## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its ultimate holding company is Leading Highway Limited (“Leading Highway”), a company incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of this annual report.

The Company is an investment holding company. The principal activities and other details of its subsidiaries and infrastructure joint ventures are set out in notes 17 and 18 respectively.

The functional currency of the Group is Renminbi. For the purpose of conveniences of the consolidated financial statements users, the consolidated financial statements are presented in Hong Kong dollars.

## 2. BASIS OF VALUATION OF KEY ASSETS

As at 31st December, 2006, the toll road operation rights were stated at an aggregate carrying value of HK$81,414,000. The directors had asked an independent qualified professional valuer to give an opinion on the value in use of the toll road operation rights as at 31st December, 2006. Given the valuation report, the value in use of the toll road operation rights was valued at HK$125,683,000. Hence, no impairment loss was made. The major assumption made by the valuer is that the government compensation would remain at RMB50,000 per day (approximately HK$18 million per year) for the remaining useful life of the toll road operation rights. This assumption is based on, inter alia,:

- the traffic track record of the toll road from 2004 to 2006;
- no document nor information in relation to the change of the compensation policy, nor any confirmation on the discontinuity of such compensation has been received as of the valuation date; and
- legal documents from the PRC government on the approval of the toll road operation and toll rates being charged.

At the discretion of the directors of HHED, the amounts due from minority shareholders of HHED may be settled by future dividends to be declared by HHED. The Group had prepared an estimated future results of HHED based on the discounted cash flow forecast prepared by the valuer to assess the profitability of HHED. Based on the assumption as mentioned above, HHED will remain profitable and hence, no recoverability problem on the amounts due from minority shareholders or the deferred tax assets was found.

Since, up to the approval date of these financial statements, HHED still cannot reach an agreement with Hangzhou City government on the amount of compensation, the Group had obtained legal opinion from a PRC lawyer. As advised by the lawyer, civil petition (“民事起訴狀”) was submitted to the PRC court against the Hangzhou City government for judgement on the government compensation.

In light of the above information provided by the valuer, and the measures taken to recover the government compensation, the directors are of the view that both toll road operation rights and amounts due from minority shareholders of HHED, and corresponding deferred tax assets were fairly stated as at 31st December, 2006.

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs"), issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

| | |
|---|---|
| HKAS 1 (Amendment) | Capital Disclosures [1] |
| HKFRS 7 | Financial Instruments: Disclosures [1] |
| HK(IFRIC) – INT 7 | Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [2] |
| HK(IFRIC) – INT 8 | Scope of HKFRS 2 [3] |
| HK(IFRIC) – INT 9 | Reassessment of Embedded Derivatives [4] |
| HK(IFRIC) – INT 10 | Interim Financial Reporting and Impairment [5] |
| HK(IFRIC) – INT 11 | HKFRS 2 – Group and Treasury Share Transactions [6] |

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

## 4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values upon initial recognition, as explained in the accounting policies set out below.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries 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 intra-group transactions, balances, income and expenses are eliminated on consolidation.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

**Basis of consolidation** *(continued)*

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

**Infrastructure joint ventures**

Joint venture arrangements which involve the establishment of a separate entity for investment in and development, operation and management of toll roads and bridges and in which venturers have joint control over the economic activity of the entity are referred to as infrastructure joint ventures.

The Group's infrastructure joint ventures are Sino-foreign co-operative joint ventures registered in the PRC in respect of which the venturers' cash/profit sharing ratios and the share of net assets upon the expiration of the joint venture periods are predetermined in accordance with the joint venture agreements and are in proportion to their capital contribution ratios.

The results and assets and liabilities of infrastructure joint ventures are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in infrastructure joint ventures are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the infrastructure joint ventures, less any identified impairment loss. When the Group's share of losses of a infrastructure joint ventures equals or exceeds its interest in that infrastructure joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that infrastructure joint ventures.

Where a group entity transacts with a infrastructure joint ventures of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the infrastructure joint ventures, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received for services provided in the normal course of business.

Revenue from the toll road operations is recognised on a receipts basis.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

**Toll road operation rights**

The toll road operation rights are recognised as an intangible asset and stated in the balance sheet at cost less subsequent accumulated amortisation and accumulated impairment losses, if any.

