

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31st December, 2006

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with International Accounting Standard 34 “Interim Financial Reporting” issued by International Accounting Standards Board (“IASB”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values at initial recognition, as appropriate. The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 30th June, 2006 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standard, amendments and interpretations (“new IFRSs”) issued by the IASB that are effective for accounting periods beginning on or after 1st December, 2005, 1st January, 2006, 1st March, 2006, 1st May, 2006 or 1st June, 2006. The adoption of the new IFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

Equity-settled share-based payment transactions

Share options granted to employees after 1st July, 2005

The fair value of services received, determined by reference to the fair value of share options granted at the grant date, is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the time when share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

In prior periods, the Group had taken advantage of the transitional provisions set out in IFRS 2 “Share-based Payment” issued by IASB. 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 had not recognised and expensed those share options.

Financial guarantee

In the current period, the Group has applied IAS 39 and IFRS 4 (Amendments) “Financial Guarantee Contracts” which is effective for accounting periods beginning on or after 1st January, 2006. A financial guarantee contract is defined by IAS 39 “Financial Instruments: Recognition and Measurement” as “a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument”.

Prior to 1st July, 2006, financial guarantee contracts were not accounted for in accordance with IFRS 4 “Insurance Contracts” and those contracts were disclosed as contingent liabilities. A provision for financial guarantee was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligation and the amount can be estimated reliably.

Upon the application of these amendments, a financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 “Revenue”.

The Company has entered into an agreement to provide a financial guarantee granted in favour of a bank in the People’s Republic of China (the “PRC”) for a loan granted to 廣州東南西環高速公路有限公司 Guangzhou E-S-W Ring Road Company Limited (“Ring Road JV”). The Group had recognised such loan in the condensed consolidated balance sheet. Accordingly, the directors determine that there is no material impact on the results and the financial position of the Group upon application of IAS 39 and IFRS 4 (Amendments).

2. PRINCIPAL ACCOUNTING POLICIES (continued)

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors anticipate that the application of these new standards, amendment or interpretations, except for IFRIC 12 “Service Concession Arrangements”, will have no material impact on the results and the financial position of the Group to be presented. IFRIC 12 sets out general principles on recognising and measuring the obligations and related rights in service concession arrangements. The Group is not yet in a position to quantify the effect of IFRIC 12 on the results and the financial position of the Group to be presented.

IAS 1 (Amendment)	Capital disclosures ¹
IFRS 7	Financial instruments: disclosures ¹
IFRS 8	Operating segments ²
IFRIC 10	Interim financial reporting and impairment ³
IFRIC 11	IFRS 2 - Group and treasury share transactions ⁴
IFRIC 12	Service concession arrangements ⁵

¹ Effective for annual periods beginning on or after 1st January, 2007.

² Effective for annual periods beginning on or after 1st January, 2009.

³ Effective for annual periods beginning on or after 1st November, 2006.

⁴ Effective for annual periods beginning on or after 1st March, 2007.

⁵ Effective for annual periods beginning on or after 1st January, 2008.

3. TURNOVER AND SEGMENT INFORMATION

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

The Group has only one business segment, namely the development, operation and management of toll expressways in the PRC through its jointly controlled entities established in the PRC.

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

4. OTHER INCOME

	Six months ended 31st December,	
	2005 HK\$'000	2006 HK\$'000
Imputed interest income on interest-free loan made to a jointly controlled entity	11,622	10,951
Interest income from:		
A jointly controlled entity	14,328	17,836
Bank deposits	43,530	89,219
Held-to-maturity debt securities, net of premium amortised of nil (six months ended 31st December, 2005: HK\$3,914,000)	3,822	—
Net exchange gain	96,747	85,765
Rental income	2,563	1,503
Management fee income from jointly controlled entities	2,200	1,756
Others	9,552	10,677
	184,364	217,707

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 31st December, 2006

5. FINANCE COSTS

	Six months ended 31st December,	
	2005 HK\$'000	2006 HK\$'000
Interest on:		
Bank loans	116,055	141,735
Loan made by an outside joint venture partner	149	150
Other loans wholly repayable within five years	2,477	131
Imputed interest on:		
Interest-free loan made by outside joint venture partners	12,694	12,663
Other interest-free loan	134	147
	131,509	154,826
Other financial expenses (Note)	2,841	6,283
	134,350	161,109

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 the period of 5 years commencing from 13th October, 2005. At 30th June, 2006 and 31st December, 2006, the Group did not utilise any part of such facilities.

