

# REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their annual report on the affairs of the Company and the Group together with the audited financial statements for the year ended 30th June, 2006.

## Principal Activities

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

## Results

The results of the Group for the year ended 30th June, 2006 are set out in the Consolidated Income Statement on page 47.

## Dividends

The Directors recommend the payment of a final dividend of HK17 cents (2005: HK12.75 cents) per share which, together with the interim dividend of HK11.5 cents (2005: HK10.25 cents) per share paid on 23rd March, 2006, will result in total dividends for the year of HK28.5 cents (2005: HK23 cents) per share.

## Major Projects and Events

Details regarding major projects undertaken by the Group and events that have taken place during the year under review are incorporated under the section "Operations Review" as set out on pages 16 to 25.

## Share Capital

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

## Reserves

Movements in reserves during the year are set out in the Consolidated Statement of Changes in Equity and note 25 to the financial statements.

## Donations

Donations made by the Group during the year for charitable and other purposes amounted to HK\$976,000 (2005 : Nil).

## Fixed Assets

Movements in property and equipment of the Group during the year are set out in note 14 to the financial statements.

## Major Customers and Suppliers

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

## Purchase, Sale or Redemption of Securities

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the securities of the Company during the year.

## Directors and Senior Management

The Directors of the Company and their profiles as at the date of this report are listed on pages 10 to 13 of the annual report. During the year, Mr. Barry Chung Tat MOK was appointed as an Executive Director of the Company on 15th August, 2005.

In accordance with the Company's Articles of Association, Mr. Philip Tsung Cheng FEI, Mr. Lee Yick NAM and Dr. Gordon YEN will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

## Qualified Accountant

Mr. Kenneth Kwok Keung LEUNG, aged 43, Qualified Accountant, joined the Company as Financial Controller in September 2004. He is responsible for overseeing the financial management and accounting functions of the Group. He obtained a bachelor degree in accountancy from the City University of Hong Kong. He is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

## Directors' Interest in Contracts of Significance

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

# REPORT OF THE DIRECTORS

## Directors' Interests in Shares, Underlying Shares and Debentures

As at 30th June, 2006, the interests and short positions of the Directors and chief executives of the Company in any shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

### (A) the Company <sup>(i)</sup>

Directors	Shares				Underlying shares of equity derivatives	Total interests	% of issued share capital
	Personal interests (held as beneficial owner)	Family interests (interests of spouse or child under 18)	Corporate interests <sup>(ii)</sup> (interests of controlled corporation)	Other interests			
Gordon Ying Sheung WU	6,249,403	2,491,000	10,124,999	3,068,000 <sup>(iii)</sup>	–	21,933,402	0.74%
Eddie Ping Chang HO	1,824,046	136,554	205,000	–	–	2,165,600	0.07%
Thomas Jefferson WU	3,043,500	–	–	–	1,741,500 <sup>(iv)</sup>	4,785,000	0.16%
Alan Chi Hung CHAN	–	–	–	–	80,000 <sup>(v)</sup>	80,000	0.00%
Leo Kwok Kee LEUNG	–	–	–	–	2,001,000 <sup>(vi)</sup>	2,001,000	0.07%
Kojiro NAKAHARA	1,067	–	–	–	–	1,067	0.00%

*Notes:*

- (i) All interests in the shares and underlying shares of equity derivatives of the Company were long positions. None of the Directors or chief executives held any short position in the shares and underlying shares of equity derivatives of the Company.
- (ii) The corporate interests were beneficially owned by a company in which the relevant Director was deemed to be entitled under the SFO to exercise or control the exercise of one-third or more of the voting power at its general meeting.
- (iii) The other interests in 3,068,000 Shares represented the interests held jointly by Sir Gordon Ying Sheung WU ("Sir Gordon WU") and Lady Ivy Sau Ping KWOK WU ("Lady Ivy WU").
- (iv) The interests in underlying shares of equity derivatives represented warrants of the Company conferred rights to subscribe for shares at an initial subscription price per share equivalent to the initial public offer price of the shares of HK\$4.18 (subject to adjustment) exercisable during a period of 3 years from 6th August, 2003 to 5th August, 2006 ("Warrants"). These included personal interest of 1,659,500 underlying shares of Warrants and corporate interest of 82,000 underlying shares of Warrants held by Mr. Thomas Jefferson WU.
- (v) The interests in underlying shares of equity derivatives represented 80,000 underlying shares of Warrants held by Mr. Alan Chi Hung CHAN as beneficial owner.
- (vi) The interests in underlying shares of equity derivatives held by Mr. Leo Kwok Kee LEUNG included 1,000 underlying shares of Warrants and share options granted under the Share Option Scheme to subscribe for 2,000,000 Shares of the Company, further details of which are set out in the section headed "Share Options".

