HO	250	2,400	–	–	2,650	**250**	**2,400**	**–**	**–**	**2,650**
Thomas Jefferson WU	200	1,656	138	12	2,006	**200**	**1,656**	**138**	**12**	**2,006**
Alan Chi Hung CHAN	200	1,680	138	12	2,030	**200**	**1,701**	**138**	**12**	**2,051**
Leo Kwok Kee LEUNG	200	1,500	125	12	1,837	**200**	**1,500**	**125**	**12**	**1,837**
Lijia HUANG (note c)	200	602	30	–	832	**200**	**520**	**88**	**–**	**808**
Cheng Hui JIA	200	1,049	70	12	1,331	**200**	**838**	**70**	**–**	**1,108**
Philip Tsung Cheng FEI	200	–	–	–	200	**200**	**–**	**–**	**–**	**200**
Barry Chung Tat MOK (note b)	n/a	n/a	n/a	n/a	n/a	**175**	**–**	**–**	**–**	**175**
Lee Yick NAM	200	–	–	–	200	**200**	**–**	**–**	**–**	**200**
Kojiro NAKAHARA	200	–	–	–	200	**200**	**–**	**–**	**–**	**200**
Gordon YEN	200	–	–	–	200	**200**	**–**	**–**	**–**	**200**
Christopher Shih Ming IP (note a)	103	764	120	7	994	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
	2,453	12,651	621	55	15,780	**2,525**	**11,615**	**559**	**36**	**14,735**

Notes:

a. Mr. Christopher Shih Ming IP resigned as a director of the Company with effect from 5th January, 2005.

b. Mr. Barry Chung Tat MOK was appointed as a director of the Company with effect from 15th August, 2005.

c. The directors' emoluments paid or payable to Mr. Lijia HUANG included approximately HK$58,000 (2005: HK$77,000) paid by GS Superhighway JV.

Five highest paid individuals emoluments

The five highest paid individuals of the Group in 2006 and 2005 were all directors of the Company and details of their emoluments are disclosed above.

During the two years ended 30th June, 2006, no emoluments were paid by the Group to any of the persons who are directors or the five highest paid individuals of the Company as an inducement to join or upon joining the Group or as compensation for loss of office and none of the persons who are directors of the Company waived any emoluments.

14. PROPERTY AND EQUIPMENT

	Toll expressways HK$'000	Motor vehicles HK$'000	Furnitures, fixtures and equipment HK$'000	Construction in progress HK$'000	Total HK$'000
COST					
At 1st July, 2004	10,456,043	22,711	22,573	7,380	10,508,707
Exchange adjustments	(27,065)	(78)	(74)	(24)	(27,241)
Additions	3,204	6,154	4,138	49,226	62,722
Transfer	13,875	–	6,773	(20,648)	–
Disposals	–	(460)	(109)	–	(569)
Adjustments to construction cost payable	–	–	–	(1,102)	(1,102)
At 30th June, 2005	10,446,057	28,327	33,301	34,832	10,542,517
Exchange adjustments	298,319	1,029	1,187	1,226	301,761
Additions	–	1,116	14,858	26,953	42,927
Transfer	–	–	54,346	(54,346)	–
Disposals	(27,921)	(701)	(627)	–	(29,249)
At 30th June, 2006	**10,716,455**	**29,771**	**103,065**	**8,665**	**10,857,956**
DEPRECIATION					
At 1st July, 2004	937,486	18,198	8,312	–	963,996
Exchange adjustments	(2,349)	(64)	(29)	–	(2,442)
Charge for the year	215,598	2,597	3,220	–	221,415
Eliminated on disposals	–	(432)	(105)	–	(537)
At 30th June, 2005	1,150,735	20,299	11,398	–	1,182,432
Exchange adjustments	33,507	847	746	–	35,100
Charge for the year	252,829	2,234	8,771	–	263,834
Eliminated on disposals	(3,559)	(695)	(113)	–	(4,367)
At 30th June, 2006	**1,433,512**	**22,685**	**20,802**	**–**	**1,476,999**
CARRYING AMOUNTS					
At 30th June, 2005	9,295,322	8,028	21,903	34,832	9,360,085
At 30th June, 2006	**9,282,943**	**7,086**	**82,263**	**8,665**	**9,380,957**

