

Notes to the Financial Statements

For the year ended 30th June, 2004

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activities of the Group are investment in infrastructure projects, property development and investment, property agency and management, hotel operations and management, restaurant operations and food catering, construction and project management.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, Statement of Standard Accounting Practice No. 12 "Income Taxes" ("SSAP 12 (Revised)") issued by the Hong Kong Society of Accountants ("HKSA"). The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The corresponding comparative amounts of the prior period have been restated accordingly. As a result of this change in accounting policy, the balance of retained profits at 1st July, 2002 and 1st July, 2003 have been reduced by HK\$39,736,000 and HK\$46,083,000 respectively, and the Group's net profit for the year has been reduced by HK\$8,574,000 (2003: HK\$6,347,000).

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30th June each year.

The results of the subsidiaries, jointly controlled entities and associates acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Goodwill/negative goodwill

Goodwill/negative goodwill arising on consolidation represents the excess/shortfall of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of subsidiary, jointly controlled entity or associate at the date of acquisition.

Goodwill arising on acquisition is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet. Goodwill arising on the acquisition of a jointly controlled entity or an associate is included within the carrying amount of the jointly controlled entity or associate.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Goodwill/negative goodwill (continued)

Negative goodwill arising on acquisitions is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the year in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets. Negative goodwill arising on the acquisition of a jointly controlled entity or an associate is deducted from the carrying amount of that jointly controlled entity or associate.

Subsidiaries

In the Company's balance sheet, investments in subsidiaries are stated at cost less any identified impairment losses.

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 and over which none of the participating parties has unilateral 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 consolidated income statement includes the Group's share of the post-acquisition results of its jointly controlled entities for the year. In the consolidated balance sheet, investments in jointly controlled entities are stated at cost less amortisation and any identified impairment losses plus the Group's attributable share of the undistributed post-acquisition reserves of the jointly controlled entities. The cost of investments in jointly controlled entities comprises capital contributed, development expenditure incurred by the Group, financial expenses capitalised less interest income on advances to jointly controlled entities deferred to the extent of the Group's interest therein during the development stage of the projects undertaken by the jointly controlled entities.

The cost of investments, to the extent not borne by the jointly controlled entities, is amortised over the joint venture period on the same basis as that adopted by the relevant jointly controlled entity in respect of depreciation of its project cost, commencing from the date of operation of the project undertaken.

When the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred.

Associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates calculated based on their financial statements made up to a date not more than six months before the balance sheet date. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Associates (continued)

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

In the Company's balance sheet, investments in associates are stated at cost less any identified impairment losses.

Other projects

Development expenditure incurred under the terms of a concession agreement for the investment in a superstructure project during development stage is carried at cost less any identified impairment losses. Development expenditure includes construction costs, other incidental costs incurred and attributable borrowing costs.

Other project under development is carried at cost less any identified impairment losses. Cost comprises development expenditure, other attributable expenses and, where appropriate, borrowing costs capitalised.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, held-to-maturity debt securities that the Group has the expressed intention and ability to hold to maturity are measured at amortised cost, 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.

Investment securities, which are securities held for an identified long term purpose, are measured at reporting dates at cost less any identified impairment losses.

Other investments, comprising listed equity securities, are carried at market value, with unrealised gains and losses included in net profit or loss for the year.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Investment properties (continued)

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property, plant and equipment

Property, plant and equipment are stated at cost less, where appropriate, depreciation and any identified impairment losses. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

It is the Group's practice to maintain its hotel property in a continual state of sound repairs and maintenance and to make improvements from time to time, accordingly the directors consider that depreciation is not necessary as the property maintains a residual value at least equal to its carrying amount. Repairs and maintenance expenditure is charged to the income statement when incurred.

No depreciation has been provided on the power plant, the development of which has been suspended.

Depreciation is provided to write off the cost of other property, plant and equipment in use over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

<i>Category of assets</i>	<i>Estimated useful lives</i>
Leasehold land	Over the term of the lease
Buildings	50 years or the remaining term of the land lease, whichever is shorter
Other assets	3 to 10 years

Development properties

Properties held for or under development are stated at cost less any identified impairment losses. The cost of properties comprises land cost, development expenditure, other attributable expenses and, where appropriate, borrowing costs capitalised.

Properties for sale

Properties for sale are stated at the lower of cost, comprising land and development costs, and net realisable value.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that accounting standard.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Impairment (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that accounting standard.

Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that costs incurred to date bear to estimated total cost for the contract.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract cost will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, each asset has been separately negotiated and the costs and revenues of each asset can be separately identified. A group of contracts, performed concurrently or in a continuous sequence, is treated as a single construction contract when they were negotiated as a single package and are so closely inter-related that they constitute a single project with an overall profit margin.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the balance sheet under trade and other receivables.

Operating leases

Operating leases are leases whereby substantially all the risks and rewards of ownership of the assets remain with the lessors. Rentals payable (receivable) under operating leases are charged (credited) to the income statement on a straight line basis over the terms of the respective leases.

Foreign currencies

Transactions denominated in foreign currencies are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the net profit or loss for the period.

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

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts 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 difference arises from goodwill (or negative 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, jointly controlled entities and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax asset 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 the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in 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.

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

Notes payable

Unsecured notes payable are separately disclosed and regarded as liabilities. The note issue expenses, which represent the discount on issue of notes and expenses incurred directly in connection with the issue, are deferred and amortised over the period of the notes so as to produce a constant periodic rate of charge on the carrying amount of the notes.

If any of the notes outstanding are repurchased by the Group prior to their maturity date, any gain or loss, representing the difference between the purchase price and the principal amount of the notes repurchased together with the related unamortised note issue expenses and outstanding interest thereon, is dealt with in the income statement. The Group's liability in respect of notes payable is presented net of the principal amount of notes repurchased.

Capitalisation of borrowing costs

Borrowing costs, including project financing costs, directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Capitalisation of borrowing costs (continued)

Project financing costs, which represent all origination costs, including arrangement fees, legal fees and other related costs, directly associated with the arrangement of loans intended to finance the development and construction of a viable project, are deferred and amortised over the terms of the loans.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as expenses when they fall due.

Revenue recognition

Lease of properties

Rental income in respect of properties under operating leases is recognised on a straight line basis over the respective lease term.

Property agency and management

Revenue from the provision of property agency and management services is recognised when the relevant services are provided.

Hotel operations and management

Revenue from hotel operations and management is recognised when the relevant services are provided.

Restaurant operations and food catering

Revenue from restaurant operation and food catering services is recognised when goods are delivered and services are provided.

Construction and project management

When the outcome of a construction contract can be estimated reliably, revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total cost for each contract. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract can be estimated reliably, revenue from cost-plus contracts is recognised by reference to the recoverable costs incurred during the period plus the fees earned, measured by the proportion that costs incurred to date bear to the estimated total cost of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Income from project management is recognised when the relevant services are provided and the right to receive payment is established.

Interest income

Interest from bank deposits, advances to jointly controlled entities undertaking infrastructure project investments, loans and other receivable is recognised on a time basis by reference to the principal outstanding and at the interest rate applicable.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Dividend income

Dividends from investments are recognised when the Group's rights to receive payment have been established.

Sales of investments

Proceeds from sales of investments are recognised when the relevant sale contract becomes unconditional.

4. TURNOVER

Turnover comprises income from infrastructure project investments, property letting, property agency and management, hotel operations and management, restaurant operations and food catering, and construction and project management, and is analysed as follows:

	2003 HK\$'000	2004 HK\$'000
Infrastructure project investments	74,277	50,370
Property letting, agency and management	328,287	291,385
Hotel operations and management	115,481	151,899
Restaurant operations and food catering	109,449	124,089
Construction and project management	171,683	35,594
	799,177	653,337

Note: The turnover from infrastructure project investments shown above includes interest from jointly controlled entities of approximately HK\$40 million (2003: HK\$58 million).

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

The businesses based upon which the Group reports its primary segment information are as follows:

Infrastructure project investments	–	investments in roads and highway projects
Property investment	–	property letting, agency and management
Property development	–	development of properties for sale
Hotel investment	–	hotel ownership and operations
Restaurants and catering	–	restaurant operations and food catering
Construction	–	construction and project management

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

Segment information about these businesses is presented below.

Segment turnover

Year ended 30th June

	2003			2004		
	External HK\$'000	Inter- segment HK\$'000	Consolidated HK\$'000	External HK\$'000	Inter- segment HK\$'000	Consolidated HK\$'000
Infrastructure project investments	74,277	–	74,277	50,370	–	50,370
Property investment	328,287	21,435	349,722	291,385	21,864	313,249
Hotel investment	115,481	223	115,704	151,899	264	152,163
Restaurants and catering	109,449	1,042	110,491	124,089	545	124,634
Construction	171,683	4,694	176,377	35,594	3,365	38,959
Eliminations	–	(27,394)	(27,394)	–	(26,038)	(26,038)
Total turnover	799,177	–	799,177	653,337	–	653,337

Inter-segment revenue was charged at prices determined by management with reference to market prices.