6. PROFIT BEFORE TAX

	Six months ended 31st December,	
	2005 HK\$'000	2006 HK\$'000
Profit before tax has been arrived at after charging:		
Amortisation of:		
Additional investment cost in jointly controlled entities	25,130	28,711
Prepaid lease payments	2,245	2,435
Depreciation of:		
Toll expressways	121,696	148,869
Other property and equipment	4,041	7,913
Loss/(gain) on disposal of property and equipment	11,921	(126)

7. INCOME TAX EXPENSE

	Six months ended 31st December,	
	2005 HK\$'000	2006 HK\$'000
The tax charge comprises:		
PRC income tax	43,812	50,145
Deferred taxation (note 13)	16,911	5,981
	60,723	56,126

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\$49,773,000 (six months ended 31st December, 2005: HK\$43,720,000) which is calculated at 7.5% (six months ended 31st December, 2005: 7.5%) of the estimated assessable profit for the period after the 5-year exemption from the PRC foreign enterprise income tax expired on 31st December, 2004 and the provision of the PRC withholding tax on the income received and receivable from the Group's jointly controlled entities amounting to approximately HK\$372,000 (six months ended 31st December, 2005: HK\$92,000) 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.

7. INCOME TAX EXPENSE (continued)

Pursuant to relevant laws and regulations in the PRC, the Group's jointly controlled entities are entitled to certain exemption 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 a rate of 3%) in respect of income arising from the operation of the 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 Ring Road JV, another jointly controlled entity of the Group, in respect of its income arising from the operation of the toll expressways 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 expressways operations and related service facilities, Ring Road JV is also exempted from paying a local income tax (currently set at a rate of 3%) for 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"), another jointly controlled entity of the Group, commenced its operations in April, 2004. West Route JV is entitled to a 2-year exemption from foreign enterprise income tax for income commencing from the first profit-making year, as computed under PRC accounting standards and tax regulations. For the next 3 years, it will enjoy a 50% reduction in the rate of foreign enterprise income tax payable. West Rout JV is now in the process of applying for certain additional exemption and relief from the relevant tax authorities. No provision for PRC income tax for West Route JV has been made as it has just commenced its first profit-making year in the year ended 31st December, 2006 for PRC tax purposes.

8. DIVIDENDS

A final dividend of HK17.00 cents per share (year ended 30th June, 2005: HK12.75 cents) for the year ended 30th June, 2006 was paid to shareholders in October, 2006.

The directors have declared that an interim dividend in respect of the year ending 30th June, 2007 of HK15.00 cents (year ended 30th June, 2006: HK11.50 cents) per share totalling approximately HK\$445,249,000 (year ended 30th June, 2006: HK\$332,267,000) shall be paid to the shareholders of the Company whose names appear on the Register of Members on 22nd March, 2007.

9. 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:

	Six months ended 31st December,	
	2005	2006
	HK\$'000	HK\$'000
Earnings for the purposes of basic and diluted earnings per share	563,795	681,747
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,888,568,233	2,965,201,942
Effect of dilutive potential ordinary shares:		
Warrants	17,194,198	942,189
Share options	192,453	425,068
Weighted average number of ordinary shares for the purposes of diluted earnings per share	2,905,954,884	2,966,569,199

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 31st December, 2006

10. PLEDGED BANK BALANCES AND DEPOSITS, BANK BALANCES AND CASH

	30th June, 2006 HK\$'000	31st December, 2006 HK\$'000
Pledged bank balances and deposits of jointly controlled entities	357,620	282,197
Bank balances and cash:		
The Group	3,013,899	3,272,728
Jointly controlled entities	36,970	31,003
	3,050,869	3,303,731
	3,408,489	3,585,928

11. SHARE CAPITAL

	Number of shares	Nominal amount HK\$'000
Ordinary shares of HK\$0.1 each		
Authorised:		
At 30th June, 2006 and 31st December, 2006	10,000,000,000	1,000,000
Issued and fully paid:		
At 1st July, 2006	2,949,618,286	294,962
Issue of shares upon exercise of warrants	18,307,997	1,831
Issue of shares upon exercise of share options	100,000	10
At 31st December, 2006	2,968,026,283	296,803

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 carry 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 period 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, 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 executives, or substantial shareholders 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.

11. SHARE CAPITAL (continued)

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.

During the period, options to subscribe for 100,000 ordinary shares of the Company at the subscription price of HK\$4.875 per share were exercised. The closing price of the Company's shares immediately before the date on which the options were exercised was HK\$5.67 per share.

On 17th October, 2006, options to subscribe for 6,200,000 ordinary shares of the Company at the subscription price of HK\$5.858 per share were granted to certain employees of the Company. The details of the options granted are as follows:

Options granted during the period	Options exercised during the period	Options cancelled/lapsed during the period	Balance of outstanding options at 31st December, 2006	Vesting period	Exercise period
1,240,000	—	—	1,240,000	1st December, 2006 to 30th November, 2007	1st December, 2007 to 30th November, 2013
1,240,000	—	—	1,240,000	1st December, 2006 to 30th November, 2008	1st December, 2008 to 30th November, 2013
1,240,000	—	—	1,240,000	1st December, 2006 to 30th November, 2009	1st December, 2009 to 30th November, 2013
1,240,000	—	—	1,240,000	1st December, 2006 to 30th November, 2010	1st December, 2010 to 30th November, 2013
1,240,000	—	—	1,240,000	1st December, 2006 to 30th November, 2011	1st December, 2011 to 30th November, 2013
6,200,000	—	—	6,200,000		

The closing price of the Company's shares immediately before the date of grant of the options granted on 17th October, 2006 was HK\$5.71 per share.