## (B) Associated Corporation

Hopewell Holdings Limited (“HHL”)

Directors	HHL Shares				Underlying shares of equity derivatives	Total interests	% of issued share capital
	Personal interests (held as beneficial owner)	Family interests (interests of spouse or child under 18)	Corporate interests (interests of controlled corporation) <sup>(i)</sup>	Other interests			
Gordon Ying Sheung WU	71,853,032	21,910,000 <sup>(ii)</sup>	111,250,000	30,680,000 <sup>(iii)</sup>	9,213,000 <sup>(iv)</sup>	244,906,032	27.26%
Eddie Ping Chang HO	24,273,462	1,365,538	2,050,000	–	–	27,689,000	3.08%
Thomas Jefferson WU	27,170,000	–	820,000	–	–	27,990,000	3.11%
Kojiro NAKAHARA	10,671	–	–	–	–	10,671	0.00%
Lee Yick NAM	90,000	–	–	–	–	90,000	0.01%
Alan Chi Hung CHAN	585,000	–	–	–	–	585,000	0.07%
Cheng Hui JIA	241,000	–	–	–	–	241,000	0.03%
Barry Chung Tat MOK	–	–	–	–	2,500,000 <sup>(v)</sup>	2,500,000	0.28%

Notes:

- (i) The corporate interests of HHL Shares were beneficially owned by a company in which the relevant Director was deemed to be entitled under the SFO to exercise or control the exercise of one-third or more of the voting power at its general meeting.
- (ii) The family interests in 21,910,000 HHL Shares represented the interests of Lady Ivy WU, the wife of Sir Gordon WU.
- (iii) The other interests in 30,680,000 HHL Shares represented the interest held by Sir Gordon WU jointly with Lady Ivy WU.
- (iv) The interest in underlying shares of equity derivatives represented rights to acquire HHL Shares by Sir Gordon WU under the 1-Year Daily Securities Accumulator (Contingent Step-up) schemes with a counter party (“the Schemes”). The duration of each Scheme was approximately one year and was divided into 12 periods; the start date of each period is the end date of the immediately preceding period. Daily Number of Shares (“DNS”) are accumulated each scheduled trading day on which the closing price of HHL Shares is at or above the Accumulating Forward Price (“AFP”). The Step-Up Daily Number of Shares (“Step-Up DNS”) are accumulated if the closing price of HHL Shares is below the AFP. The Scheme will be terminated when a trigger event occurs, i.e. when the closing price of HHL Shares is at or above the Knock-Out level.

With respect of each period, the number of HHL Shares to be purchased from the counter party at the AFP shall be the sum of DNS or Step-Up DNS of each scheduled trading day starting from but excluding the start date, up to and including the end date, or up to and including the scheduled trading day immediately prior to the day on which the trigger event is deemed to occur.