Segment results

Year ended 30th June

	2003				2004			
	Company and subsidiaries HK\$'000	Jointly controlled entities HK\$'000	Associates HK\$'000	Total HK\$'000	Company and subsidiaries HK\$'000	Jointly controlled entities HK\$'000	Associates HK\$'000	Total HK\$'000
Infrastructure project investments	(25,579)	661,334	–	635,755	(92,235)	891,660	–	799,425
Property investment	205,548	6,861	4,205	216,614	169,640	(317)	3,235	172,558
Property development	(2,523)	19,779	–	17,256	(28,702)	8,618	–	(20,084)
Hotel investment								
– Operations	7,255	–	13,623	20,878	38,841	172	35,512	74,525
– Gain on disposal of hotel property under development	–	–	–	–	16,388	–	–	16,388
Restaurants and catering	(1,966)	–	–	(1,966)	1,052	–	–	1,052
Construction	(33,886)	–	(6)	(33,892)	(8,673)	–	–	(8,673)
Other operations	(26,263)	–	4,158	(22,105)	368	–	625	993
Segment results from operations	122,586	687,974	21,980	832,540	96,679	900,133	39,372	1,036,184

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

Segment results (continued)

Year ended 30th June

	2003 HK\$'000	2004 HK\$'000
Segment results		
Company and subsidiaries		
– Operations	122,586	96,679
– Impairment loss written back/gain on disposal of infrastructure project	366,000	580,415
– Impairment losses recognised on interest in an associate	–	(11,386)
	488,586	665,708
Interest and other income	97,531	105,920
Unallocated corporate and other expenses	(91,443)	(75,925)
Profit from operations	494,674	695,703
Gain on deemed disposal of interests in subsidiaries	–	483,847
Loss on cancellation of share purchase option	–	(70,000)
Finance costs	(372,187)	(233,637)
Share of profits of		
Jointly controlled entities	687,974	900,133
Associates	21,980	39,372
Profit before taxation	832,441	1,815,418
Taxation	(121,806)	(50,811)
Profit before minority interests	710,635	1,764,607
Minority interests	(99,119)	(310,617)
Net profit for the year	611,516	1,453,990

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

Assets and liabilities

At 30th June, 2004

	<i>Segment assets</i>	<i>Interests in jointly controlled entities</i>	<i>Interests in associates</i>	<i>Consolidated total assets</i>	<i>Segment liabilities</i>	<i>Consolidated total liabilities</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Infrastructure project investments	7,459	7,806,298	–	7,813,757	38,156	38,156
Property investment	5,925,151	–	15,201	5,940,352	119,341	119,341
Property development	909,590	377,176	–	1,286,766	28,250	28,250
Hotel investment	507,868	3,799	–	511,667	23,407	23,407
Restaurants and catering	21,195	–	–	21,195	11,938	11,938
Construction	47,440	–	4,225	51,665	116,359	116,359
Other operations (Note)	97,786	–	–	97,786	386,124	386,124
	7,516,489	8,187,273	19,426	15,723,188	723,575	723,575
Investments in securities				1,778,137		–
Defeasance deposits				1,587,990		–
Unsecured notes payable				–		1,473,844
Other assets/liabilities				2,098,653		1,706,095
				21,187,968		3,903,514

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

Assets and liabilities (continued)

At 30th June, 2003

	<i>Segment assets HK\$'000</i>	<i>Interests in jointly controlled entities HK\$'000</i>	<i>Interests in associates HK\$'000</i>	<i>Consolidated total assets HK\$'000</i>	<i>Segment liabilities HK\$'000</i>	<i>Consolidated total liabilities HK\$'000</i>
Infrastructure project investments	185,238	7,801,489	10,566	7,997,293	30,906	30,906
Property investment	5,685,649	–	22,188	5,707,837	108,527	108,527
Property development	862,055	443,494	–	1,305,549	49,132	49,132
Hotel investment	657,395	3,628	37,433	698,456	29,953	29,953
Restaurants and catering	18,344	–	–	18,344	8,985	8,985
Construction	65,526	–	7,336	72,862	137,245	137,245
Other operations (Note)	1,209,733	–	–	1,209,733	726,413	726,413
	8,683,940	8,248,611	77,523	17,010,074	1,091,161	1,091,161
Investments in securities				39,329		–
Defeasance deposits				1,736,973		–
Unsecured notes payable				–		1,467,267
Other assets/liabilities				1,084,113		3,533,803
				19,870,489		6,092,231

Note: Included in other operations shown above are the assets and liabilities attributable to the Group's overseas infrastructure projects which had been suspended amounted to approximately HK\$98 million (2003: HK\$1,209 million) and HK\$382 million (2003: HK\$722 million) respectively.

The Group's total assets less current liabilities and the Group's net current assets at 30th June, 2004 amounted to HK\$18,514,827,000 (2003: HK\$17,699,161,000) and HK\$1,996,079,000 (2003: net current liabilities of HK\$929,901,000) respectively.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

Other information

	2003			2004		
	Capital additions	Depreciation and amortisation	Other non-cash expenses	Capital additions	Depreciation and amortisation	Other non-cash expenses
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Infrastructure project investments	159	77,415	–	37	102,785	–
Property investment	10,358	2,634	208	41,298	5,225	–
Property development	1,822	115	–	347	358	–
Hotel investment	11,483	1,701	120	16,096	4,901	151
Restaurants and catering	1,052	1,443	160	1,152	1,469	117
Construction	944	834	–	555	743	–

Geographical segments

The Group's property investment, hotel investment, restaurants and catering, and construction activities are mainly carried out in Hong Kong. The infrastructure project investments are located in the Mainland China (the "PRC") and the property development activities are carried out in Hong Kong, the PRC and Macau. The following table provides an analysis of the Group's turnover by geographical markets:

	Turnover	
	2003 HK\$'000	2004 HK\$'000
Hong Kong	719,518	591,912
The PRC	79,659	61,425
	799,177	653,337

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments (continued)

The following is an analysis of the carrying amounts of assets and additions to investment properties and property, plant and equipment of the Group, analysed by the geographical area in which the assets are located:

	<i>Assets</i>		<i>Additions to investment properties, property, plant and equipment</i>	
	<i>2003</i> <i>HK\$'000</i>	<i>2004</i> <i>HK\$'000</i>	<i>2003</i> <i>HK\$'000</i>	<i>2004</i> <i>HK\$'000</i>
Group segment assets				
Hong Kong	6,881,870	7,157,344	25,382	61,410
The PRC	402,658	232,081	1,823	347
Indonesia	1,116,189	2,249	–	–
Republic of Malta	159,613	–	–	–
Other regions	123,610	124,815	–	–
	8,683,940	7,516,489	27,205	61,757
Other assets (Note)	11,186,549	13,671,479	–	–
	19,870,489	21,187,968	27,205	61,757

Note: Other assets shown above include interests in jointly controlled entities engaging in infrastructure project investments in the PRC, investments in securities and defeasance and bank deposits.

6. OTHER OPERATING INCOME

	<i>2003</i> <i>HK\$'000</i>	<i>2004</i> <i>HK\$'000</i>
Included in other operating income are:		
Interest from		
Defeasance and other bank deposits	72,300	70,905
Loans and other receivables	23,292	8,929
Yield on held-to-maturity debt securities (after deducting premium on acquisition of HK\$48,087,000 (2003: Nil) amortised)	–	23,172
Profit on sale of listed equity securities	–	2,517
Dividends from unlisted investments	962	–

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

7. OTHER OPERATING EXPENSES

	2003 HK\$'000	2004 HK\$'000
Amortisation of cost of investments in jointly controlled entities	77,271	102,638
Charitable donations	20,288	4,495
Impairment loss on investment securities recognised	7,540	–
Unrealised holding loss on other investments	1,693	–
Loss on repurchase of notes	3,509	–
Exchange losses	–	4,862
Others	–	4,000
	110,301	115,995

8. IMPAIRMENT LOSS WRITTEN BACK/GAIN ON DISPOSAL OF INFRASTRUCTURE PROJECT

	2003 HK\$'000	2004 HK\$'000
Tanjung Jati B Power Station project		
Gain on disposal recognised	–	580,415
Impairment loss written back	366,000	–
	366,000	580,415

Note: The disposal of the Tanjung Jati B Power Station in Indonesia for a cash consideration of US\$306.2 million was completed during the year. The consideration is payable by instalments over a period of 39 months from July 2003. Instalments totalling US\$221 million have been received and recognized in the income statement. However, the timing and ultimate receipt of the remaining instalments could be materially affected by the occurrence of certain events stipulated in the loan agreements and the finance lease agreements entered into by the purchasers, including, inter alia, force majeure events which would have a material adverse effect on the construction of the plant resulting in the cancellation by the lenders of the project loan facilities granted to the purchasers. Accordingly, the outstanding instalments will only be recognised by the Group when payments are received.

9. LOSSES ON PROPERTIES AND INVESTMENT

	2003 HK\$'000	2004 HK\$'000
Impairment losses recognised		
Properties in the PRC held for development	–	24,444
Interest in an associate	–	11,386
Gain on disposal of a development property	–	(16,388)
	–	19,442

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

10. PROFIT FROM OPERATIONS

	2003 HK\$'000	2004 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration	4,497	4,531
Depreciation of property, plant and equipment	8,912	14,544
Rentals in respect of properties under operating leases	1,025	894
Staff costs (including directors' emoluments)	199,045	207,124
Rental income in respect of land and buildings under operating leases, less outgoings of HK\$111,282,000 (2003: HK\$118,153,000)	(202,484)	(171,726)

11. GAIN ON DEEMED DISPOSAL OF INTERESTS IN SUBSIDIARIES/LOSS ON CANCELLATION OF SHARE PURCHASE OPTION

During the year, in connection with the listing of the shares in Hopewell Highway Infrastructure Limited ("HHI"), a subsidiary undertaking investments in highway projects in the PRC, on The Stock Exchange of Hong Kong Limited, HHI issued a total of 720,000,000 shares to public investors at an issue price of HK\$4.18 per share, giving a total consideration of HK\$3,009.6 million before expenses. The issue of new shares has resulted in a reduction of the Company's interest in HHI from 100% to 75%, and has given rise to a gain on deemed disposal of HK\$483.8 million.