The Group recognised total expenses of approximately HK\$516,000 for the six months ended 31st December, 2006 (six months ended 31st December, 2005: nil) in relation to share options granted by the Company.

12. BANK AND OTHER LOANS

The bank and other loans proportionately shared by the Group are analysed as follows:

	30th June, 2006 HK\$'000	31st December, 2006 HK\$'000
Bank loans, secured	4,555,315	4,487,069
Other loans, unsecured	86,250	4,549
	4,641,565	4,491,618
The borrowings are repayable as follows:		
On demand or within one year	264,987	207,796
In the second year	209,841	222,238
In the third to fifth years inclusive	817,009	882,023
After five years	3,349,728	3,179,561
	4,641,565	4,491,618
Less: Amounts due for settlement within one year (shown under current liabilities)	(264,987)	(207,796)
Amounts due for settlement after one year	4,376,578	4,283,822

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 31st December, 2006

12. BANK AND OTHER LOANS (continued)

Analysis of the borrowings by currency:

	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 31st December, 2006		
	US\$ loans HK\$'000	RMB loans HK\$'000	Total HK\$'000
Bank loans	3,239,081	1,247,988	4,487,069
Other loans	—	4,549	4,549
	3,239,081	1,252,537	4,491,618

13. 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, 2005	206,890	(40,000)	166,890
Charge for the period	10,911	6,000	16,911
At 31st December, 2005	217,801	(34,000)	183,801
Charge for the period	9,648	—	9,648
At 30th June, 2006	227,449	(34,000)	193,449
Exchange adjustments	5,706	(842)	4,864
Charge for the period	4,950	1,031	5,981
At 31st December, 2006	238,105	(33,811)	204,294

14. TOTAL ASSETS LESS CURRENT LIABILITIES/NET CURRENT ASSETS

The Group's total assets less current liabilities at 31st December, 2006 amounted to approximately HK\$15,793,428,000 (30th June, 2006: HK\$15,546,779,000). The Group's net current assets at 31st December, 2006 amounted to approximately HK\$3,246,459,000 (30th June, 2006: HK\$3,064,746,000).

15. CAPITAL COMMITMENTS

At 31st December, 2006, the Group had agreed, subject to the approval of relevant authorities, to make capital contributions to West Route JV for development of the Phases II and III of the Western Delta Route totalling approximately HK\$1,422,288,000 (30th June, 2006: HK\$1,388,000,000).

In addition, at 31st December, 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\$11,866,000 (30th June, 2006: HK\$19,000,000).

16. PLEDGE OF ASSETS

At 31st December, 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:

	30th June, 2006 HK\$'000	31st December, 2006 HK\$'000
Toll expressways	6,942,133	6,947,927
Prepaid lease payments	83,520	83,983
Bank balances and deposits	357,620	282,197
Other assets	176,779	208,629
	7,560,052	7,522,736

At 30th June, 2006 and 31st December, 2006, the toll collection right of GS Superhighway JV was pledged to banks to secure general banking facilities granted to the jointly controlled entity. In addition, 90% (30th June, 2006: 90%) and 65% (30th June, 2006: 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.

17. RELATED PARTY TRANSACTIONS

Amounts due by and from related parties are disclosed in the condensed consolidated balance sheet.

During the six months ended 31st December, 2006, the Group paid rental, air-conditioning charge and management fee to a fellow subsidiary amounting to approximately HK\$753,000 (six months ended 31st December, 2005: HK\$462,000).

The Group's jointly controlled entities had the following significant transactions with their joint venture partners other than the Group during the six months ended 31st December, 2006:

Relationship	Nature of transaction	Six months ended 31st December,	
		2005 HK\$'000	2006 HK\$'000
Outside joint venture partner of GS Superhighway JV	Interest payable	298	305
	Reimbursement of operating expenses	3,300	1,867
	Dividend paid and payable	329,896	843,497
Outside PRC joint venture partner of Ring Road JV	Management fee paid and payable	2,000	2,000
Outside foreign joint venture partner of Ring Road JV	Management fee paid and payable	1,000	1,000
	Reimbursement of interest expenses	19,898	17,043

At 31st December, 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 RMB720,500,000 (30th June, 2006: RMB735,500,000) and RMB586,330,000 (30th June, 2006: RMB617,430,000) respectively granted to Ring Road JV.

18. EVENTS AFTER THE BALANCE SHEET DATE

On 25th January, 2007, the Company announced the adoption of an employees' share award scheme (the "Scheme"). On the same date, a total of 1,940,000 ordinary shares of the Company were awarded to certain directors and an employee of the Group with the vesting dates between 25th January, 2007 and 25th January, 2009 subject to fulfilment of certain terms and conditions under the Scheme. The Group is in the process of making an assessment of the potential impact of the shares awarded but is not yet in a position to determine the impact of these shares awarded on the results of operations and financial position of the Group.

Details of the Scheme are set out in the announcement of the Company dated 25th January, 2007.