Amortisation of the toll road operation rights is charged so as to write off the cost of the asset over the unexpired term of the operation rights using the straight-line method.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

**Property, plant and equipment**

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

**Foreign currencies**

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the year in which they arise. For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed of.

**Borrowing costs**

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

**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 profit as reported in the consolidated 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 recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

**Taxation** *(continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits 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 year when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**Financial instruments**

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

**Financial assets**

The Group's financial assets are mainly classified as loans and receivables. The accounting policies adopted in respect of financial assets are set out below.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including bank balances, other receivables, deposits and amounts due from minority shareholders of a subsidiary are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**Financial liabilities and equity**

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

*Financial liabilities*

Financial liabilities including other payables and accrued charges, amounts due to a director and ultimate holding company are subsequently measured at amortised cost, using the effective interest rate method.

*Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

**Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

**Derecognition** *(continued)*

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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. An impairment loss is recognised as an expense immediately.

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.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the consolidated income statement on a straight line basis over the terms of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expenses over the lease term on a straight-line basis.

**Government grants**

Government grants for loss in toll receipts are recognised as income over the year necessary to match them with the related costs. Grants related to expense items are recognised as turnover in the same year as those expenses are charged in the consolidated income statement.

**Retirement benefit costs**

Payments to state-managed retirement benefit schemes are charged as expenses as when employees have rendered service entitling them to the contributions.

## 5. CRITICAL KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 4, management has made the following estimates that have most significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

**Impairment review on toll road operation rights**

The Group assesses the impairment of the toll road operation rights owned by a subsidiary, HHED, whenever events or changes in circumstances indicate that the carrying amount of the toll road operation rights may not be recoverable. The Group has used the discounted cash flow forecast prepared by Vigers Appraisal & Consulting Limited, an independent qualified professional valuer not connected with the Group to assess the recoverable amount of the toll road operation rights. Vigers Appraisal & Consulting Limited has appropriate qualifications and recent experience in the valuation of similar assets in the relevant locations. The assumptions that the Group considered important in the preparation of the discounted cash flow forecast include the following:

- the growth in traffic volume in the forecast periods;
- no change to the toll fee in the forecast periods;
- a daily compensation of RMB50,000 to be received from the Hangzhou City government; and
- no significant change to the existing political, legal, rates of taxation in the PRC.

Whenever the carrying amount of the toll road operation rights exceeds its recoverable amount, an impairment loss is recognised. The recoverable amount is the higher of the toll road operation rights' fair value less unit costs to sell and value in use. The fair value less unit costs to sell is the amount obtainable from the sale of the toll road operation rights in an arm's-length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing operation of the toll road and from its disposal at the end of its useful life.

**Settlement of the amounts due from minority shareholders of a subsidiary**

As disclosed in notes 17 and 19, the amounts due from minority shareholders of a subsidiary may be settled, at the discretion of the directors of HHED, by future dividends to be declared by HHED. The Group has assessed the future operating results of HHED in estimating the timing of future dividends. In case of any revision to the timing of future dividends, the carrying amount will be recalculated by computing the present value of the remaining cash flows at the original effective interest rate. Any adjustment to the carrying amount resulting from the revision to the timing of the dividends is recognised as income or expense in profit or loss. The ability of HHED to declare dividends in the future will also depends on the amount of government compensation to be received in the future years. The details of the government compensation are set out in notes 7 and 15.

## 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include other receivables, deposits and prepayments, amounts due from minority shareholders of a subsidiary, bank balances and cash, other payables and accrued charges, amounts due to ultimate holding company and a director. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Market risk**

*(i) Currency risk*

The Group has minimal foreign exchange exposure as the Group's transactions are mainly denominated in Renminbi and Hong Kong dollars which are the functional currency of the relevant entities. The Group currently does not have a foreign currency hedging policy. At the balance sheet date, the bank balances and cash of approximately HK$9,536,000 (2005: HK$17,806,000) were denominated in Renminbi which is not freely convertible into other currencies.

