



# HOPEWELL

## Holdings Limited

### Annual Report 2004

合和實業有限公司二零零四年年報



# Corporate Information

## Honorary Chairman

Dr. James Man Hon WU  
OBE, JP, LLD (Hon), Dr Eng(Hon), BSc(Eng)

## Board of Directors

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

Mr. Eddie Ping Chang HO\*  
*Vice Chairman & Managing Director*

Mr. Josiah Chin Lai KWOK  
*Deputy Managing Director*

Mr. Thomas Jefferson WU  
*Deputy Managing Director*

Mr. Henry Hin Moh LEE#

Mr. Robert Van Jin NIEN

Mr. Guy Man Guy WU##

Lady Ivy Sau Ping KWOK WU JP#

Ms. Linda Lai Chuen LOKE##

Mr. Albert Kam Yin YEUNG

Mr. Colin Henry WEIR

Mr. David Yau-gay LUI

Mr. Carmelo Ka Sze LEE#

Mr. Andy Lee Ming CHEUNG

Mr. Eddie Wing Chuen HO Junior

Mr. Lee Yick NAM##

\* Also as Alternate director to Sir Gordon Ying Sheung WU  
and Lady Ivy Sau Ping KWOK WU

# Non-Executive directors

## Independent Non-Executive directors

## Audit Committee

Mr. Lee Yick NAM  
*Chairman*

Ms. Linda Lai Chuen LOKE

Mr. Guy Man Guy WU

## Company Secretary

Mr. Peter Yip Wah LEE

## Registered Office

64th Floor, Hopewell Centre  
183 Queen's Road East, Hong Kong  
Tel : (852) 2528 4975  
Fax : (852) 2861 2068

## Solicitors

Woo, Kwan, Lee & Lo

## Auditors

Deloitte Touche Tohmatsu

## Principal Bankers+

Bank of China (Hong Kong) Limited  
Bank of Communications  
Bank of East Asia, Limited  
The Bank of Tokyo-Mitsubishi, Limited  
BNP Paribas  
China Construction Bank  
Chiyu Banking Corporation Limited  
Citibank, N.A.  
Hang Seng Bank Limited  
The Hongkong and Shanghai Banking Corporation Limited  
Hua Nan Commercial Bank, Limited  
Industrial and Commercial Bank of China (Asia) Limited  
Liu Chong Hing Bank Limited  
Mizuho Corporate Bank, Limited  
Nan Yang Commercial Bank, Limited  
Sumitomo Mitsui Banking Corporation  
Tai Fung Bank Limited

+ names arranged in alphabetical order

## Registrars and Transfer Office

Computershare Hong Kong Investor Services Limited  
Rooms 1712-1716, 17th Floor, Hopewell Centre  
183 Queen's Road East, Wanchai, Hong Kong  
Tel : (852) 2862 8628  
Fax : (852) 2529 6087

## Listing Information

The Stock Exchange of Hong Kong Limited  
Ordinary Shares (Stock Code : 0054)

## American Depositary Receipt

CUSIP No.	439555301
Trading Symbol	HOWWY
ADR to share ratio	1:1
Depositary Bank	Citibank, N.A., U.S.A.

## Investor Relations

ir@hopewellholdings.com

## Web Page

www.hopewellholdings.com



# Group Business Overview

Hopewell Holdings Limited is one of Hong Kong's premier companies with diverse business interests spread across Property Investment and Development, Highway Infrastructure, Hotels and Hospitality, and Construction. The Group, with strong expertise in investment, development and engineering of major projects, focus on Hong Kong and the Pearl River Delta, and is founded on visionary strategic initiatives. In August 2003, its subsidiary, Hopewell Highway Infrastructure Limited, which holds the majority of its PRC-based transportation infrastructure interests was listed on the Stock Exchange of Hong Kong, with the Group retaining 75% interest.



**GUANGZHOU-SHENZHEN SUPERHIGHWAY**  
A 122.8 km closed system asphalt-paved dual three lane expressway running between Huanggang in Shenzhen and Guangdan in Guangzhou where it connects to the ESW Ring Road.