During the year, the Group reached an agreement with the holder of the option to subscribe for 5% of the interest in HHI previously granted by the Company to a lender in connection with the Group's financing arrangement. Pursuant to the said agreement, the option holder has agreed to cancel the rights under the option for a consideration of HK\$70 million payable by the Group which has been charged to the income statement.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

12. FINANCE COSTS

	2003 HK\$'000	2004 HK\$'000
Interests on:		
Bank loans and overdrafts wholly repayable within five years	87,651	20,531
Notes wholly payable within five years	186,498	145,227
Other loans wholly repayable within five years	39,410	37,847
Total interest	313,559	203,605
Less: Amount capitalised on infrastructure projects	(6,000)	–
	307,559	203,605
Other finance costs		
Note issue expenses amortised	19,790	6,199
Loan arrangement fees and bank charges	8,621	23,833
Premium on early redemption of notes	36,217	–
	64,628	30,032
	372,187	233,637

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

13. INCOME TAX EXPENSE

	2003 HK\$'000	2004 HK\$'000
Hong Kong Profits Tax		
Current year	18,704	8,987
Under(over)provision in respect of prior years	30,000	(16,612)
	48,704	(7,625)
Taxation elsewhere		
Current year	792	2,106
	49,496	(5,519)
Deferred tax (note 37)		
Current year	2,621	8,574
Attributable to a change in tax rate in Hong Kong	3,726	–
	6,347	8,574
Tax attributable to the Company and its subsidiaries	55,843	3,055
Jointly controlled entities		
Taxation elsewhere	8,734	–
Deferred taxation	49,000	38,255
	57,734	38,255
Associates		
Hong Kong Profits Tax	810	515
Taxation elsewhere	7,419	8,986
	8,229	9,501
	121,806	50,811

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) on the estimated assessable profit for the year.

Taxes on profits assessable elsewhere are calculated at the tax rates prevailing in the countries in which the Group operates.

Details of deferred taxation are set out in note 37.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

13. INCOME TAX EXPENSE (continued)

The income tax expense can be reconciled to the profit from ordinary activities before taxation per the income statement as follows:

	2003 HK\$'000	2004 HK\$'000
Profit from ordinary activities before taxation	832,441	1,815,418
Tax at the domestic income tax rate of 17.5%	145,677	317,698
Tax effect of expenses not deductible for tax purpose	73,683	88,113
Tax effect of income not taxable for tax purpose	(14,358)	(117,220)
Under(over)provision in respect of prior years	30,000	(16,612)
Tax effect of tax losses not recognised	17,024	5,359
Tax effect of utilisation/recognition of tax losses not previously recognised	(2,925)	(16,887)
Tax effect of utilisation of deferred tax assets in respect of deductible temporary differences not previously recognised	(64,050)	(101,573)
Tax effect of share of results of jointly controlled entities and associates	(58,279)	(116,657)
Increase in opening deferred tax liability resulting from an increase in Hong Kong Profits Tax rate	3,726	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	(91)	(110)
Others	(8,601)	8,700
Income tax expense for the year	121,806	50,811

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

14. DIVIDENDS

	2003 HK\$'000	2004 HK\$'000
Dividends paid		
Interim: HK10 cents (2003: HK 7 cents) per share	61,319	88,408
Special interim: HK30 cents (2003: Nil) per share	–	265,225
Final dividend for year ended 30th June, 2003 on shares issued subsequent to approval of financial statements	–	270
Dividend proposed		
Final: HK 30 cents (2003: HK 18 cents) per share	157,677	268,631
	218,996	622,534

The final dividend of HK 30 cents per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

The proposed final dividend is calculated based on the number of shares in issue at the date of approval of these financial statements.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

15. EARNINGS PER SHARE

	2003 HK\$'000	2004 HK\$'000
The calculation of the basic and diluted earnings per share is based on the following data:		
Earnings for the purposes of basic earnings per share		
Net profit for the year	611,516	1,453,990
Effect of dilutive potential ordinary shares of HHI (note 32)		
Adjustment to the Group's results arising from a dilution of HHI's earnings attributable to warrants issued	–	(2,046)
Earnings for the purposes of diluted earnings per share	611,516	1,451,944

	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	875,982,121	879,187,585
Effect of dilutive potential ordinary shares		
Share options	–	5,667,337
Weighted average number of ordinary shares for the purposes of diluted earnings per share	875,982,121	884,854,922

As a result of the change in accounting policies as described in note 2 above, the basic earnings per share for the corresponding comparative prior period has been adjusted as follows:

	HK\$
Reported figure before adjustment	0.71
Adjustment arising from adoption of SSAP 12 (Revised)	(0.01)
Restated	0.70

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

16. EMOLUMENTS OF DIRECTORS AND HIGHEST PAID EMPLOYEES

(a) Directors' emoluments

	<i>The Group</i>	
	2003 HK\$'000	2004 HK\$'000
Directors' fees	488	957
Basic salaries, allowances and benefits-in-kind	13,958	22,125
Performance related bonus	400	1,000
Contributions to provident funds	68	93
	14,914	24,175

Emoluments of the directors are within the following bands:

	2003 Number of directors	2004 Number of directors
HK\$		
Nil – 1,000,000	8	8
1,000,001 – 1,500,000	3	2
1,500,001 – 2,000,000	4	1
2,000,001 – 2,500,000	–	1
2,500,001 – 3,000,000	–	1
3,000,001 – 3,500,000	1	2
3,500,001 – 4,000,000	–	1
4,500,001 – 5,000,000	–	1

Other than fees of HK\$99,000 (2003: HK\$129,000) paid or payable to the independent non-executive directors which have been included above, no remuneration was paid or is payable to such directors.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

16. EMOLUMENTS OF DIRECTORS AND HIGHEST PAID EMPLOYEES (continued)

(b) Highest paid employees' emoluments

The five individuals in the Group with the highest emoluments are the directors of the Company. The emoluments of these five individuals for the year are analysed below:

	<i>The Group</i>	
	<i>2003</i> <i>HK\$'000</i>	<i>2004</i> <i>HK\$'000</i>
Directors' fees	190	649
Basic salaries, allowances and benefits-in-kind	9,609	15,285
Performance related bonus	400	1,000
Contributions to provident funds	48	46
	10,247	16,980

The emoluments of these five individuals are within the following bands:

	<i>2003</i> <i>Number of</i> <i>directors</i>	<i>2004</i> <i>Number of</i> <i>directors</i>
HK\$		
1,500,001 – 2,000,000	4	–
2,000,001 – 2,500,000	–	–
2,500,001 – 3,000,000	–	1
3,000,001 – 3,500,000	1	2
3,500,001 – 4,000,000	–	1
4,500,001 – 5,000,000	–	1

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

17. INVESTMENT PROPERTIES

	<i>The Group</i>	
	<i>2003</i> <i>HK\$'000</i>	<i>2004</i> <i>HK\$'000</i>
Investment properties at valuation		
At beginning of the year	5,986,300	5,655,400
Additions during the year	4,149	20,523
Revaluation (decrease) increase	(335,049)	214,877
At end of the year	5,655,400	5,890,800

The net book value of the Group's investment properties comprises:

	<i>2003</i> <i>HK\$'000</i>		<i>2004</i> <i>HK\$'000</i>	
	Land and buildings in Hong Kong on			
Long leases	2,821,000		2,980,000	
Medium-term leases	2,834,400		2,910,800	
	5,655,400		5,890,800	

The Group's investment properties were revalued on an open market value basis by FPD Savills (Hong Kong) Limited, an independent firm of professional property valuers. The increase in value of HK\$214,877,000 (2003: decrease of HK\$355,049,000) arising on revaluation has been dealt with in the investment property revaluation reserve (note 33).

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

18. PROPERTY, PLANT AND EQUIPMENT

	<i>Land and buildings in Hong Kong on medium-term leases</i>		<i>Power plant (note 8) HK\$'000</i>	<i>Other assets HK\$'000</i>	<i>Total HK\$'000</i>
	<i>Hotel property HK\$'000</i>	<i>Other properties HK\$'000</i>			
THE GROUP					
COST					
At 1st July, 2003	474,872	28,501	2,303,407	277,826	3,084,606
Additions	–	511	–	40,723	41,234
Disposals	–	–	(2,303,407)	(25,678)	(2,329,085)
At 30th June, 2004	474,872	29,012	–	292,871	796,755
DEPRECIATION AND IMPAIRMENT					
At 1st July, 2003	–	8,530	1,337,348	246,076	1,591,954
Provided for the year	–	474	–	14,070	14,544
Eliminated on disposals	–	–	(1,337,348)	(24,843)	(1,362,191)
At 30th June, 2004	–	9,004	–	235,303	244,307
NET BOOK VALUES					
At 30th June, 2004	474,872	20,008	–	57,568	552,448
At 30th June, 2003	474,872	19,971	966,059	31,750	1,492,652

19. INTERESTS IN SUBSIDIARIES

	<i>The Company</i>	
	<i>2003 HK\$'000</i>	<i>2004 HK\$'000</i>
Unlisted shares		
At cost less impairment	14,789	26,252
At directors' 1972 valuation less amounts written off	3,245	3,245
	18,034	29,497
Amounts due from subsidiaries less allowances	13,280,813	12,744,643
	13,298,847	12,774,140

The amounts due from subsidiaries are unsecured, interest free and with no fixed repayment terms.