*(ii) Interest rate risk*

The Group's bank balances have exposure to cash flow interest rate due to the fluctuation of the prevailing market interest rate on bank balances. The directors consider the Group's exposure of the short-term bank deposits to interest rate risk is not significant as interest bearing bank balances are within short maturity periods.

In addition, the Group has exposure of fair value interest rate risk through the impact of the rate changes on amounts due to ultimate holding company and a director and amounts due from minority shareholders of a subsidiary. The Group does not have interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

**Credit risk**

As at 31st December, 2006, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet. However, these credit risks of the Group are minimal, as all of the customers paid by cash. Moreover, for the amounts due from minority shareholders of a subsidiary, at the discretion of the directors of HHED, it may be set off against future dividends to be declared by HHED. The details are set out in notes 17 and 19.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Apart from the amounts due from minority shareholders of a subsidiary, the Group has no concentration of credit risk, which exposure spread over a number of counterparties.

**Fair value of financial instruments**

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

## 7. GROSS TOLL REVENUE

The gross toll revenue represents the amounts of toll receipts generated from the toll road and compensation received from Hangzhou City government for the loss of toll receipts from automobiles registered in Hangzhou City.

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Toll receipts | **7,409** | 12,076 |
| Hangzhou City government compensation *(note)* | **7,804** | 17,347 |
| | **15,213** | 29,423 |

*Note:* Pursuant to Instruction No. 197 and No. (2003) 31 issued by the Hangzhou City government on 26th October, 2003, with effective from 1st January, 2004 that all the automobiles registered in Hangzhou City are exempted from toll payments for the purpose of enhancing capacity of its road networks and providing efficient services. In order to compensate HHED for the loss of toll receipts collected from automobiles registered in the Hangzhou City, a daily compensation of RMB50,000 was granted to HHED in the year ended 31st December, 2005. The compensation is subject to annual review by Hangzhou City government and the compensation agreement will be evaluated year by year. The total amount of compensation received during the year ended 31st December, 2006 amounted to HK$7,804,000 (2005: HK$17,347,000) have been included in the turnover for the year. Up to the approval date of these financial statements, the amount of remaining compensation is under negotiation and no compensation agreement has been reached by HHED and the Hangzhou City government on the daily compensation for the year ended 31st December, 2006.

## 8. SEGMENTAL INFORMATION

The Group is engaged solely in the management and operation of a toll road in the PRC. The identifiable assets and liabilities of the Group are mainly located in the PRC. Accordingly, no analysis by business or geographical segments is presented.

## 9. FINANCE COSTS

Finance costs represent:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Effective interest expenses on convertible notes *(note 23)* | **–** | 643 |
| Imputed interest on amount due to ultimate holding company | **259** | 112 |
| Imputed interest on amount due to a director | **222** | – |
| | **481** | 755 |

## 10. PROFIT BEFORE TAXATION

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit before taxation has been arrived at after charging (crediting): | | |
| Amortisation of toll road operation rights (included in direct costs) | **4,603** | 4,485 |
| Auditors' remuneration | **420** | 381 |
| Depreciation of property, plant and equipment | **161** | 193 |
| Repairs and renovation costs | **226** | 2,665 |
| Staff costs: | | |
| Directors' emoluments *(note 12)* | **310** | 300 |
| Retirement benefits scheme contributions | **561** | 297 |
| Other staff costs | **1,951** | 3,128 |
| Total staff costs | **2,822** | 3,725 |
| Operating lease rentals in respect of office premises | **34** | 257 |
| Interest income | **(214)** | (132) |
| Imputed interest income on amounts due from minority shareholders of a subsidiary | **(907)** | (567) |

## 11. INCOME TAX EXPENSE

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current year: | | |
| Income tax charge | **872** | 2,877 |
| Underprovision in prior years | **51** | – |
| | **923** | 2,877 |
| Deferred tax: | | |
| Current year charge to consolidated income statement *(note 25)* | **219** | 213 |
| Tax effect of cessation of concessionary rate | **–** | (711) |
| | **219** | (498) |
| | **1,142** | 2,379 |

Income tax charge represents the PRC enterprise income tax paid or payable during the year. Enterprise income tax in the PRC has been provided at the prevailing rate of 18% (2005: 18%) on the estimated assessable profit applicable to the Company's subsidiary established in the PRC.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