**GUANGZHOU ESW RING ROAD PROJECT**  
A 38 km closed system concrete-paved dual three lane expressway running along the eastern, southern and western fringes of the Guangzhou urban areas and connecting to the Northern Ring Road to form the Guangzhou Ring Road.



**PHASES I, II & III OF THE WESTERN DELTA ROUTE**  
Phase I is a completed 14.7 km closed system asphalt-paved dual three lane expressway linking Guangzhou to Shunde. Phases II & III, under planning, will run from Shunde to Zhongshan and from Zhongshan to Zhuhai respectively.



**HONG KONG -ZHUHAI-MACAU BRIDGE (UNDER PLANNING)**  
A proposed Y-shaped 29 km bridge linking Hong Kong's western Lantau Island to the cities of Macau and Zhuhai on mainland China being pursued by the Group.



**HOPEWELL NEW TOWN**  
A composite development with residential, logistic and commercial developments on 733,000 sq.m. near the Guangzhou New Baiyun International Airport.



**HOPEWELL CENTRE**  
A 66-storey office / commercial building in Wanchai, which is the Group's flagship building and a Hong Kong landmark.



**PANDA HOTEL**  
A 1,000-room hotel in Tsuen Wan area, which is one of the largest hotels in Hong Kong, with its operation managed by a subsidiary of the Group.



**HONGKONG INTERNATIONAL TRADE AND EXHIBITION CENTRE**  
A modern and unique 14-storey complex in Kowloon Bay, of over 163,000 sq.m., with self-contained convention and exhibition area, showroom offices, restaurants and other related business facilities.



**NOVA TAIPA GARDENS**  
A joint venture multi-phase development of residential commercial, social amenities, offices and a hotel in Macau.

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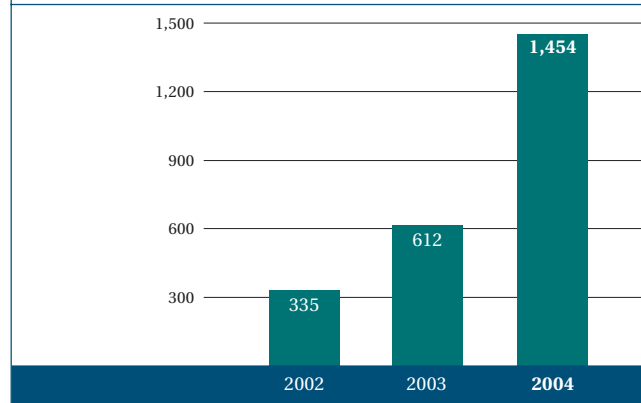
# Financial Highlights