Details of the principal subsidiaries are set out in note 45.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

20. PROPERTIES FOR OR UNDER DEVELOPMENT

	<i>The Group</i>	
	2003 HK\$'000	2004 HK\$'000
COST		
At beginning of the year	1,122,491	1,308,336
Additions	185,845	71,994
Disposals	–	(448,195)
At end of the year	1,308,336	932,135
IMPAIRMENT		
At beginning of the year	(290,000)	(290,000)
Provided for the year	–	(24,444)
Eliminated on disposals	–	290,000
At end of the year	(290,000)	(24,444)
NET BOOK VALUE	1,018,336	907,691

Included in the cost of properties for or under development is net interest capitalised totalling HK\$55.4 million (2003: HK\$78.9 million).

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	<i>The Group</i>	
	2003 HK\$'000	2004 HK\$'000
Road and property projects in the PRC		
Unlisted investments, at cost	5,394,755	5,526,819
Share of post acquisition reserves	974,766	970,781
Loans to jointly controlled entities	1,673,355	1,652,723
Less: Accumulated amortisation	(241,387)	(344,025)
	7,801,489	7,806,298
Property development project in Macau		
Unlisted investment, at cost	4,850	4,850
Share of post acquisition reserves	(23,806)	(39,736)
Loan to the jointly controlled entity	462,450	412,062
	443,494	377,176
Other unlisted investments	3,628	3,799
	8,248,611	8,187,273
Less: Loans due within one year included in current assets (note 29)	(41,321)	(12,878)
	8,207,290	8,174,395

Notes:

Details of the principal jointly controlled entities at the balance sheet date are as follows:

(a) Superhighway project in Guangdong Province

The construction, operation and management of the Guangzhou-Shenzhen-Zhuhai superhighway (the "Superhighway") in Guangdong Province of the PRC, to be developed in three phases, are undertaken by a joint venture company established in the PRC named Guangzhou-Shenzhen-Zhuhai Superhighway Company Limited ("GS Superhighway JV"). The terms of co-operation of each phase of the Superhighway shall be 30 years from the official opening date of each phase. At the end of the co-operation period, all the immovable assets and facilities of GS Superhighway JV will revert to the PRC partner without compensation.

Phase I of the Superhighway ("GS Superhighway")

The Group's entitlement to the profit of the toll operations of GS Superhighway is 50% for the initial ten years, 48% for the next ten years and 45% for the last ten years of the joint venture period. The Group is also entitled to a share of 80% of the rentals and other income, after deduction of operating and financial expenses, arising from the development of commercial centres and shop spaces along and underneath GS Superhighway for a period of 30 years commencing on the date of completion of GS Superhighway.

GS Superhighway JV has also been granted the rights to develop parcels of land within certain interchanges of GS Superhighway for sale or rental with certain land premium to be waived. Detail terms of such grant have yet to be finalised.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

(a) **Superhighway project in Guangdong Province (continued)**
Phase I of the Superhighway ("GS Superhighway") (continued)

The registered capital contributed and advances made to GS Superhighway JV by the Group totalling approximately HK\$770 million (2003: HK\$733 million) are unsecured, carry interest at commercial lending rates and are repayable out of the net cash surplus from the operations of GS Superhighway JV. GS Superhighway was officially opened in July 1997.

Financial information regarding GS Superhighway JV is set out below:

<i>Operating results</i>	<i>Year ended 30th June,</i>	
	<i>2003</i>	<i>2004</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2,109,310	2,525,935
Depreciation	218,249	283,785
Profit from ordinary activities before taxation	1,273,295	1,671,465
Profit from ordinary activities before taxation attributable to the Group	636,648	835,732

<i>Assets and liabilities</i>	<i>At 30th June,</i>	
	<i>2003</i>	<i>2004</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets		
Toll roads and other assets	11,358,017	11,381,192
Non-current liabilities		
Loans from joint venture partners	(94,097)	(135,022)
Bank borrowings	(7,912,608)	(7,723,741)
Other long-term liabilities	(375,228)	(203,466)
Registered capital contributed by a joint venture partner	(745,223)	(745,223)
Current assets	392,233	739,503
Current liabilities	(1,091,590)	(1,258,507)

Phases II and III of the Superhighway

The rights and interests in the development of Phases II and III of the Superhighway ("Western Delta Route") were transferred to another subsidiary and will be developed by the joint venture company established for such purposes (note 21(b)).

(b) **Western Delta Route project**

The Western Delta Route project, comprising a major transportation route in Western Pearl River Delta, will be developed in three phases by Guangdong Guangzhou-Zhuhai West Superhighway Company Limited ("West Route JV"), a joint venture company established in the PRC under the joint venture agreement entered into between the Group and the PRC joint venture partner. The co-operation period of phase I of the project ("Phase I West") is 30 years commencing from 17th September, 2003. During the co-operation period, the Group is entitled to 50% of the distributable profits from operation of West Route JV arising from Phase I West. Subsequent to the balance sheet date, the Group entered into agreements with the PRC joint venture partner for the development of Phase II of the Western Delta Route (note 47(a)). Detailed terms for development of Phase III of the project have yet to be finalised by the parties concerned. Phase I West was opened in April 2004.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

(c) **Ring Road project in Guangzhou**

The construction, operation and management of the Guangzhou East-South-West Ring Road are undertaken by Guangzhou E-S-W Ring Road Company Limited ("Ring Road JV"), a joint venture company established in the PRC for this purpose. The co-operation period shall be approximately 30 years commencing from January 2002.

The Group is entitled to 45% of the net cash surplus of Ring Road JV for the initial ten years of the co-operation period and thereafter the Group's profit entitlement will be reduced to 37.5% for the subsequent ten years and 32.5% for the remaining ten years of the co-operation period. At the end of the co-operation period, all the immovable assets and facilities of Ring Road JV will revert to the PRC joint venture partner without compensation. The Guangzhou East-South-West Ring Road was officially opened in January 2002.

The advances made to Ring Road JV by the Group totalling approximately HK\$893 million (2003: HK\$922 million) are unsecured and interest free and are repayable out of the net cash surplus from the operations of Ring Road JV.

(d) **Highway and bridge project in Shunde**

The construction and operation of the highway and bridge system in Shunde, the PRC, are undertaken by Shunde Municipal Shunhope Highway Construction Company Limited ("Shunde Shunhope"), a joint venture company established in the PRC for this purpose. Under the relevant joint venture contracts, the co-operation period is 33 years from 23rd August, 1993, comprising a construction period of three years and an operation period of 30 years, and the Group is entitled to share 25% of the operating surplus of Shunde Shunhope after repayment of its borrowings and repatriation of registered capital. The highway and bridge system was officially opened in August 1996.

(e) **National Highway 105 project in Shunde**

The operations of National Highway 105 in Shunde, the PRC, are undertaken by Shunde Municipality Shunda Highway Company Limited ("Shunde Shunda"), a joint venture company established in the PRC for this purpose. Under the relevant joint venture contracts, the co-operation period is 28 years from 31st December, 1997, comprising a construction period of 3 years and an operation period of 25 years, and the Group is entitled to a share of 30% of the operating surplus of Shunde Shunda after repayment of its borrowings and repatriation of the registered capital contributed. The highway was officially opened in January 2001.

(f) **Property development project in Macau**

The investment represents the Group's 50% interest in Nova Taipa-Urbanizacoes Limitada ("Nova Taipa"), a company incorporated and operating in Macau engaging principally in property development. The advances made to Nova Taipa by the Group totalling approximately HK\$412 million (2003: HK\$462 million), which carries interest at commercial lending rates, are unsecured with no fixed repayment terms.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

22. INTERESTS IN ASSOCIATES

	<i>The Group</i>	
	2003 HK\$'000	2004 HK\$'000
Share of net assets	71,309	18,946
Amounts due from associates	6,214	480
	77,523	19,426
	<i>The Company</i>	
	2003 HK\$'000	2004 HK\$'000
Unlisted shares and investments, at cost	5,194	401
Amounts due from associates	5,775	–
	10,969	401

The amounts due from associates are unsecured, interest free and with no fixed repayment terms.

Details of the principal associates are set out in note 46.

23. OTHER PROJECTS

	<i>The Group</i>	
	2003 HK\$'000	2004 HK\$'000
BERTS concession (Note a)		
Development expenditure, at cost	5,313,000	5,313,000
Less: Impairment loss recognised	(5,313,000)	(5,313,000)
	–	–
Other project under development (Note b)	181,637	–
	181,637	–

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

23. OTHER PROJECTS (continued)

Notes:

(a) **BERTS concession**

A subsidiary, Hopewell (Thailand) Limited (“HTL”), entered into a concession agreement with The Ministry of Transport and Communications of Thailand (“MOTC”) and The State Railway of Thailand (“SRT”) for the construction and operation of an elevated road and train system within the Bangkok Metropolitan area known as the Bangkok Elevated Road and Train System (“BERTS”) and for the development of commercial and residential properties along the concession area. The Group has received notices of termination of the concession agreement from MOTC and SRT which has been disputed by HTL. Details of the disputes are set out in note 42(b).