15. ADDITIONAL INVESTMENT COST IN JOINTLY CONTROLLED ENTITIES

	HK$'000
COST	
At 1st July, 2004, 30th June, 2005 and 30th June, 2006	**2,073,512**
AMORTISATION	
At 1st July, 2004	212,560
Charge for the year	45,829
At 30th June, 2005	258,389
Charge for the year	51,772
At 30th June, 2006	**310,161**
CARRYING AMOUNTS	
At 30th June, 2005	1,815,123
At 30th June, 2006	**1,763,351**

16. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

Particulars of the Group's jointly controlled entities at 30th June, 2006 are as follows:

Name of company	Place of establishment	Registered capital	Principal activity
廣深珠高速公路有限公司 Guangzhou-Shenzhen-Zhuhai Superhighway Company Limited	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	The PRC	US$55,000,000	Development, operation and management of an expressway
廣東廣珠西綫高速公路有限公司 Guangdong Guangzhou-Zhuhai West Superhighway Company Limited	The PRC	RMB588,000,000	Development, operation and management of an expressway

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

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

(i) GS Superhighway JV

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

The development of phases II and III of the project, comprising a major transportation route in western Pearl River Delta ("Western Delta Route"), is undertaken by the West Route JV.

The Group's entitlement to the profit of the toll operations of GS Superhighway JV is 50% for the initial 10 years of operation period, 48% for the next 10 years and 45% for the last 10 years of the operation period. In addition to its entitlement to share in profit distributions, the Group is entitled to the repayment of HK$702,000,000 registered capital contribution out of the GS Superhighway JV's net cash flow after the payment of various items such as operating expenses, tax and debt service obligations, all as stated in the joint venture agreement of GS Superhighway JV. However, this is also subject to the terms of bank loan facilities of GS Superhighway JV which restrict repayment of registered capital contributed by the Group prior to full repayment of the bank loans and applicable PRC rules and regulations. The Group is also entitled to a share of 80% of the rentals and other income, after deduction of operating and financial expenses, arising from the development of commercial centres and shop spaces along and underneath certain portion of GS Superhighway for a period of 30 years commencing on the date of completion of the construction of the GS Superhighway. GS Superhighway JV has also been granted the contingent rights to develop parcels of land within certain interchanges of GS Superhighway for sale or rental. The detailed terms of such grant have yet to be finalised. GS Superhighway was officially opened in July 1997.

(ii) Ring Road JV

Ring Road JV is established to undertake the construction, operation and management of an expressway running along the eastern, southern and western fringes of the Guangzhou urban areas ("ESW Ring Road"). The operation period is 30 years commencing from 1st January, 2002. The Group is entitled to 45% of the net cash flow (that is, gross operating income net of operating expenses and tax) of ESW Ring Road for the initial 10 years of operation and thereafter the Group's net cash flow entitlement will be reduced to 37.5% for the subsequent 10 years and 32.5% for the remaining years of operation of the entire operation period of Ring Road JV. ESW Ring Road was officially opened in January 2002. At the end of the operation period, all the immovable assets and facilities of Ring Road JV will revert to the PRC joint venture partner without compensation. As stated in the joint venture agreement of Ring Road JV, the joint venture partners are entitled to the repayment of registered capital contribution with no specific repayment term. Such repayment of registered capital contribution is also subject to the applicable PRC rules and regulations.

16. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (continued)

(iii) West Route JV

West Route JV is established to undertake the construction, operation and management of an expressway linking Guangzhou, Zhongshan and Zhuhai. Phase I of the expressway ("Phase I West") was officially opened on 30th April, 2004 and the joint venture co-operation period is 30 years commencing from 17th September, 2003. The Group is entitled to 50% of the distributable profits from operation of West Route JV. At the end of the joint venture co-operation period, all the immovable assets and facilities of West Route JV will revert to relevant PRC government department which regulates transportation without compensation. As stated in the joint venture agreement of West Route JV, the joint venture partners are entitled to the repayment of registered capital contribution with no specific repayment term. Such repayment of registered capital contribution is also subject to the applicable PRC rules and regulations.