### Turnover (HK\$m)

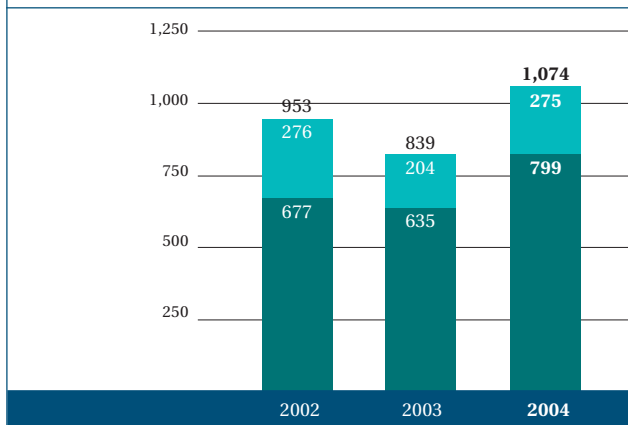


■ Group's attributable share of JV's Turnover  
■ Group Turnover

### Profit Attributable to Shareholders (HK\$m)

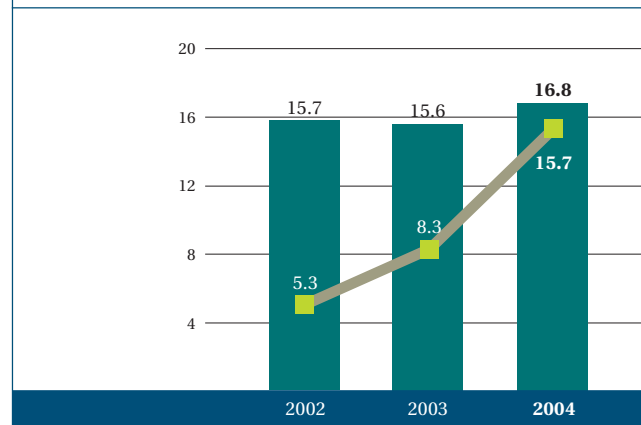


### Earnings before Interest and Tax (HK\$m)



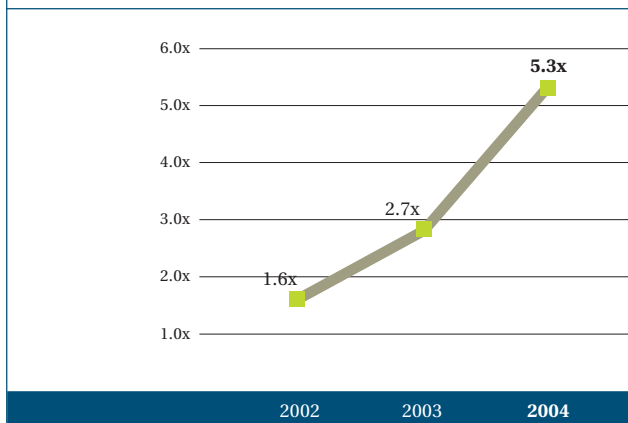
■ Other EBIT  
■ Infrastructure EBIT

### Net Asset Value vs Market Value Per Share (HK\$)



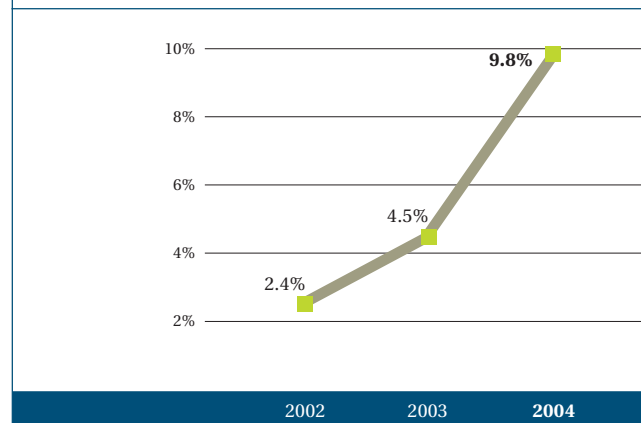
■ Net Asset Value Per Share  
■ Market Value Per Share

### Group EBIT vs Interest



■ Group EBIT vs Interest

### Return on Equity



■ Return on Equity

## 5 Year Financial Summary

### Consolidated Results

Year ended 30th June

(in HK\$ million)	2000	2001	2002	2003	2004
Turnover	1,572	1,750	1,132	799	653
Profit from ordinary activities before taxation	193	336	363	833	1,815
Taxation	(21)	(27)	(18)	(122)	(50)
Profit before minority interests	172	309	345	711	1,765
Minority interests	(6)	(3)	(10)	(99)	(311)
<b>Profit attributable to shareholders</b>	<b>166</b>	<b>306</b>	<b>335</b>	<b>612</b>	<b>1,454</b>