(b) **Other project under development**

Other project under development represents development expenditure incurred for the Western Delta Route project which is undertaken by West Route JV, a joint venture company established during the year pursuant to the agreement entered into with a PRC enterprise. The project has been reclassified as an investment in jointly controlled entity (note 21(b)).

24. INVESTMENTS IN SECURITIES

	<i>The Group</i>		<i>The Company</i>	
	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000
Held-to-maturity debt securities listed overseas (Note)	–	1,757,592	–	–
Investment securities				
Unlisted equity investments, at cost	119,765	88,776	3,000	3,000
Less: Impairment loss recognised	(98,491)	(68,231)	–	–
	21,274	20,545	3,000	3,000
Other investments				
Equity securities listed in Hong Kong, at market value	18,055	–	–	–
	39,329	1,778,137	3,000	3,000
Carrying amount analysed for reporting purposes:				
Non-current	39,329	731,942	3,000	3,000
Current	–	1,046,195	–	–
	39,329	1,778,137	3,000	3,000

Note: The market value of the held-to-maturity debt securities at the balance sheet date approximates the carrying amount of these securities.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

25. LONG-TERM RECEIVABLES

	<i>The Group</i>	
	2003 HK\$'000	2004 HK\$'000
Interest on defeasance deposits receivable	80,707	139,005
Proceeds on disposal of investment and property receivable	240,718	233,528
Loans receivable	4,436	–
	325,861	372,533
Less: Amounts due within one year included in current assets under trade and other receivables		
Interest on defeasance deposits receivable	–	(139,005)
Proceeds on disposal of investment receivable	(45,373)	(86,748)
loans receivable	(4,436)	–
	276,052	146,780

26. DEFEASANCE/PLEGDED DEPOSITS

	<i>The Group</i>	
	2003 HK\$'000	2004 HK\$'000
Defeasance deposits (Note below)	1,736,973	1,587,990
Pledged bank deposits (Note 42(b))	93,260	95,266
	1,830,233	1,683,256
Less: Current portion of defeasance deposits included in current assets	(149,390)	(1,587,990)
	1,680,843	95,266

Note: Defeasance deposits consist of deposits placed with a bank for the holders of the notes issued by a subsidiary as funds held in trust specifically for the benefits of the noteholders under the covenant defeasance effected in accordance with the terms of the notes (note 34(a)).

27. INVENTORIES

	<i>The Group</i>	
	2003 HK\$'000	2004 HK\$'000
Hotel and restaurant inventories	8,588	8,871

The cost of inventories recognised as an expense during the year amounted to HK\$75,834,000 (2003: HK\$53,210,000).

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

28. TRADE AND OTHER RECEIVABLES

Other than rentals receivable, which are payable upon presentation of invoices, the Group allows an average credit period of 15 to 60 days to its trade customers.

The following is an analysis of trade and other receivables outstanding at the balance sheet date:

	<i>The Group</i>	
	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Receivables aged		
0 – 30 days	30,778	13,574
31 – 60 days	3,245	3,446
Over 60 days	4,995	18,221
Dividend from a jointly controlled entity receivable	–	365,400
Interest on defeasance, bank and other deposits receivable	6,238	179,549
Proceeds on disposal of investment and property, plant and equipment receivable	45,373	357,179
Retentions receivable	21,247	17,238
	111,876	954,607

29. LOANS RECEIVABLE – CURRENT PORTION

	<i>The Group</i>	
	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Loans to jointly controlled entities (note 21)	41,321	12,878
Other loans receivable	4,436	–
	45,757	12,878

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

30. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	<i>The Group</i>	
	2003 HK\$'000	2004 HK\$'000
Contract costs incurred	15,687	–
Recognised profits less losses	1,419	–
	17,106	–
Less: Progress billings received and receivable	(31,206)	–
	(14,100)	–
Represented by:		
Due from customers included in current assets	323	–
Due to customers included in current liabilities	(14,423)	–
	(14,100)	–

At 30th June, 2004, retentions held by customers and advances received from customers for contract work amounted to approximately HK\$17 million (2003: HK\$21 million) and HK\$9 million (2003: HK\$9 million) respectively.

31. TRADE AND OTHER PAYABLES

The following is an analysis of trade and other payables outstanding at the balance sheet date:

	<i>The Group</i>	
	2003 HK\$'000	2004 HK\$'000
Payables due		
0 – 30 days	197,754	152,677
31 – 60 days	55,896	58,822
Over 60 days	114,036	146,784
Retentions payable	25,055	16,395
Development expenditure payable (Note)	683,219	382,078
	1,075,960	756,756

Note: The development expenditure payable represents construction and plant costs incurred by subsidiaries of the Company in connection with the Group's overseas infrastructure projects, the development of which has been suspended. Following the completion of the disposal of the Group's interest in the Tanjung Jati B Power Station project in Indonesia during the year, development expenditure incurred for this project totalling approximately HK\$300 million was settled.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

32. SHARE CAPITAL

	<i>Number of shares</i>		<i>Nominal value</i>	
	<i>2003</i>	<i>2004</i>	<i>2003</i>	<i>2004</i>
	<i>'000</i>	<i>'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
The Group and the Company				
Ordinary shares of HK\$2.50 each				
Authorised	1,200,000	1,200,000	3,000,000	3,000,000
Issued and fully paid				
At beginning of the year	875,982	875,982	2,189,955	2,189,955
Issued during the year	–	8,100	–	20,250
At end of the year	875,982	884,082	2,189,955	2,210,205

During the year, the Company issued a total of 8,100,000 ordinary shares of HK\$2.50 each for a total cash consideration of HK\$70,215,000 pursuant to the exercise of the share options granted by the Company. These shares rank pari passu in all respects with the other shares in issue. Save as aforementioned, there were no changes in the share capital of the Company for the two years presented.

Share option schemes

(a) *The Company*

In 1994, the Company adopted a share option scheme (“HHL 1994 Scheme”) which was effective for a period of 10 years. Pursuant to an ordinary resolution passed on 21st October, 2003, a new share option scheme (“HHL 2003 Scheme”) was adopted with effect from 1st November, 2003 to replace the HHL 1994 Scheme. The principal purpose of these schemes are to provide incentive to directors and eligible employees. The Board is authorised under the share option scheme adopted to grant options to executive directors and employees of the Company or any of its subsidiaries and persons specified in the scheme document to subscribe for shares in the Company.

Under the HHL 1994 Scheme and HHL 2003 Scheme, options granted must be taken up within 28 days and 14 days respectively from the date of the offer letter upon the payment of HK\$1 per each grant of option, payable as consideration on acceptance, which is recognised in the income statement when received. Save as aforementioned, no credit or charge was recognised in the financial statements in respect of the value of options granted.

Upon termination of the HHL 1994 Scheme on 1st November, 2003, no further options may be granted thereunder. However, all options granted under the HHL 1994 Scheme shall continue to be subject to the provisions of this scheme.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

32. SHARE CAPITAL (continued)

Share option schemes (continued)

(a) The Company (continued)

No option was granted by the Company under the HHL 2003 Scheme since its adoption. The following table discloses details of share options which were granted under the HHL 1994 Scheme by the Company at nominal consideration and movements in such holdings:

Date of grant	Subscription price per share HK\$	Number of shares under options granted				Outstanding at 30th June, 2003
		Outstanding at 1st July, 2002	Movements during the year		Cancelled/ lapsed	
			Granted	Exercised		
<i>Directors</i>						
28th March, 2002	6.15	3,000,000	-	-	-	3,000,000
1st April, 2002	6.15	1,000,000	-	-	-	1,000,000
2nd April, 2002	6.15	1,000,000	-	-	-	1,000,000
3rd April, 2002	6.15	2,500,000	-	-	-	2,500,000
		7,500,000	-	-	-	7,500,000
<i>An employee</i>						
2nd April, 2002	6.15	800,000	-	-	-	800,000
		8,300,000	-	-	-	8,300,000

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

32. SHARE CAPITAL (continued)

Share option schemes (continued)

(a) The Company (continued)

Date of grant	Subscription price per share HK\$	Outstanding at 1st July, 2003	Movements during the year				Outstanding at 30th June, 2004	Closing prices of shares at the date of exercise of options HK\$
			Granted	Exercised	Reclassified	Cancelled/lapsed		
<i>Directors</i>								
28th March, 2002	6.15	3,000,000	-	(2,000,000)	-	-	1,000,000	9.40, 11.95 & 15.15
1st April, 2002	6.15	1,000,000	-	-	-	-	1,000,000	N/A
2nd April, 2002	6.15	1,000,000	-	-	(1,000,000)	-	-	N/A
3rd April, 2002	6.15	2,500,000	-	(100,000)	-	-	2,400,000	11.75
9th September, 2003	9.55	-	14,000,000	(6,000,000)	-	-	8,000,000	15.00
		7,500,000	14,000,000	(8,100,000)	(1,000,000)	-	12,400,000	
<i>Employees</i>								
2nd April, 2002	6.15	800,000	-	-	1,000,000	-	1,800,000	
		8,300,000	14,000,000	(8,100,000)	-	-	14,200,000	

The dates of grant of options referred to above represent the dates on which the options were accepted by the grantees.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

32. SHARE CAPITAL (continued)

Share option schemes (continued)

(a) The Company (continued)

The options granted on 9th September, 2003 are exercisable within a period of four and a half years from 9th March, 2004, the date after the expiry of 6 months from the date of grant. The other options granted are exercisable in the following manner:

Maximum proportion of options exercisable including the proportion of options previously exercised

Exercisable period

1/3	From the expiry of 6 months from the date of grant of option up to 18 months from the date of grant
2/3	From the expiry of 18 months from the date of grant of option up to 30 months from the date of grant
3/3	From the expiry of 30 months from the date of grant of option up to 42 months from the date of grant

Save as disclosed above, no options were granted, exercised, cancelled or lapsed during either of the years presented.