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

In respect of the year ended 30th June, 2005:

	GS Superhighway JV HK$'000 (restated)	Ring Road JV HK$'000 (restated)	West Route JV HK$'000	Total HK$'000 (restated)
Current assets	363,993	94,577	26,836	485,406
Non-current assets	5,217,339	1,843,209	704,860	7,765,408
Current liabilities	247,179	11,824	58,780	317,783
Non-current liabilities	3,715,811	1,385,762	386,291	5,487,864
Income	1,354,558	145,338	44,868	1,544,764
Expenses	431,390	149,700	34,040	615,130

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

	GS Superhighway JV HK$'000	**Ring Road JV HK$'000**	**West Route JV HK$'000**	**Total HK$'000**
Current assets	**438,831**	**213,307**	**14,458**	**666,596**
Non-current assets	**5,236,300**	**1,998,898**	**721,260**	**7,956,458**
Current liabilities	**671,146**	**6,066**	**57,842**	**735,054**
Non-current liabilities	**3,552,795**	**1,439,071**	**366,833**	**5,358,699**
Income	**1,646,649**	**212,523**	**59,595**	**1,918,767**
Expenses	**614,576**	**163,723**	**45,456**	**823,755**

17. INVESTMENT IN TOLL EXPRESSWAY PROJECT UNDER DEVELOPMENT

The amount represents the costs incurred by the Group on the development of Phases II and III of the Western Delta Route.

The Western Delta Route is developed in three phases. Phase I West was constructed and operated by West Route JV and was opened to traffic on 30th April, 2004. The estimated total investment for the Phase II of Western Delta Route ("Phase II West") is RMB4,900,000,000, 35% of which is to be funded by an increase in the registered capital of West Route JV by RMB1,715,000,000 in total to be contributed by the Group and West Route JV PRC partner in equal share (i.e. each to contribute RMB857,500,000). The joint venture co-operation period for Phase II West was, subject to approval of the relevant PRC authorities, proposed to be 30 years commencing on the date on which the new business licence of West Route JV is issued. The Group is entitled to 50% of the distributable profits of West Route JV.

In September 2005, the Group conditionally amended the agreements with the PRC partner of West Route JV for the investment in and the planning, design, construction and operation of the Phase III of Western Delta Route ("Phase III West") through West Route JV. Subject to approval of the relevant PRC authorities, the estimated total investment for Phase III West is RMB3,260,000,000, 35% of which is to be funded by an increase in the registered capital of West Route JV by RMB1,141,000,000 in total to be contributed by the Group and West Route JV PRC partner in equal share (i.e. each to contribution RMB570,500,000). The joint venture co-operation period for Phase III West will be subject to approval of the relevant PRC authorities, and will be commencing on the date on which the new business licence of West Route JV is issued. The Group is entitled to 50% of the distributable profits of West Route JV.

18. PREPAID LEASE PAYMENTS

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

	HK$'000
COST	
At 1st July, 2004	133,488
Exchange adjustments	(425)
At 30th June, 2005	133,063
Exchange adjustments	4,676
At 30th June, 2006	**137,739**
AMORTISATION	
At 1st July, 2004	–
Charge for the year	4,435
At 30th June, 2005	4,435
Exchange adjustments	192
Charge for the year	4,620
At 30th June, 2006	**9,247**
CARRYING AMOUNTS	
At 30th June, 2005	128,628
At 30th June, 2006	**128,492**

Analysis of the carrying amounts:

	2005 HK$'000	**2006** **HK$'000**
Prepaid lease prepayments	128,628	**128,492**
Less: Portion to be charged to the income statement in next year included under current assets	(4,435)	**(4,591)**
	124,193	**123,901**

19. BALANCES WITH JOINTLY CONTROLLED ENTITIES

	2005 HK$'000 (restated)	**2006** **HK$'000**
Registered capital contribution made by the Group to the following jointly controlled entities:		
GS Superhighway JV	351,000	**351,000**
Ring Road JV	116,891	**116,891**
West Route JV	132,858	**132,858**
	600,749	**600,749**
Loans made by the Group to the following jointly controlled entities:		
GS Superhighway JV	75,302	**106,172**
Ring Road JV	418,944	**459,746**
	494,246	**565,918**
	1,094,995	**1,166,667**

The balances represent registered capital contribution and loans to jointly controlled entities made by the Group after elimination of the Group's proportionate share of the corresponding amounts of the jointly controlled entities.