### Consolidated Balance Sheet

As as 30th June

(in HK\$ million)	2000	2001	2002	2003	2004
Investment properties	6,358	6,385	5,986	5,655	5,891
Property, plant and equipment	1,154	1,119	1,119	1,493	552
Properties for or under development	935	662	833	1,018	908
Interests in jointly controlled entities	15,237	14,120	8,135	8,207	8,174
Defeasance/pledged deposits	101	87	1,833	1,681	95
Other non-current assets	957	946	1,181	575	898
Current assets	2,067	875	4,038	1,241	4,670
<b>Total assets</b>	<b>26,809</b>	<b>24,194</b>	<b>23,125</b>	<b>19,870</b>	<b>21,188</b>
Non-current liabilities	(9,628)	(8,045)	(4,436)	(3,921)	(1,230)
Current liabilities	(3,484)	(2,205)	(4,914)	(2,171)	(2,673)
<b>Total liabilities</b>	<b>(13,112)</b>	<b>(10,250)</b>	<b>(9,350)</b>	<b>(6,092)</b>	<b>(3,903)</b>
Minority interests	(10)	(13)	(21)	(125)	(2,419)
<b>Shareholders' equity</b>	<b>13,687</b>	<b>13,931</b>	<b>13,754</b>	<b>13,653</b>	<b>14,866</b>

### Per Share Basis

	2000	2001	2002	2003	2004
Basic earnings per share (HK cents)	19.0	34.9	38.2	69.8	165.4
Dividend per share (regular) (HK cents)	11.0	12.0	13.0 <sup>#</sup>	25.0	40.0 <sup>#</sup>
Net asset value per share (HK\$)	15.6	15.9	15.7	15.6	16.8

(\* Special dividend HK30 cents not included)

### Financial Ratios

	2000	2001	2002	2003	2004
Net debt to equity	75%	56%	21%	14%	N/A
Net debt to total capitalization	42%	35%	14%	11%	N/A
Return on equity	1.2%	2.2%	2.4%	4.5%	9.8%

Note:

Certain financial information shown above in respect of prior period have been restated following the adoption of Statement of Standard Accounting Practice No.12 (Revised) "Income Taxes" issued by the Hong Kong Society of Accountants retrospectively.



## Chairman's Statement



*The Group had an excellent year with net profit attributable to shareholders of HK\$1,454 million for the financial year ended 30th June, 2004, an increase of 138% over the HK\$612 million reported last year.*

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

### Financial Highlights

It gives me great pleasure to report to shareholders that the Group had an excellent year with net profit attributable to shareholders of HK\$1,454 million for the financial year ended 30th June, 2004, an increase of 138% over the HK\$612 million reported last year. The improved results come from increased contributions from expressway infrastructure projects and hotel operations during the year, the successful IPO of Hopewell Highway Infrastructure Limited ("HHI"), disposal of Tanjung Jati B power project ("TJB") in Indonesia, and further reduction in financial expenses. Basic earnings per share was HK\$1.65, an increase of 136% over HK\$0.70 reported last year.

The Board of Directors has proposed a final dividend of HK30 cents per share which, together with the interim dividend of HK10 cents and a special interim dividend of HK30 cents per share, will result in total dividends for the year of HK70 cents per share.

The Register of Members of the Company will be closed from Monday 11th October, 2004 to Monday 18th October, 2004, both dates inclusive, during which no transfer of shares of the Company will be effected. Subject to approval of the shareholders at the annual general meeting to be held on 18th October, 2004, the final dividend will be paid on or about 18th October, 2004 to shareholders as registered at the close of business on 18th October, 2004.

## Business Review

Hong Kong's economy made significant recovery over the past year. Businesses experienced the turnaround after the impact of the SARS outbreak in the first half of 2003 proved to be relatively short-term. The increased individual tourist arrivals from The People's Republic of China ("PRC") provided fuel for the recovery in Hong Kong's tourism and retail sales while the implementation of the Closer Economic Participation Arrangements ("CEPA") provided new opportunities for Hong Kong companies to do business in PRC, and the unemployment rate has steadily improved from 8.7% in mid 2003 to 6.9% in June 2004.