(b) HHI

A share option scheme ("HHI Scheme") was adopted by HHI during the year pursuant to the written resolutions of the shareholder of HHI passed on 16th July, 2003 and approved by the shareholders of the Company at an extraordinary general meeting held on 16th July, 2003. The HHI Scheme shall be valid and effective for a period of 10 years and the principal purpose of which is to provide incentives to directors and eligible employees. The Board of HHI is authorised to grant options under the HHI Share Option Scheme to executive directors and employees of the Company, HHI or any of its subsidiaries and persons specified in the scheme document to subscribe for shares in HHI.

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

No option was granted under the HHI Scheme since its adoption.

HHI Warrants

In connection with the listing of the shares in HHI during the year, HHI issued a total of 87,533,636 warrants at no consideration to the Company's shareholders on the basis of one warrant for every 10 shares in the Company then held. The warrants, which carry an aggregate subscription rights of HK\$365,890,598, entitle the holders thereof to subscribe for shares in HHI at a subscription price of HK\$4.18 per share subject to adjustment during the three-year period commencing on 6th August, 2003. Cash amounted to HK\$48,000 was paid to certain overseas shareholders of the Company in lieu of HHI warrants.

During the year, 590,046 HHI warrants carrying an aggregate subscription price of HK\$2,466,392 were exercised by the warrant holders resulting in the issuance of 590,046 ordinary shares in HHI. A total of 86,943,590 HHI warrants remained outstanding at the balance sheet date.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

33. RESERVES

	Share premium HK\$'000	Investment property revaluation reserve HK\$'000	Capital reserve HK\$'000	Exchange translation reserve HK\$'000	PRC statutory reserves (Note) HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE GROUP								
At 1st July, 2002								
- As previously reported	8,508,890	2,254,315	83,010	(504)	22,884	324,113	411,557	11,604,265
- Prior period adjustment	-	-	-	-	-	-	(39,736)	(39,736)
- As restated	8,508,890	2,254,315	83,010	(504)	22,884	324,113	371,821	11,564,529
Final and special dividend for year ended 30/6/2002 paid	-	-	-	-	-	(324,113)	-	(324,113)
Revaluation decrease	-	(335,049)	-	-	-	-	-	(335,049)
Exchange differences on translation of financial statements of subsidiaries, jointly controlled entities and associates	-	-	-	2,990	-	-	-	2,990
Share of reserves of jointly controlled entities and associates	-	(2,298)	-	6,946	-	-	-	4,648
Net profit for the year	-	-	-	-	-	-	611,516	611,516
Transfer between reserves	-	-	-	-	33,580	-	(33,580)	-
Amount set aside for dividend payments (note 14)	-	-	-	-	-	218,996	(218,996)	-
Interim dividend paid	-	-	-	-	-	(61,319)	-	(61,319)
At 30th June, 2003	8,508,890	1,916,968	83,010	9,432	56,464	157,677	730,761	11,463,202
Final dividend for year ended 30/6/2003 paid	-	-	-	-	-	(157,947)	-	(157,947)
Revaluation increase	-	214,877	-	-	-	-	-	214,877
Issue of shares	49,965	-	-	-	-	-	-	49,965
Share issue expenses	(38)	-	-	-	-	-	-	(38)
Exchange differences on translation of financial statements of subsidiaries, jointly controlled entities and associates	-	-	-	10,266	-	-	-	10,266
Share of reserves of jointly controlled entities and associates	-	-	-	(25,380)	-	-	-	(25,380)
Net profit for the year	-	-	-	-	-	-	1,453,990	1,453,990
Realised on deemed disposal of interests in subsidiaries	-	-	-	-	(14,116)	-	14,116	-
Transfer between reserves	-	-	-	-	15,073	-	(15,073)	-
Amount set aside for dividend payments (note 14)	-	-	-	-	-	622,534	(622,534)	-
Interim dividend paid	-	-	-	-	-	(353,633)	-	(353,633)
At 30th June, 2004	8,558,817	2,131,845	83,010	(5,682)	57,421	268,631	1,561,260	12,655,302
Included above are the Group's share of the post-acquisition reserves of jointly controlled entities, as follows:								
At 30th June, 2004	-	-	-	6,532	57,421	-	535,480	599,433
At 30th June, 2003	-	-	-	916	56,464	-	893,580	950,960
Included above are the Group's share of the post-acquisition reserves of associates, as follows:								
At 30th June, 2004	-	22,975	-	-	-	-	2,695	25,670
At 30th June, 2003	-	22,975	-	30,624	-	-	9,641	63,240

Note: The PRC jointly controlled entities are required, under the local regulations, to provide for statutory reserves, comprising general and development funds, which are not distributable until the end of the joint venture periods.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

33. RESERVES (continued)

	<i>Share premium</i> HK\$'000	<i>Capital reserve</i> HK\$'000	<i>Dividend reserve</i> HK\$'000	<i>Retained profits</i> HK\$'000	<i>Total</i> HK\$'000
THE COMPANY					
At 1st July, 2002	8,508,890	9,872	324,113	329,776	9,172,651
Final and special dividend for year ended 30/6/2002 paid	–	–	(324,113)	–	(324,113)
Net profit for the year	–	–	–	596,503	596,503
Amount set aside for dividend payments (note 14)	–	–	218,996	(218,996)	–
Interim dividend paid	–	–	(61,319)	–	(61,319)
At 30th June, 2003	8,508,890	9,872	157,677	707,283	9,383,722
Final dividend for year ended 30/6/2003 paid	–	–	(157,947)	–	(157,947)
Issue of shares	49,965	–	–	–	49,965
Share issue expenses	(38)	–	–	–	(38)
Net profit for the year	–	–	–	1,621,284	1,621,284
Amount set aside for dividend payments (note 14)	–	–	622,534	(622,534)	–
Interim dividend paid	–	–	(353,633)	–	(353,633)
At 30th June, 2004	8,558,817	9,872	268,631	1,706,033	10,543,353

The Company's total distributable reserves at 30th June, 2004 represent retained profits and dividend reserve of HK\$1,706,033,000 (2003: HK\$707,283,000) and HK\$268,631,000 (2003: HK\$157,677,000) respectively.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

34. LONG-TERM BORROWINGS

	<i>The Group</i>	
	2003 HK\$'000	2004 HK\$'000
Unsecured notes payable (Note a)		
Principal amount	1,473,822	1,474,200
Less: Unamortised note issue expenses	(6,555)	(356)
	1,467,267	1,473,844
Secured bank loans repayable (Note b)		
within one year	312,954	–
between one and two years	475,854	–
between two and five years	1,568,821	–
	2,357,629	–
Unsecured bank loans repayable (Note b)		
within one year	7,525	133,555
between one and two years	133,553	–
between two and five years	–	1,000,000
	141,078	1,133,555
Other unsecured loans repayable between two and five years	47,480	–
	4,013,454	2,607,399
Less: Portion due within one year included in current liabilities		
Unsecured notes payable less unamortised note issue expenses	–	(1,473,844)
Secured bank loans	(312,954)	–
Unsecured bank loans	(7,525)	(133,555)
	(320,479)	(1,607,399)
	3,692,975	1,000,000

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

34. LONG-TERM BORROWINGS (continued)

Notes:

- (a) The balance represents:

	<i>The Group</i>	
	2003 HK\$'000	2004 HK\$'000
Principal amount of the notes payable		
within one year	–	1,474,200
between one and two years	1,473,822	–
	1,473,822	1,474,200

The unsecured notes (“2004 Notes”) were issued by a subsidiary, Guangzhou-Shenzhen Superhighway (Holdings) Ltd.. The notes, which carry interests at 9.875% per annum, are payable semi-annually in arrears on 15th February and 15th August of each year.

A covenant defeasance was effected by the Group by placing a sum with the trustee of the notes sufficient for the repayment of the outstanding note principals together with interests payable under the notes.

The Group’s liability shown above is presented net of notes with an aggregate principal value of US\$5 million (2003: US\$5 million) repurchased in prior years.

- (b) The bank loans carry interest at commercial lending rates.

35. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries are unsecured and interest free without fixed repayment terms. Repayment of the amounts will not be demanded within one year from the balance sheet date, accordingly the amounts are classified as non-current liabilities.

36. AMOUNTS DUE TO ASSOCIATES

The amounts due to associates are unsecured and interest free without fixed repayment terms. Repayment of the amounts will not be demanded within one year from the balance sheet date, accordingly the amounts are classified as non-current liabilities.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

37. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised by the Group and movements thereon during the current and prior reporting periods.

	<i>Accelerated tax depreciation</i> HK\$'000	<i>Tax losses</i> HK\$'000	<i>Others</i> HK\$'000	<i>Total</i> HK\$'000
At 1st July, 2002				
– As previously reported	–	–	–	–
– Prior period adjustment	65,294	(33,133)	7,575	39,736
– As restated	65,294	(33,133)	7,575	39,736
Charge (credit) to income statement	6,295	(2,649)	(1,025)	2,621
Effect of a change in tax rate charged (credited) to income statement	6,121	(3,106)	711	3,726
At 30th June, 2003	77,710	(38,888)	7,261	46,083
Charge (credit) to income statement	26,188	(18,369)	755	8,574
At 30th June, 2004	103,898	(57,257)	8,016	54,657

The deferred tax assets and liabilities have been offset for the purposes of balance sheet presentation.