The registered capital contribution made by the Group to jointly controlled entities does not have a specific repayment term. Registered capital contribution made by the Group to GS Superhighway JV of approximately HK$330,020,000 (2005: HK$330,020,000) carries interest at commercial lending rates, the remaining registered capital contribution made by the Group to the jointly controlled entities are interest-free. At the balance sheet date, the carrying amounts approximate their fair values.

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

The loan made by the Group to GS Superhighway JV carries interest at commercial lending rates. At the balance sheet date, the carrying amount approximates its fair value.

The loan made by the Group to Ring Road JV is interest-free. The original fair value of the loan made to Ring Road JV was determined based on the present value of the estimated future cash flows discounted at the effective interest rate computed at initial recognition.

20. OTHER RECEIVABLE FROM AN OUTSIDE JOINT VENTURE PARTNER

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

21. HELD-TO-MATURITY DEBT SECURITIES

During the year, all the debt securities were redeemed on maturity.

22. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Pledged bank deposits and bank balances and cash include time deposits of HK$3,248,048,000 (2005: HK$1,935,508,000) with original maturities ranging from 7 days to 6 months carry at prevailing interest rates ranging from 1.62% to 5.33% (2005: 1.62% to 3.28%).

At 30th June 2006, included in the pledged bank deposits and bank balances and cash are bank deposits of approximately HK$397,546,000 (2005: HK$359,363,000), which are held by the Company's PRC subsidiary and jointly controlled entities in United States dollars, Hong Kong dollars and RMB. The remittance of these bank deposits other than the distribution of dividends or reimbursement of operating expenses outside the PRC is subject to approval of the relevant local authorities.

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

23. FINANCIAL RISK MANAGEMENT AND POLICIES

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

Credit risk

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

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 30th June, 2006 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet.

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

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

Foreign currency risk

The majority of the revenue of the Group's jointly controlled entities are collected in RMB. Any devaluation of RMB would adversely affect the value of the jointly controlled entities' revenues and earnings in currencies other than RMB. Devaluation of RMB relative to United States dollars and/or Hong Kong dollars could increase the portion of the cash outflow of the jointly controlled entities which is required to satisfy obligations denominated in those currencies.

For jointly controlled entities, which consist of non-Hong Kong dollar assets, the Group generally endeavours to establish a natural hedge with an appropriate level of borrowings denominated in RMB. In addition, the reform of RMB exchange rate regime, with an initial appreciation of approximately 2% in July 2005, benefited the Group as a whole given the revenue generated from business operation of its jointly controlled entities is mainly denominated in RMB.

Interest rate risk

The Group is exposed to interest rate risk on floating rate bank loans through the impact of rate changes on interest-bearing financial assets and liabilities.

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

24. SHARE CAPITAL

	Number of shares	Nominal amount HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 1st July, 2004, 30th June, 2005 and 30th June, 2006	**10,000,000,000**	**1,000,000**
Issued and fully paid:		
At 1st July, 2004	2,880,590,046	288,059
Issue of shares upon exercise of warrants	5,392,715	539
Issue of shares upon exercise of share options	2,400,000	240
At 30th June, 2005	2,888,382,761	288,838
Issue of shares upon exercise of warrants	61,235,525	6,124
At 30th June, 2006	**2,949,618,286**	**294,962**

24. SHARE CAPITAL (continued)

Warrants

Pursuant to the written resolutions of the then sole shareholder of the Company passed on 16th July, 2003, the instrument constituting the warrants and the creation of the warrants of the Company (the "Warrants") were approved. The Warrants carrying subscription rights in aggregate of HK$365,890,598 were created and issued in registered form on 5th August, 2003 which conferred the right to registered holders to subscribe for 87,533,636 ordinary shares of the Company at an initial subscription price per share of HK$4.18 (subject to adjustment) exercisable during a period of three years commencing 6th August, 2003 (the "Subscription Rights").