## 11. INCOME TAX EXPENSE *(CONTINUED)*

The expense for the year can be reconciled to the profit per the consolidated income statement as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit before taxation | **5,011** | 14,253 |
| Tax at the income tax rate of 18% | **902** | 2,566 |
| Tax effect of expenses not deductible for tax purposes | **357** | 626 |
| Tax effect of income not taxable for tax purposes | **(168)** | (102) |
| Tax effect of cessation of concessionary rate | **–** | (711) |
| Underprovision in respect of prior years | **51** | – |
| Tax charge for the year | **1,142** | 2,379 |

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(i) **Directors' emoluments**

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

2006

| | **Executive directors** | | | **Non-executive director** | **Independent non-executive directors** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Cheng Yung Pun** | **Yu Sui Chuen** | **Cheng Wing See, Nathalie** | **Luo ZhiJian** | **Au-Yeung Tsan Pong, Davie** | **Fung Ka Choi** | **Wong Chu Fung** | **Total** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Fee | **50** | **50** | **50** | **10** | **50** | **50** | **50** | **310** |

2005

| | Executive directors | | | Independent non-executive directors | | | |
|---|---|---|---|---|---|---|---|
| | Cheng Yung Pun | Yu Sui Chuen | Cheng Wing See, Nathalie | Au-Yeung Tsan Pong, Davie | Fung Ka Choi | Wong Chu Fung | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Fee | 50 | 50 | 50 | 50 | 50 | 50 | 300 |

No director waived any emoluments in the two years ended 31st December, 2006.

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(CONTINUED)*

**(ii) Employees' emoluments**

The emoluments of the four individuals with highest emoluments in the Group (2005: five) were as follows. The remaining highest paid individual is director set out in (i).

| | **2006** **HK$'000** | 2005 *HK$'000* |
|---|---|---|
| Salaries and other benefits | **431** | 188 |
| Performance related incentive payments | **8** | 638 |
| | **439** | 826 |

## 13. DIVIDENDS

No dividend was paid or proposed during the year, nor any dividend has been proposed since the balance sheet date.

## 14. EARNINGS PER SHARE

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

| | **2006** **HK$'000** | 2005 *HK$'000* |
|---|---|---|
| Earnings for the purpose of basic earnings per share | **1,000** | 5,835 |
| Effect of dilutive potential ordinary shares: | | |
| Interest on convertible notes | | 643 |
| Earnings for the purpose of diluted earnings per share | | 6,478 |
| | ***'000*** | *'000* |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **594,838** | 511,002 |
| Effect of dilutive potential ordinary shares: | | |
| Convertible notes | | 126,904 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | | 637,906 |

The Company has no dilutive potential ordinary shares for the year ended 31st December, 2006.

## 15. TOLL ROAD OPERATION RIGHTS

| | ***HK$'000*** |
|---|---|
| COST | |
| At 1st January, 2005 | 116,392 |
| Exchange adjustment | 2,238 |
| At 31st December, 2005 | 118,630 |
| Exchange adjustment | 4,745 |
| **At 31st December 2006** | **123,375** |
| AMORTISATION AND IMPAIRMENT | |
| At 1st January, 2005 | 30,683 |
| Charge for the year | 4,485 |
| Exchange adjustment | 642 |
| At 31st December, 2005 | 35,810 |
| Charge for the year | 4,603 |
| Exchange adjustment | 1,548 |
| **At 31st December, 2006** | **41,961** |
| CARRYING VALUES | |
| **At 31st December, 2006** | **81,414** |
| At 31st December, 2005 | 82,820 |

The toll road operation rights represent the concession rights over a toll road in Hangzhou (the "Hangzhou Toll Road") for 30 years, starting from 4th April, 1994 up to 3rd April, 2024, and carry the entitlement to the tolls from traffic running from Fuyang City to Hangzhou City, Zhejiang Province, the PRC. The toll road operation rights are owned by HHED. The land use rights of the toll road remained the property of the PRC government of Zhejiang Province. The Hangzhou Toll Road is a dual-2-lane national highway between Hangzhou City and Fuyang City with designated speed of 100km/h. Tolls are collected for all travel from Fuyang City to Hangzhou City. The toll road operation rights are amortised on a straight-line basis over the period from the date of acquisition to the date of cessation of the rights of approximately 22 years.