The Group's strong performance benefited from the economic rebound. The three core businesses of the Group, namely Infrastructure, Property and Hospitality all recorded encouraging results for the financial year. Infrastructure performed very well with excellent growth in traffic and revenue, and continued to be the largest profit contributor at HK\$799 million compared with HK\$635 million last year. HHI's Phase I of the Western Delta Route commenced operation, ahead of the original schedule, on 30th April, 2004. Property income contributed HK\$173 million compared with HK\$217 million last year, reflecting lower rental rates on tenancies, although we have maintained occupancy levels at almost the same level as last year. Rental rates are expected to improve as the office rental market has shown strong signs of rebound. The hospitality business recovered quickly from the SARS outbreak, and benefited from the relaxation of individual tourist visa policy by PRC. Hospitality contributed HK\$76 million compared with HK\$19 million last year.

During the year, in August 2003, the Group listed its subsidiary, HHI, on the Main Board of the Stock Exchange of Hong Kong Limited, raising over HK\$3 billion. The Group now consists of two listed companies each with its own portfolio of businesses. HHI focuses on the initiation, promotion and development of toll roads and bridges. Hopewell Holdings continues to operate its own core businesses of Property and Hospitality while retaining approximately 75% shareholding in HHI. Further, the disposal of TJB was concluded and became effective in August 2003. Up to the financial year-end, the disposal has generated a net cash surplus of HK\$940 million to the Group.

With improving economic conditions in Hong Kong and the strong financial position of the Group, we proceeded with the development and implementation of a number of planned projects during the year. Construction has started on Phase 2C of Nova Taipa Gardens in Macau and on the townhouses and high-rise apartment blocks of the first phase of Hopewell New Town in Huadu district of Guangzhou. On our proposed Mega Tower Hotel project, the approval of which is pending the decision of the Town Planning Board, I believe that the project



Chairman's Statement (continued)

*The Group is in a net cash position, with no gearing and ready to take on investments in new projects.*

when implemented will contribute to the betterment of both the Wanchai district community and the Group. We are also pursuing investment opportunities for development of new power plants in PRC currently experiencing power capacity shortage.

### **Continued Improvement in Financial Strength**

The Group's financial position has made significant further improvement during the financial period. The IPO of HHI in August 2003 raised over HK\$3 billion, and net cash of HK\$940 million was derived from disposal of our interests in TJB up to the financial year-end. Bank loans were reduced from HK\$3 billion to HK\$1.2 billion at year-end, with cash and bank deposits of HK\$1.2 billion. The Group is in a net cash position, with no gearing and ready to take on investments in new projects.

Taking into the Group's improved financial position and taking advantage of the favourable loan market conditions, the Group has re-financed its existing banking facilities and successfully obtained a 5-year unsecured syndicated loan facility of HK\$2,880 million in October 2003. The Group has subsequently increased other unsecured banking facilities with a view to enhance financial flexibility to take on our planned projects for the Group's expansion.

The Group's US dollar denominated unsecured Notes due 2004 of US\$194 million bearing a fixed interest rate of  $9\frac{7}{8}\%$  per annum matured on 15th August, 2004; there will be no interest expenses in connection with these Notes after 15th August, 2004.

### **Prospects**

With only Beijing, Shanghai and certain cities in 4 provinces out of 29 provinces in the PRC that have relaxed their travel policy on individual visits to Hong Kong, the hotel and retail sectors in Hong Kong will benefit from expected further relaxations. The economic impact as Hong Kong companies pursue opportunities created by CEPA is also expected to grow significantly. These, coupled with the continued rapid economic development in the Pearl River Delta Region (PRD), will benefit the long-term future development of the Group's existing core businesses.

Hong Kong SAR Government's efforts to promote Hong Kong and to secure its position in the 9+2 Pan-Pearl River Delta Regional Economic and Trade Co-operation, an economy

comprising 9 provinces and SARs of Hong Kong and Macau, is encouraging for the long term prospects of Hong Kong. Government plans to introduce additional incentives with a view to maintaining a sustainable and healthy growth in the property market will also bolster confidence in the market. These are positive indicators for not only the property market but also for the growth of the economy. Hong Kong, recovering from a period of prolonged deflation, will benefit from improving integration with the rapidly developing PRC economy; in particular, the PRD.