Summary of the terms of the Schemes held by Sir Gordon WU as at 30th June, 2006 was as follows:

Terms	Sir Gordon WU				
Date of acquisition	02 / 06 / 2006	02 / 06 / 2006	02 / 06 / 2006	07 / 06 / 2006	09 / 06 / 2006
Expiration Date	04 / 06 / 2007	04 / 06 / 2007	04 / 06 / 2007	07 / 06 / 2007	11 / 06 / 2007
Knock-Out level (HK\$)	23.28	23.10	22.94	23.65	22.76
Accumulating Forward Price (AFP) (HK\$)	20.40	20.68	20.41	20.72	19.95
Maximum Number of Nominal Shares	1,992,000	2,241,000	996,000	1,992,000	1,992,000
Maximum Number of Scheduled Trading Days	249	249	249	249	249
Daily Number of Shares (DNS)	4,000	4,500	2,000	4,000	4,000
Step-Up Daily Number of Shares (Step-Up DNS)	8,000	9,000	4,000	8,000	8,000

# REPORT OF THE DIRECTORS

- (v) *The interests in underlying shares of equity derivatives represented interests in HHL share options granted under the share option scheme of HHL adopted on 1st November, 2003 to subscribe for HHL Shares, details of which are set out below:*

<b>Director</b>	<b>Date of grant</b>	<b>Exercise price per share HK\$</b>	<b>Number of outstanding options</b>	<b>Exercise period</b>
Barry Chung Tat MOK	02/09/2005	19.94	2,500,000	02/03/2006 – 01/03/2009

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

Save as aforesaid, as at 30th June, 2006, none of the Directors or chief executives had any other interests or short position in shares, underlying shares and debentures of associated corporations which had been entered in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Retirement and Pension Plan

To comply with the statutory requirements of the Mandatory Provident Fund (“MPF”) Schemes Ordinance, the Group has set up the MPF Scheme. Mandatory contributions to this scheme is made by both the employer and employees at 5% of the employees’ monthly relevant income capped at HK\$20,000. During the year, the Group made contribution to the MPF Scheme amounted to approximately HK\$363,000.

## Share Options

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

Under the Option Scheme, the maximum number of shares in the Company which may be issued upon exercise of all options to be granted under the Option Scheme and any other share option scheme of the Company will not exceed 10% of the total number of shares of the Company in issue immediately following completion of

the initial public offering, unless a fresh approval of shareholders of the Company is obtained. The maximum entitlement of each participant under the Option Scheme in any 12-month period must not exceed 1% of the issued share capital of the Company. As at the date of this report, a total of 283,200,000 shares (representing 9.6% of the issued share capital of the Company) are available for issue under the Option Scheme.

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

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

- (c) There was no movement in the share options under the Option Scheme during the year ended 30th June, 2006 and as at 30th June, 2006, the outstanding share options were as follows:

	<i>Date of grant</i>	<i>Exercise Price HK\$</i>	<i>Balance of outstanding options at 01/07/2005</i>	<i>Options granted during the year</i>	<i>Options exercised during the year</i>	<i>Options cancelled/lapsed during the year</i>	<i>Balance of outstanding options at 30/06/2006</i>	<i>Exercise period</i>	<i>Closing price before date of grant falling within the year HK\$</i>
<b>Director</b>									
Leo Kwok Kee LEUNG	08/09/2004	4.875	2,000,000	-	-	-	2,000,000	08/09/2004 -07/09/2007	N/A
<b>Employee</b>									
	08/09/2004	4.875	400,000	-	-	-	400,000	08/09/2004 -07/09/2007	N/A
<b>Total</b>			<b>2,400,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,400,000</b>		

All options granted are exercisable from the date of grant.

## Number of Shares

As of 30th June, 2006, the number of issued shares was 2,949,618,286 and the total amount of warrants outstanding was HK\$84,918,163.00, representing 20,315,350 shares. Up to 5th August, 2006 when the right attaching to warrants to subscribe for shares had expired, the number of issued shares was 2,967,926,283 shares.