In January 2005, HHED entered an agreement with the Hangzhou City government that a daily compensation of RMB50,000 for the loss of toll receipts for the year ended 31st December, 2005. The compensation is subject to annual review by Hangzhou City government and the agreement will be evaluated year by year. Up to the approval date of this financial statement, the amount of compensation for the year ended 31st December, 2006, other than amount already received during the year, is under negotiation and no further agreement on the daily compensation has been entered by HHED and the Hangzhou City government. Details of the compensation received by the Group during the year ended 31st December, 2006 are set out in note 7.

The Group's toll road operation rights as at 31st December, 2006 were revalued by Vigers Appraisal & Consulting Limited at market value using an income approach. Vigers Appraisal & Consulting Limited is not connected with the Group. According to the valuation report, no impairment on the toll road operation rights was required to be made.

## 16. PROPERTY, PLANT AND EQUIPMENT

| | **Furniture, fixtures and equipment** *HK$'000* | **Motor vehicles** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|
| COST | | | |
| At 1st January, 2005 | 421 | 815 | 1,236 |
| Additions | 14 | – | 14 |
| Exchange adjustment | 8 | 16 | 24 |
| At 31st December, 2005 | 443 | 831 | 1,274 |
| Additions | 2 | – | 2 |
| Exchange adjustment | 18 | 33 | 51 |
| **At 31st December, 2006** | **463** | **864** | **1,327** |
| DEPRECIATION | | | |
| At 1st January, 2005 | 104 | 368 | 472 |
| Provided for the year | 62 | 131 | 193 |
| Exchange adjustment | 3 | 8 | 11 |
| At 31st December, 2005 | 169 | 507 | 676 |
| Provided for the year | 52 | 109 | 161 |
| Exchange adjustment | 8 | 23 | 31 |
| **At 31st December, 2006** | **229** | **639** | **868** |
| CARRYING VALUES | | | |
| **At 31st December, 2006** | **234** | **225** | **459** |
| At 31st December, 2005 | 274 | 324 | 598 |

The above items of property, plant and equipment are depreciated on a straight-line basis at the rate of 20% per annum after taking into account of residual value.

## 17. INTERESTS IN SUBSIDIARIES

Details of the principal subsidiaries held by the Company at 31st December, 2006 are as follows:

| Name of subsidiary | Place of incorporation or establishment/ operations | Issued and fully paid share/ registered capital | Proportion ownership interest held by the Company | | Proportion of voting power held by the Company | Principal activities |
|---|---|---|---|---|---|---|
| | | | ***Directly*** | ***Indirectly*** | | |
| Cableport Holdings Limited | British Virgin Islands | US$2 | 100% | – | 100% | Investment holding |
| Intrum Sino Limited | British Virgin Islands | US$2 | 100% | – | 100% | Investment holding |
| HHED* | PRC# | RMB170,000,000 | – | 60% | 60% | Operation of toll road |

* *Dividend payment arrangement concerning HHED*

*The former immediate holding company of HHED, Wah Nam Infrastructure Investment Limited ("WNII") has, under a prior arrangement with two PRC joint venture partners in HHED, Hangzhou Luda Freeway Engineering Co. Limited ("Luda") and Hangzhou Traffic Investment Company Limited ("Hangzhou Traffic") recouped approximately RMB101.5 million of its investment in HHED by way of cash and dividends. Of the RMB101.5 million, approximately RMB21.1 million was received by WNII in 1995 and 1996 by way of dividends with the remaining amount of approximately RMB80.4 million received by cash prior to 31st December, 2000.*

*According to a board minute of HHED dated 25th February, 2000, WNII agreed that it would allow Luda and Hangzhou Traffic to recoup their investments of RMB68 million in the HHED once WNII recouped its investment of RMB102 million in HHED.*