At the balance sheet date, the Group had available unused tax losses and other deductible temporary differences of HK\$1,571 million (2003: HK\$1,526 million) and HK\$670 million (2003: HK\$1,551 million) respectively for offset against future profits. A deferred tax asset of HK\$57 million (2003: HK\$39 million) in respect of tax losses has been recognised. No deferred tax asset has been recognised in respect of the remaining tax losses of HK\$1,244 million (2003: HK\$1,301 million) and the other deductible temporary differences of HK\$670 million (2003: HK\$1,551 million) due to the unpredictability of future profit streams. The tax losses available may be carried forward indefinitely.

In addition, the Group had potential deductible temporary differences in respect of the losses incurred on an overseas infrastructure project which has been unilaterally terminated. Since the grounds for termination are disputed, it is not practicable at this stage to quantify the amount of deductible temporary differences which have yet to be agreed with the local tax authority.

Temporary differences arising in connection with the interests in associates and jointly controlled entities are insignificant.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

38. DISPOSAL OF SUBSIDIARIES

	2003 HK\$'000	2004 HK\$'000
Net assets disposed:		
Properties under development	–	158,195
Trade and other receivables	–	4,519
Bank balances and cash	–	248
Trade and other payables	–	(12,299)
Long-term bank and other loans	–	(133,881)
	–	16,782
Gain on disposal of a development property (note 9)	–	16,388
	–	33,170
Sales consideration recognised	–	33,170
Net cash inflow arising on disposal:		
Cash consideration received	–	7,820
Bank balances and cash disposed of	–	(248)
	–	7,572

The subsidiaries disposed of during the year did not contribute significantly to the Group's cash flows, turnover or profit from operations for the year.

39. CHARGES ON ASSETS

- (a) The Group's properties at 30th June, 2003 with an aggregate carrying amount of HK\$5,571 million were mortgaged to secure the bank loans granted to the Group. Such bank loans were refinanced during the year by unsecured bank borrowings and the mortgages on the properties were discharged.
- (b) At 30th June, 2003, the Group's interest in a jointly controlled entity engaging in the development of an infrastructure project with a carrying amount of HK\$1,915 million was pledged to the lender to secure the bank loans granted to the Group to finance the development of such project. The bank loans were fully repaid during the year and the pledge on the Group's asset was discharged.
- (c) At 30th June, 2003, the amount due by certain subsidiaries to their holding companies totalling approximately HK\$7,294 million was subordinated to the bank borrowings of the Group. During the year, subordination of these amounts have been released upon full settlement of the bank borrowings.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

40. PROJECT COMMITMENTS

(a) Roads and highway projects in the PRC

The estimated total development cost for Phases II and III of the Western Delta Route, which will be developed by a joint venture company, amounted to approximately RMB8,500 million, 35% of which amounting to RMB2,975 million will be provided by the Group and the PRC joint venture partner in equal shares by way of capital contribution to the joint venture company undertaking the project. At 30th June, 2004, no development expenditure for these phases was contracted for.

At 30th June, 2004, the Group's attributable share of the commitment of GS Superhighway JV and Ring Road JV in respect of the capital expenditure to be incurred for their toll roads, which was contracted but not provided for, amounted to approximately HK\$23 million (2003: HK\$35 million).

(b) Power station project

During the year, the Group entered into a co-operation agreement with a PRC enterprise for the joint development of a 2X600 MW power station in Guangdong Province of the PRC. The development cost of the project is estimated to be in the region of RMB5,300 million. The project, which is at preliminary planning stage, is subject to approval by the relevant PRC authority and no development expenditure in this respect has been contracted for up to 30th June, 2004.

(c) Property development expenditures

	<i>The Group</i>		<i>The Company</i>	
	<i>2003</i>	<i>2004</i>	<i>2003</i>	<i>2004</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised but not contracted for	99,525	344,147	–	–
Contracted but not provided for	30,228	24,140	–	–
	129,753	368,287	–	–

(d) Other commitments

(i) The Group's share of the commitment of a jointly controlled entity in respect of property development expenditure at the balance sheet date is as follows:

	<i>The Group</i>	
	<i>2003</i>	<i>2004</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised but not yet contracted for	–	235,000
Contracted but not provided for	20,107	11,555
	20,107	246,555

The Group has agreed to provide funds to finance the development of the property project of this jointly controlled entity to the extent of HK\$300 million (2003: HK\$800 million).

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

40. PROJECT COMMITMENTS (continued)

(d) Other commitments (continued)

- (ii) Certain subsidiaries have also agreed to undertake the development of the commercial and residential properties in Machong county of Dongguan, the PRC, subject to approval by the relevant authority and/or the signing of formal project agreements, the terms and conditions of which are yet to be finalised.

41. OPERATING LEASE COMMITMENTS

The Group as lessor

Rental income from investment properties earned during the year is approximately HK\$283 million (2003: HK\$320 million). At the balance sheet date, the investment properties of the Group with an aggregate carrying amount of approximately HK\$4,187 million (2003: HK\$3,962 million) were rented out under operating leases. These properties have committed tenants for the next one to three years without termination options granted to tenants.

At the balance sheet date, the Group had contracted with tenants for the following future minimum payments under non-cancellable operating leases:

	<i>The Group</i>	
	<i>2003</i> <i>HK\$'000</i>	<i>2004</i> <i>HK\$'000</i>
Within one year	129,823	136,421
In the second to fifth years inclusive	86,221	120,943
	216,044	257,364

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

42. CONTINGENCIES

(a) Disposal of CEPA

In connection with the disposal by the Group of its interests in Consolidated Electric Power Asia Limited (“CEPA”) in prior years, the Group entered into an agreement with the purchaser under which the purchaser and its affiliates agreed to release and discharge the Group from all claims whatsoever they may have against the Group arising under the sale agreement. The Group has also agreed to release and discharge the purchaser and its affiliates from all claims whatsoever the Group may have against them. In this connection, the Group has agreed to give certain performance undertakings and indemnities to the purchaser and its affiliates, for which provisions totalling approximately HK\$164 million had been made in the financial statements in prior years. The provisions represent management’s best estimate of the costs and expenses required to discharge the Group’s obligations and liabilities under such agreement. The directors are of the opinion that the provisions are not expected to be payable within one year from the balance sheet date and accordingly, are classified as non-current liabilities.

(b) Transport system in Thailand

The Ministry of Transport and Communications of Thailand (“MOTC”) has issued termination notices to Hopewell (Thailand) Limited (“HTL”) to terminate the concession agreement entered into with HTL and reserved the rights to claim for any damages arising from such termination. MOTC has also issued a letter to seize all the concession payments made by HTL and the performance bond of approximately HK\$95 million (2003: HK\$93 million) issued by a bank on behalf of HTL which was secured by the pledge of the Group’s bank deposits of the same amount. However, the Government party has been unable to seize the bond since grounds for termination are disputed. In 1998, MOTC confirmed the termination of the concession agreement and stated that HTL will be informed of the amount of damages in future. On the other hand, HTL contended that the concession has been confiscated or expropriated by MOTC outside the terms of the concession agreement and has made a claim for damages of approximately Baht 100 billion and demanded MOTC to release the aforesaid performance bond. The directors consider it impracticable at this stage to assess the outcome of the actions taken.

(c) Other project

A legal action was taken by a supplier against a subsidiary claiming, inter alia, compensation for alleged breach of contract of approximately HK\$33 million in connection with the construction of a road project in prior years. The subsidiary intends to contest the case vigorously. The directors, based on legal advice obtained, are of the opinion that the case is without merit and would not result in any material losses to the Group.

(d) Guarantees

	<i>The Group</i>		<i>The Company</i>	
	<i>2003</i>	<i>2004</i>	<i>2003</i>	<i>2004</i>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Credit facilities under guarantees given, utilised by:				
Subsidiaries	–	–	2,863,939	1,245,521
A jointly controlled entity	697,551	697,551	697,551	–

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

43. RETIREMENT BENEFIT SCHEME

The Group has established a Mandatory Provident Fund Scheme (the "MPF Scheme") for its Hong Kong employees. The assets of the scheme are held separately in funds which are under the control of independent trustees. The retirement benefit scheme contributions charged to the income statement represent contributions payable by the Group to the scheme at 5% of each of the employees' monthly relevant income capped at HK\$20,000. At the balance sheet date, there were no forfeited contributions available to reduce future obligations. The contributions made by the Group to the MPF Scheme for the year are HK\$6,841,000 (2003: HK\$7,014,000).

44. RELATED PARTY TRANSACTIONS

Other than the transactions with related parties disclosed above, during the year the Group entered into agreements with a former director of the Company for the disposal of its interests in a hotel project in Malta under development, which was undertaken by subsidiaries, and its interest in an associate undertaking a toll road project in the Philippines at the consideration of approximately HK\$217 million, comprising cash consideration and net liabilities of the subsidiaries assumed by the purchaser, and HK\$9 million respectively. The consideration for disposal of the hotel interest to the extent of HK\$63 million is still outstanding which is payable by instalments over a period up to 42 months from 16th April, 2006 or 48 months from the date of completion of the hotel development, whichever is the earlier. Completion of the disposal of the associate is subject to the occurrence of certain events as specified in the disposal agreement. In addition, the Group and the former director have agreed to the full and final settlement of the legal proceedings taken against each other with no payment obligations on the part of the Group.