During the year, the Subscription Rights of HK$255,964,495 (2005: HK$22,541,549) were exercised by registered holders to convert into 61,235,525 (2005: 5,392,715) ordinary shares of the Company.

At 30th June, 2006, the Subscription Rights of HK$84,918,163 (2005: HK$340,882,658) were outstanding, exercise of which in full would result in the issue of 20,315,350 (2005: 81,550,875) ordinary shares of the Company of HK$0.1 each.

Subsequent to the balance sheet date and up to the expiry of the Warrants on 5th August, 2006, the Subscription Rights of HK$76,527,427 were exercised by registered holders to convert into 18,307,997 ordinary shares of the Company.

Share option scheme

A share option scheme (the "Option Scheme") was adopted by the Company pursuant to the written resolutions of the then sole shareholder of the Company passed on 16th July, 2003 and approved by the shareholders of Hopewell Holdings Limited, the ultimate holding company of the Company, at an extraordinary general meeting held on 16th July, 2003. The Option Scheme shall be valid and effective for a period of 10 years and the purpose of which is to provide the Company with a means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to (i) any executive or non-executive directors including independent non-executive directors or any employees of each member of the Group; (ii) any discretionary objects of a discretionary trust established by any employees, executive or non-executive directors of each member of the Group; (iii) any consultants, professionals and other advisers to each member of the Group; (iv) any chief executives, or substantial shareholders of the Company; (v) any associates of director, chief 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.

Options granted must be taken up within 28 days from the date of the offer letter upon payment of HK$1, payable as consideration on acceptance, which is recognised in the income statement when received.

Details of the movement of share options of the Company during the year ended 30th June, 2005 are as follows:

	Date of grant	Exercise price HK$	Balance of outstanding options at 1st July, 2004	Options granted during the year	Options exercised during the year	Options cancelled/ lapsed during the year	Balance of outstanding options at 30th June, 2005	Exercise period
Directors:								
Leo Kwok Kee LEUNG	8th September, 2004	4.875	–	2,000,000	–	–	2,000,000	8th September, 2004 to 7th September, 2007
Christopher Shih Ming IP (note)	13th September, 2004	4.880	–	2,000,000	(2,000,000)	–	–	13th September, 2004 to 12th September, 2007
An employee	8th September, 2004	4.875	–	800,000	(400,000)	–	400,000	8th September, 2004 to 7th September, 2007
Total			–	4,800,000	(2,400,000)	–	2,400,000	

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

The weighted average closing price of the shares on the dates immediately before and at the dates on which the options were exercised by Mr. Christopher Shih Ming IP and the employee during the year ended 30th June, 2005 were HK$5.02 and HK$6.00 respectively.

24. SHARE CAPITAL (continued)

Share option scheme (continued)

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

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

The financial impact of these share options granted is not recorded in the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in prior year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

25. RESERVES

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

	2005 HK$'000 (restated)	**2006 HK$'000**
PRC statutory reserves	84,989	**94,716**
Translation reserve	3,415	**89,901**
Retained profits	1,375,086	**1,531,075**
	1,463,490	**1,715,692**

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

THE COMPANY

The Company's reserves available for distribution represent the share premium and retained profits. Under the Companies Law Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution of a dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends can only be distributed out of the retained profits and share premium of the Company. At 30th June, 2006, the Company's reserves available for distribution to its shareholders amounted to approximately HK$8,535,023,000 (2005: HK$8,096,125,000 (as restated)), comprising retained profits and share premium of approximately HK$1,147,107,000 (2005: HK$985,050,000 (as restated)) and HK$7,387,916,000 (2005: HK$7,138,075,000) respectively.