*Luda and Hangzhou Traffic had received cash recoupment of an aggregate amount of approximately RMB19 million (of which approximately RMB14 million was received by way of dividends and approximately RMB4.8 million was received by Luda and Hangzhou Traffic by cash). Upon the acquisition of HHED by the Company, Leading Highway, Hangzhou Traffic and Luda have come to the understanding that it is the intention of Luda and Hangzhou Traffic that a further amount of approximately RMB49 million (being an amount equal to the remaining balance of the unrecouped investment of Hangzhou Traffic and Luda in HHED) would be recovered out of the future available cash flows from HHED.*

*The Group has agreed to defer its pro rata entitlement to surplus cashflow from HHED until Luda and Hangzhou Traffic has recovered all its unrecouped investment.*

*During the year ended 31st December, 2005, an amount of approximately RMB49 million was drawn by Hangzhou Traffic and Luda in HHED according to the understanding reached upon the acquisition of HHED in 2002. The amounts may be settled through future dividends to be declared by HHED at the discretion of the directors of HHED. Details of the acquisition and the settlement arrangement are set out in the prospectus dated 18th July, 2002.*

\# *The subsidiary is established in the PRC as Sino-foreign equity joint venture.*

None of the subsidiaries had any debt securities outstanding at the end of the year or any time during the year.

## 18. INTERESTS IN INFRASTRUCTURE JOINT VENTURES

| | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|
| Cost of investment | **–** | – |
| Share of post-acquisition profits | **–** | – |
| | **–** | – |

According to the Restructuring Agreement completed on 17th September, 2002, the Group acquired the infrastructure joint ventures at nil consideration. The toll road and toll bridge in each of the infrastructure joint ventures have performed substantially below expectations. Against this background, it was considered that the fair value of these assets estimated with reference to the cash flow projections of the toll roads and toll bridges is negligible.

As at 31st December, 2006, the Group had interests in the following infrastructure joint ventures:

| Name of infrastructure joint venture | Place of incorporation or establishment/ operations | Issued and fully paid registered capital | Proportion ownership interest held by the Group *Indirectly* | Proportion of voting power held by the Company | Principal activities |
|---|---|---|---|---|---|
| 山西襄翼道橋基建有限公司** Shanxi Xiangyi Road & Bridge Construction Ltd. | PRC | RMB65,556,000 | 45% | 45% | Operation of toll road and bridge |
| 山西臨洪道橋基建有限公司** Shanxi Linhong Road & Bridge Construction Ltd. | PRC | RMB51,204,000 | 45% | 45% | Operation of toll road and bridge |

** *The infrastructure joint ventures are Sino-foreign co-operative joint ventures and are formed with an independent Hong Kong partner ("HK Partner") and an independent PRC partner ("PRC Partner") for a period of 20 years commencing from 13th November, 1997. The Group, HK Partner and PRC Partner each has a 45%, 10% and 45% interests respectively in each joint venture's registered capital.*

In accordance with the articles of each of the joint venture agreements of the respective infrastructure joint ventures, no distribution to the joint venture partners will be made until the loans obtained and related interest payable by the infrastructure joint ventures have been fully repaid. The distribution will then be applied in the following orders and on the basis described below:

(a) The distribution will firstly be made in the proportion of 57.27%, 12.73% and 30% respectively to the Group, HK Partner and PRC Partner respectively until the Group and HK Partner have recovered in full amount of the respective capital contributed by them to the respective joint ventures;

(b) Subsequently, the distribution will be made in the proportion of 24.55%, 5.45% and 70% to the Group, HK Partner and PRC Partner respectively until the PRC Partner has also recovered the total capital contribution by itself to the respective joint ventures; and

(c) Thereafterwards, the distribution will be based on the percentage of capital contributed by the respective joint venture partners in the joint ventures.

## 18. INTERESTS IN INFRASTRUCTURE JOINT VENTURES *(CONTINUED)*

The Group has discontinued recognition of its share of losses of the above infrastructure joint ventures. The accounts of unrecognised share of these infrastructure joint ventures, both for the year and cumulatively, are as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Unrecognised share of losses of jointly controlled entities for the year | **(1,659)** | (473) |
| Accumulated unrecognised share of losses of jointly controlled entities | **(35,761)** | (34,102) |

## 19. AMOUNTS DUE FROM MINORITY SHAREHOLDERS OF A SUBSIDIARY

During the year ended 31st December, 2005, the amount of approximately RMB49 million was recovered by the minority shareholders in HHED according to the understanding reached upon the acquisition of the HHED in 2002. Details of the arrangement are set out in note 17.