# REPORT OF THE DIRECTORS

## Arrangements to Acquire Shares or Debentures

Save as the warrants and share options disclosed in the previous section headed “Directors’ Interest in Shares, Underlying Shares and Debentures – the Company”, at no time during the year ended 30th June, 2006 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

## Directors’ Remuneration

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

## Service Contracts of Directors

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

## Management Contracts

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

## Substantial Shareholders

As at 30th June, 2006 to the best knowledge of the Directors, the interests of persons (other than Directors and chief executives of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name	Capacity	Number of Shares (corporate interests)	% of issued share capital
Anber Investments Limited	Beneficial owner	2,160,000,000 <sup>(A)</sup>	73.23%
Delta Roads Limited	Interests of controlled corporation	2,160,000,000 <sup>(A)</sup>	73.23%
Dover Hills Investments Limited	Interests of controlled corporation	2,160,000,000 <sup>(A)</sup>	73.23%
Supreme Choice Investments Limited	Interests of controlled corporation	2,160,000,000 <sup>(A)</sup>	73.23%
Hopewell Holdings Limited	Interests of controlled corporation and Beneficial owner <sup>(B)</sup>	2,160,200,000 <sup>(B)</sup>	73.24%

Notes:

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

(B) 200,000 shares were held as beneficial owner and the remaining 2,160,000,000 Shares were held through interests of controlled corporations referred to in Note (A).

Save as disclosed above, the Company has not been notified of any other interests or short positions representing 5% or more of the issued share capital of the Company and recorded in the register maintained under Section 336 of the SFO as at 30th June, 2006.

### **Pre-emptive Rights**

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

### **Confirmation on Independence**

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

### **Connected Transaction**

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

On 5th September, 2005, two conditional amending agreements ("Amending Agreements") were entered into between Hopewell Guangzhou-Zhuhai Superhighway Development Limited ("HHI West HK Co"), a wholly owned subsidiary of the Company, and Guangdong Provincial Highway Construction Company Limited ("West Route PRC Partner") in connection with the investment in and the planning, design, construction and operation of Phase III of the Western Delta Route ("Phase III West") through Guangdong Guangzhou-Zhuhai West Superhighway Company Limited ("West Route JV"). The Amending Agreements were to amend the Sino-foreign co-operative joint venture contract dated 5th January, 2004 (as amended on 14th July, 2004) made between HHI West HK Co and West Route PRC Partner and to amend the articles of association of West Route JV dated 5th January, 2004 (as amended on 14th July, 2004).

The major terms of the Amending Agreements were to expand the areas of co-operation to include Phase III West and related facilities in addition to Phase I and Phase II of the Western Delta Route with an estimated total amount of investment in Phase III West of RMB3,260 million. The registered capital of West Route JV will be increased by RMB1,141 million (from RMB2,303 million to RMB3,444 million) which will be contributed in cash by HHI West HK Co and West Route PRC Partner in equal share. The co-operation period will be subject to the approval of the relevant PRC authorities and may be extended by unanimous approval by the board of directors of West Route JV and the relevant regulatory authorities within six months before the expiry of the co-operation period.

Pursuant to Clause 46 of the Listing Agreement made between the Company and the Stock Exchange and the letter dated 7th August, 2003 from the Company's ultimate holding company, Hopewell Holdings Limited ("HHL") to the Stock Exchange, West Route JV, being a Sino-foreign co-operative joint venture enterprise jointly controlled by the Group and the West Route PRC Partner, which operates a toll road project, is deemed to be a subsidiary of

# REPORT OF THE DIRECTORS

the Company for the purposes of the then Chapter 14 of the Listing Rules. West Route PRC Partner currently has a 50% interest in each of West Route JV and Guangzhou-Shenzhen-Zhuhai Superhighway Company Limited (which is a Sino-foreign co-operative joint venture between West Route PRC Partner and a subsidiary of the Company) and is accordingly deemed to be a connected person of the Company for the purpose of Chapter 14A of the Listing Rules.

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

## Public Float

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

## Disclosure under Chapter 13.18 of the Listing Rules

A loan agreement was entered into by a wholly-owned subsidiary of the Company for a facility in the aggregate amount of HK\$3,600,000,000 with a tenor of 5 years from 13th October, 2005. Pursuant to the loan agreement, it will be an event of default if the Company ceases at any time to be a subsidiary of Hopewell Holdings Limited.

## Auditors

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

On behalf of the Board

**Sir Gordon Ying Sheung WU** GBS, KCMG, FICE

*Chairman*

Hong Kong, 30th August, 2006