26. BANK AND OTHER LOANS

	2005 HK$'000 (restated)	**2006** **HK$'000**
Bank loans, secured	4,700,941	**4,555,315**
Other loans, unsecured	83,060	**86,250**
	4,784,001	**4,641,565**
The borrowings are repayable as follows:		
On demand or within one year	196,069	**264,987**
In the second year	259,132	**209,841**
In the third to fifth years inclusive	1,479,210	**817,009**
After five years	2,849,590	**3,349,728**
	4,784,001	**4,641,565**
Less: Amounts due for settlement within one year (shown under current liabilities)	(196,069)	**(264,987)**
Amounts due for settlement after one year	4,587,932	**4,376,578**

Analysis of the Group's borrowings by currency:

	At 30th June, 2005 US$ loans HK$'000	 RMB loans HK$'000 (restated)	 Total HK$'000
Bank loans	3,430,943	1,269,998	4,700,941
Other loans	–	83,060	83,060
	3,430,943	1,353,058	4,784,001

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

At 30th June, 2006, bank loans of approximately US$423,970,000 (2005: US$441,470,000) are denominated in currencies other than the functional currency of GS Superhighway JV, the relevant borrower of the Group.

The bank loans at 30th June, 2006 included a bank loan of approximately RMB735,500,000 (2005: RMB735,500,000) borrowed by Ring Road JV to which, pursuant to relevant agreements entered into among the joint venture partners of Ring Road JV, the Group is responsible for servicing.

At 30th June, 2006, the Group had available HK$3,600,000,000 (2005: Nil) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Other than the amount of the other loans of approximately HK$4,295,000 (2005: HK$3,887,000 (as restated)) at 30th June 2006, which is interest-free and repayable at the end of the operation period of GS Superhighway JV (i.e. June 2027), ("GS interest-free loan"), bank and other loans carry interest at commercial lending rates. The original fair value of GS interest-free loan was determined based on the present value of the estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The average effective interest rates of interest for bank and other loans for the year were 5.2% (2005: 3.7%) and 5.9% (2005: 5.0%) respectively. At the balance sheet date, the carrying amounts of the bank and other loans approximate their fair values.

27. BALANCES WITH OUTSIDE JOINT VENTURE PARTNERS

	2005 HK$'000 (restated)	**2006** **HK$'000**
Registered capital contribution made by outside joint venture partners of:		
Ring Road JV	95,638	**95,638**
West Route JV	138,474	**138,474**
	234,112	**234,112**
Loans made to jointly controlled entities by outside joint venture partners of:		
GS Superhighway JV	8,310	**7,503**
Ring Road JV	372,470	**399,302**
	380,780	**406,805**
	614,892	**640,917**

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

The registered capital contribution from outside joint venture partners to jointly controlled entities are interest-free and do not have a specific repayment term. At the balance sheet date, the carrying amounts approximate their fair values.

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

The loan made by outside joint venture partner of GS Superhighway JV carries interest at commercial lending rates. At the balance sheet date, the carrying amount approximates its fair value.

The loan made by outside joint venture partner of Rind Road JV is interest-free. The original fair value of the loan to Ring Road JV was determined based on present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

28. DEFERRED TAX LIABILITIES

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

	Accelerated tax depreciation HK$'000	**Tax losses HK$'000**	**Total HK$'000**
At 1st July, 2004	165,789	(27,500)	138,289
Charge (credit) to the income statement for the year (note 9)	41,101	(12,500)	28,601
At 30th June, 2005	206,890	(40,000)	166,890
Charge to the income statement for the year (note 9)	20,559	6,000	26,559
At 30th June, 2006	**227,449**	**(34,000)**	**193,449**

29. OTHER PAYABLE TO A JOINTLY CONTROLLED ENTITY

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

30. TOTAL ASSETS LESS CURRENT LIABILITIES/NET CURRENT ASSETS

The Group's total assets less current liabilities at 30th June, 2006 amounted to approximately HK$15,546,779,000 (2005: HK$14,937,861,000 (as restated)). The Group's net current assets at 30th June, 2006 amounted to approximately HK$3,064,746,000 (2005: HK$2,497,150,000 (as restated)).

31. SUMMARY OF BALANCE SHEET OF THE COMPANY

	2005 HK$'000 (restated)	**2006** **HK$'000**
ASSETS		
Non-current assets	6,011,754	**3,617,089**
Current assets	2,455,499	**5,279,420**
Total assets	8,467,253	**8,896,509**
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	288,838	**294,962**
Reserves	8,096,125	**8,535,023**
Total equity	8,384,963	**8,829,985**
Non-current liabilities	79,898	**–**
Current liabilities	2,392	**66,524**
Total liabilities	82,290	**66,524**
Total equity and liabilities	8,467,253	**8,896,509**

32. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following list contains the particulars of the subsidiaries of the Company at 30th June, 2006 which principally affect the results, assets or liabilities of the Group as the directors are of the opinion that a full list of all the subsidiaries would be of excessive length. None of the subsidiaries had any loan capital outstanding during the year or at the end of the financial year.