The amounts are unsecured and interest-free. As at 31st December, 2006, the amounts due from minority shareholders of a subsidiary may be settled through future dividends to be declared by HHED, at the discretion of the directors of HHED, as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **–** | 36,836 |
| Over one year | **48,872** | 12,180 |
| | **48,872** | 49,016 |

On application of HKAS 39, the fair value of the amounts due from minority shareholders of a subsidiary is determined based on an effective interest rate of 9.64% (2005: 5.75%) on initial recognition.

## 20. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The deposits carry prevailing interest rate of 1.08% (2005: 1.08%) per annum.

## 21. OTHER PAYABLES AND ACCRUED CHARGES

Other payables and accrued charges comprise amounts outstanding for on-going costs.

## 22. AMOUNTS DUE TO A DIRECTOR AND ULTIMATE HOLDING COMPANY

The amounts are unsecured and interest-free. As at 31st December, 2006, the directors confirmed that the amount due to a director is not repayable within the next twelve months. As at 31st December, 2005, the director and the ultimate holding company have confirmed that the amounts due to a director and ultimate holding company are not repayable within the next twelve months. On application of HKAS 39, the fair value of the amounts due to a director and ultimate holding company are determined based on an effective interest rate of 8.00% (2005: 5.75%) on initial recognition.

## 23. CONVERTIBLE NOTES

The convertible notes payable to the ultimate holding company were unsecured and bore interest at 2% per annum which were payable annually in arrears from the issue date of 17th September, 2002 to the maturity date of 17th September, 2005.

Each convertible note can be converted into an ordinary share of HK$0.10 each in the Company at any time prior to the maturity date at the initial conversion price of HK$0.10 per share (subject to adjustments).

Before the maturity date of 17th September, 2005, the holder of the convertible notes did not have the right to demand repayment of the principal amount of the convertible notes. The holder of the convertible notes is not entitled to vote at general meetings of the Company. The effective interest rate of the liability component is approximately 5.25%.

In September 2005, the ultimate holding company converted HK$12,000,000 into 120,000,000 ordinary shares of HK$0.10 each in the Company. The remaining HK$6,000,000 was settled through current account with the ultimate holding company.

The movement of the liability component of the convertible notes for the year is set out below:

| | **2006**<br>***HK$'000*** | 2005<br>*HK$'000* |
|---|---|---|
| Liability component at the beginning of the year | **–** | 17,613 |
| Interest charged *(note 9)* | **–** | 643 |
| Interest payable | **–** | (256) |
| Converted into ordinary shares | **–** | (12,000) |
| Settled through current account with ultimate holding company | **–** | (6,000) |
| Liability at the end of the year | **–** | – |

## 24. SHARE CAPITAL

| | **Number of shares**<br>*'000* | **Share capital**<br>*HK$'000* |
|---|---|---|
| **Ordinary shares of HK$0.10 each** | | |
| Authorised: | | |
| **At 1st January, 2005, 31st December, 2005 and 31st December, 2006** | **800,000** | **80,000** |
| Issued and fully paid: | | |
| At 1st January, 2005 | 474,838 | 47,484 |
| Exercise of convertible notes *(note 23)* | 120,000 | 12,000 |
| **At 31st December, 2005 and 31st December, 2006** | **594,838** | **59,484** |

## 25. DEFERRED TAX ASSETS

The following is the major deferred tax assets recognised by the Group and movements thereon during the current reporting year.

| | Repairs and renovation costs | Impairment loss recognised in respect of toll road operation rights | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1st January, 2005 | 752 | 2,784 | 3,536 |
| Charge to consolidated income statement for the year | (45) | (168) | (213) |
| Tax effect of cessation of concessionary rate | 150 | 561 | 711 |
| Exchange rate adjustment | 17 | 58 | 75 |
| At 31st December, 2005 | 874 | 3,235 | 4,109 |
| Charge to consolidated income statement for the year | (47) | (172) | (219) |
| Exchange rate adjustment | 34 | 124 | 158 |
| **At 31st December, 2006** | **861** | **3,187** | **4,048** |

## 26. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31st December, 2005 and 2006.

## 27. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating lease which falls due as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | – | 132 |

Operating lease payments represent rentals payable by the Group for its office premises. Lease was early terminated during the year.