45. PRINCIPAL SUBSIDIARIES

The following list contains only the details of the subsidiaries which principally affect the results, assets or liabilities of the Group as the directors are of the opinion that a complete list of all the subsidiaries will be of excessive length. Except otherwise indicated, all the subsidiaries are private companies incorporated and are operating principally in the place of incorporation and all issued shares are ordinary shares. None of the subsidiaries had any loan capital outstanding during the year or at the end of the year.

Name of company	Paid up issued capital	Proportion of nominal value of issued ordinary capital held by the Company		Principal activities
		Directly %	Indirectly %	
<i>Incorporated in Hong Kong:</i>				
Goldhill Investments Limited	2 shares of HK\$100 each and 60,600 non-voting deferred shares of HK\$100 each	–	100	Property investment
Hopewell China Development (Superhighway) Limited (ii)	2 shares of HK\$1 each and 4 non-voting deferred shares of HK\$1 each	–	73.11	Investment in super-highway project

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

45. PRINCIPAL SUBSIDIARIES (continued)

Name of company	Paid up issued capital	Proportion of nominal value of issued ordinary capital held by the Company		Principal activities
		Directly %	Indirectly %	
<i>Incorporated in Hong Kong: (continued)</i>				
Hopewell Construction Company, Limited	200,000 shares of HK\$100 each	–	100	Construction, project management and investment holding
HH Finance Limited	100,000 shares of HK\$10 each	100	–	Loan financing
Hopewell Food Industries Limited	1,000,000 shares of HK\$1 each	–	100	Restaurant operation
Hopewell Guangzhou-Zhuhai Superhighway Development Limited (ii)	2 shares of HK\$1 each and 2 non-voting deferred shares of HK\$1 each	–	74.98	Investment in super-highway project
Hopewell Housing Limited	30,000 shares of HK\$100 each	100	–	Property agents and investment holding
Hopewell Huang Gang Development Limited (ii)	2 shares of HK\$1 each	–	100	Property investment
Hopewell Property Management Company Limited	2 shares of HK\$100 each	100	–	Building and carpark management
Hopewell Shunde Roads Limited (ii)	2 shares of HK\$1 each	–	100	Investment in highway system project
Hopewell Slipform Engineering Limited	2,000,000 shares of HK\$1 each	–	100	Construction specialist sub-contractor
Hopewell 108 Limited	1,000 shares of HK\$100 each	–	100	Property investment
Hopewell Centre Management Limited (formerly known as Hopewell 109 Limited)	209,200 shares of HK\$100 each	100	–	Property management
Hopewell 110 Limited	10,000 shares of HK\$100 each	–	100	Property investment and development

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

45. PRINCIPAL SUBSIDIARIES (continued)

Name of company	Paid up issued capital	Proportion of nominal value of issued ordinary capital held by the Company		Principal activities
		Directly %	Indirectly %	
<i>Incorporated in Hong Kong: (continued)</i>				
International Trademart Company Limited	2 shares of HK\$1 each and 10,000 non-voting deferred shares of HK\$1 each	–	100	Property investment and operation of a trademart
Kowloon Panda Hotel Limited	2 shares of HK\$100 each and 20,000 non-voting deferred shares of HK\$100 each	–	100	Hotel ownership and operations
Lok Foo Company Limited	52,000 shares of HK\$100 each	100	–	Investment holding
Mega Hotels Management Limited	3,000,000 shares of HK\$1 each	–	100	Hotel management and investment holding
Slipform Engineering Limited	1,000,001 shares of HK\$1 each	–	100	Construction, project consultant and investment holding
Wetherall Investments Limited	2 shares of HK\$1 each and 2 non-voting deferred shares of HK\$1 each	–	100	Property investment and investment holding
Yuba Company Limited	10,000 shares of HK\$1 each	–	100	Property investment
<i>Incorporated in Macau:</i>				
Slipform Engineering (Macau) Limited	500,000 shares of MOP 1 each	–	100	Construction
<i>Established in the PRC:</i>				
廣州市合和(花都)置業發展有限公司 (iii)	RMB99,200,000 (registered capital)	–	95	Property development
<i>Incorporated in the British Virgin Islands:</i>				
Anber Investments Limited	1 share of US\$1 each	–	100	Investment holding

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

45. PRINCIPAL SUBSIDIARIES (continued)

Name of company	Paid up issued capital	Proportion of nominal value of issued ordinary capital held by the Company		Principal activities
		Directly %	Indirectly %	
<i>Incorporated in the British Virgin Islands: (continued)</i>				
Goldvista Properties Limited (i)	1 share of US\$1 each	–	100	Property investment
Guangzhou-Shenzhen Superhighway (Holdings) Ltd. (i)	20,000 shares of US\$1 each	–	100	Financing
Hopewell (Huadu) Estate Investment Company Limited (i)	1 shares of US\$1 each	–	100	Investment holding
Hopewell Guangzhou Ring Road Limited (ii)	1 share of US\$1 each	–	74.98	Investment in highway system project
Hopewell Shunde Highway 105 Limited (ii)	2 shares of US\$1 each	–	100	Investment in highway system project
Kammer Investment Limited (i)	1 share of US\$1 each	100	–	Investment holding
Primax Investment Limited (i)	1 share of US\$1 each	100	–	Investment holding
Procelain Properties Ltd. (i)	1 share of US\$1 each	–	100	Property investment
Singway (B.V.I.) Company Limited (i)	1 share of US\$1 each	–	100	Property investment
Tubanan Power Limited (i)	100 shares of US\$1 each	–	100	Investment holding
<i>Incorporated in the Cayman Islands:</i>				
Delta Roads Limited (i)	46,422 shares of HK\$10 each	–	100	Investment holding
Hopewell Highway Infrastructure Limited (iv)	2,880,590,046 shares of HK\$0.1 each	–	74.98	Investment holding
<i>Incorporated in Thailand:</i>				
Hopewell (Thailand) Limited	1,500,000,000 shares of Baht 10 each	100	–	Investment in an elevated road and train system
<i>Incorporated in Indonesia:</i>				
P.T. Hi Power Tubanan I	179,125 shares of US\$100 each	–	80	Development of a power station project

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

45. PRINCIPAL SUBSIDIARIES (continued)

Notes:

- (i) Operating principally in Hong Kong
- (ii) Operating principally in the PRC
- (iii) Sino foreign cooperative joint venture registered in the PRC
- (iv) Hopewell Highway Infrastructure Limited, a company listed on The Stock Exchange of Hong Kong Limited, is operating in Hong Kong and in the PRC through its subsidiaries and jointly controlled entities.

The non-voting deferred shares carry practically no rights to dividends nor to receive notice of nor to attend or vote at any general meeting of the relevant companies nor to participation in any distribution on winding up.

Particulars of the subsidiaries, including those subsidiaries not listed above, will be annexed to the next annual return of the Company to be filed with The Registrar of Companies in accordance with the Companies Ordinance.

46. PRINCIPAL ASSOCIATES

Particulars regarding the principal associates, all of which are incorporated and operating in Hong Kong except otherwise indicated, are as follows:

<i>Name of company</i>	<i>Proportion of nominal value of issued capital held by the Company %</i>	<i>Principal activities</i>
Granlai Company Limited (i)	46	Property investment
Shin Ho Ch'eng Development Limited (i) & (ii)	20	Hotel operation

Notes:

- (i) Adopted 31st December as financial year end date
- (ii) Operating principally in the PRC

The directors are of the opinion that a complete list of all the associates will be of excessive length. Particulars of the associates, including those associates not listed above, will be annexed to the next annual return of the Company to be filed with The Registrar of Companies in accordance with the Companies Ordinance.

Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

47. POST BALANCE SHEET EVENTS

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

- (a) In July 2004, the Group entered into agreements with a PRC party for the investment in and the construction and operation of Phase II of the Western Delta Route (“Phase II West”) through a joint venture company, named Guangdong Guangzhou-Zhuhai West Superhighway Company Limited (“West Route JV”). The estimated total investment for Phase II West is approximately RMB4,900 million, 35% of which is to be funded by an increase in the registered capital of West Route JV, to be contributed by the Group and the PRC joint venture partner in equal share. Details of the agreements are set out in the Company’s announcement dated 14th July, 2004.
- (b) The Group is currently in the process of negotiating the terms of a possible co-operation with the PRC joint venture partner of West Route JV for the investment in and the construction and operation of Phase III of the Western Delta Route (“Phase III West”) through West Route JV. Details of the possible agreements in relation to this project are set out in the Company’s announcement dated 4th August, 2004.
- (c) The principal conditions stipulated in the agreements for the disposals of the Group’s interests in Shunde Municipal Shunhope Highway Construction Company Limited (“Shunde Shunhope”) and Shunde Municipality Shunda Highway Company Limited (“Shunde Shunda”) have been fulfilled subsequent to the year end date. The gains on disposal arising therefrom in respect of Shunde Shunhope and Shunde Shunda amounting to approximately HK\$314 million and HK\$178 million respectively, calculated based on considerations received, will be accounted for in the financial statements for the ensuing year.
- (d) The 2004 Notes as referred to in note 34(a) were fully redeemed on their maturity date at 100% of their principal amounts.

48. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 51 to 110 were approved and authorised for issue by the Board of Directors on 6th September, 2004.