Name of subsidiary	Place of incorporation	Issued and fully paid share	Attributable equity interest held by the Company	Principal activity
Kingnice Limited	British Virgin Islands	Ordinary share US$20,000	97.5%	Investment holding
Hopewell China Development (Superhighway) Limited	Hong Kong	Ordinary shares HK$2 Non-voting deferred shares HK$4	97.5% of issued ordinary share capital	Investment in expressway project
Hopewell Guangzhou Ring Road Limited	British Virgin Islands	Ordinary share US$1	100%	Investment in expressway project
Hopewell Guangzhou-Zhuhai Superhighway Development Limited	Hong Kong	Ordinary shares HK$2 Non-voting deferred shares HK$2	100% of issued ordinary share capital	Investment in expressway project
HHI Finance Limited	Hong Kong	Ordinary share HK$1	100%	Loan financing

All the above subsidiaries are indirectly held by the Company.

33. MAJOR NON-CASH TRANSACTION

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

34. CAPITAL COMMITMENTS

At 30th June, 2006, the Group had agreed, subject to approval of relevant authorities, to make capital contribution to West Route JV for development of Phase II West and Phase III West totalling approximately HK$1,388,000,000 (2005: HK$805,000,000 for Phase II West).

In addition, at 30th June 2006, GS Superhighway JV and Ring Road JV had outstanding commitments in respect of the acquisition of property and equipment contracted but not provided for amounting to approximately HK$19,000,000 (2005: HK$4,000,000).

35. PLEDGE OF ASSETS

At 30th June, 2006, certain assets of the jointly controlled entities of the Group were pledged to banks to secure general banking facilities granted to the jointly controlled entities. The carrying amounts of these assets are analysed as follows:

	2005 HK$'000	**2006** **HK$'000**
Toll expressways	6,989,550	**6,942,133**
Prepaid lease payments	83,608	**83,520**
Bank deposits	333,534	**357,620**
Other assets	112,189	**176,779**
	7,518,881	**7,560,052**

At 30th June, 2005 and 2006, the toll collection right of GS Supehighway JV was pledged to banks to secure general banking facilities granted to the jointly controlled entity. In addition, 90% (2005: 90%) and 65% (2005: 65%) of the toll collection rights of Ring Road JV and West Route JV respectively were pledged to banks to secure general banking facilities granted to the respective jointly controlled entities.

36. RELATED PARTY TRANSACTIONS

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

During the year, the Group paid rentals, air-conditioning and electricity charges and government rates to a fellow subsidiary amounting to approximately HK$1,059,500 (2005: HK$926,000).

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

Relationship	**Nature of transaction**	2005 HK$'000	**2006** **HK$'000**
Outside joint venture partner of GS Superhighway JV	Interest paid	593	**591**
	Reimbursement of operating expenses	6,600	**3,300**
	Dividend paid and payable	811,296	**929,295**
Outside PRC joint venture partner of Ring Road JV	Management fee paid and payable	4,000	**4,000**
Outside foreign joint venture partner of Ring Road JV	Management fee paid and payable	2,000	**2,000**
	Interest income	37,739	**39,642**
Outside PRC joint venture partner of West Route JV	Management fee	–	**1,930**

At 30th June, 2006, the Company and the holding company of the outside foreign joint venture partner of Ring Road JV had separately given guarantees to a PRC bank for bank loan facilities of RMB735,500,000 (2005: RMB735,500,000) and RMB617,430,000 (2005: RMB721,330,000) respectively granted to Ring Road JV.

Compensation of key management personnel

The remuneration of key management personnel who are directors of the Company is disclosed in note 13.

37. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 47 to 75 were approved and authorised for issue by the Board of Directors on 30th August, 2006.