## 28. MAJOR NON-CASH TRANSACTION

During the year ended 31st December, 2005, convertible notes of HK$12,000,000 were converted into 120,000,000 ordinary shares of HK$0.10 each in the Company. The convertible notes of HK$6,000,000 were settled through the current account with the ultimate holding company. The accrued interest of the convertible notes of approximately HK$824,000 was transferred from other payables and accrued charges to amount due to ultimate holding company.

## 29. SHARE OPTION SCHEME

The share option scheme (the "Share Option Scheme") of the Company was adopted by the Company pursuant to the written resolutions of the sole shareholder passed on 14th August, 2002 for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group. The Share Option Scheme is valid and effective for a period of ten years after the date of its adoption. Under the Share Option Scheme, the board of directors of the Company may grant options to eligible participants including employees, executives or officers and directors (including executive and non-executive directors) of the Company or any of its subsidiaries, and any suppliers, consultants and advisers who will contribute or have contributed to the Group to subscribe for shares in the Company.

At the date of this report, the total number of shares available for issue under the Share Option Scheme is 47,483,765 shares which represents 7.98% of the issued share capital of the Company on the adoption date of the Share Option Scheme and the date of this annual report.

The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company on the adoption date of the Share Option Scheme unless prior approval from the Company's shareholders in general meeting has been obtained. The number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the shares in issue from time to time. The total number of shares in respect of which options may be granted to any eligible participant in any twelve-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, unless prior approval from the Company's shareholders in general meeting has been obtained. Options granted to substantial shareholder or an independent non-executive director of the Company in excess of 0.1% of the Company's share in issue and with a value in excess of HK$5 million must be approval in advance by the Company's shareholders in general meeting.

There is no general requirement that an option must be held to any minimum period before it can be exercised but the board of directors is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. Options offered must be taken up not later than 28 days after the date of offer. A non-fundable remittance of HK$1 is payable as consideration by the grantee upon acceptance of every grant of option under the Share Option Scheme. The period during which an option may be exercised will be determined by the board of directors at its absolute discretion, save that such period of time shall not exceed a period of ten years commencing on the date which the option is granted. The exercise price is determined by the board of directors of the Company, and will not be less than the highest of (i) the closing price of the share on the Stock Exchange's daily quotation sheet on the date of offer (ii) the average closing price of the shares on the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of offer and (iii) the nominal value of a share of the Company.

There has been no option granted since the adoption of the Share Option Scheme.

## 30. RETIREMENT BENEFITS SCHEME

The employees of the Group's subsidiary in PRC are members of a state-managed retirement benefits scheme operated by the PRC government. The subsidiary is required to contribute average 23% of payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

## 31. RELATED PARTY TRANSACTIONS

The related party transactions and balances are disclosed in notes 9, 10, 19 and 22 respectively. During the year ended 31st December, 2005, the effective interest expenses on convertible notes of approximately HK$643,000 of which the interest of HK$256,000 was accrued to Leading Highway, the ultimate holding company. Mr. Cheng Yung Pun is the equity owner of Leading Highway. The interest was calculated at 2% per annum in accordance with the convertible notes agreement.

For the year ended 31st December, 2006, rental expenses have been borne by a related company in which Mr. Cheng Yung Pun is the substantial shareholder.

**Compensation of key management personnel**

The remuneration of directors and other members of key management during the year was as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and other short term employee benefits | **463** | 552 |

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

## 32. POST BALANCE SHEET EVENTS

Subsequent to the year ended 31st December, 2006, the Group had obtained legal opinion from a PRC lawyer. As advised by the lawyer, civil petition ("民事起訴狀") was submitted to the PRC court against the Hangzhou City government for judgement on the government compensation.