With our Group's focus on infrastructure, property and hospitality businesses, we will pursue our goal of maintaining a leading position in these sectors in the PRD. The Group is well positioned to push ahead with its major property developments, including Hopewell New Town in Huadu district of Guangzhou and Nova Taipa Gardens in Macau while HHI develops Phases II and III of the Western Delta Route. The remaining issues of Mega Tower project are being resolved, and HHI can play a vital role in the Hong Kong-Zhuhai-Macau Bridge project when it proceeds. I remain optimistic about the prospects of further growth and new investment opportunities presented by these developments.

I am also pleased to advise that the disposal of the Group's interest in Shunde 105 Road project was effective subsequent to the financial year-end and the consideration of HK\$438 million was received in full.

The disposal of the Group's interest in the Shunde Roads project has also become effective subsequent to the financial year-end. Part of the consideration amounting to HK\$583 million was received in August 2004 and the remaining balance of HK\$240 million is receivable by 3 equal annual installments commencing from December 2005.

### **Acknowledgement**

I would like to take this opportunity to thank our shareholders, customers and suppliers as well as our working partners for their continuing support, and to express my sincere appreciation to my fellow directors, the management team and all staff members for their loyalty, diligence, and hard work in contributing to the excellent performance of the Group for the past financial year.

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

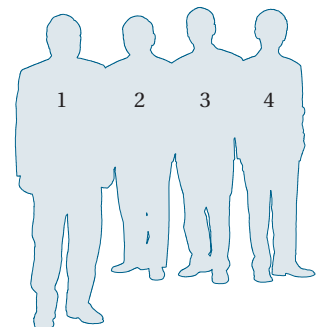
Hong Kong, 6th September, 2004

# Management Team

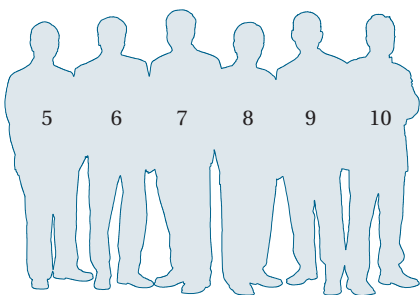


1. **Sir Gordon Ying Sheung WU** GBS, KCMG, FICE  
*Chairman*
2. **Mr. Eddie Ping Chang HO**  
*Vice Chairman & Managing Director*
3. **Mr. Josiah Chin Lai KWOK**  
*Deputy Managing Director*
4. **Mr. Thomas Jefferson WU**  
*Deputy Managing Director*
5. **Mr. Robert Van Jin NIEN**  
*Executive Director*

6. **Mr. Albert Kam Yin YEUNG**  
*Executive Director*
7. **Mr. Colin Henry WEIR**  
*Executive Director*
8. **Mr. David Yau-gay LUI**  
*Executive Director*
9. **Mr. Andy Lee Ming CHEUNG**  
*Executive Director*
10. **Mr. Eddie Wing Chuen HO Junior**  
*Executive Director*









# Profile of Directors

## Executive Directors

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

Aged 68, he is the Chairman of the Board of the Company. He graduated from Princeton University with a Bachelor of Science degree in engineering in 1958. As one of the founders of the Group, he was the Managing Director from 1972 to December 2001 before he became the Chairman. He was responsible for the Group's infrastructure projects in the PRC and South-East Asia and has been involved in the design and construction of numerous buildings and development projects in Hong Kong and the PRC. He is also the Chairman of Hopewell Highway Infrastructure Limited ("HHI"), the listed subsidiary of the Company, a director of various members of the Group and an independent non-executive director of i-Cable Communications Limited. He is the husband of Lady Ivy Sau Ping KWOK WU JP and the father of Mr. Thomas Jefferson WU.

He is very active in civic activities, his civic duties include:

#### *In Hong Kong*

- Member Commission on Strategic Development of the Hong Kong SAR
- Member Hong Kong Logistics Development Council
- Member Urban Renewal Authority
- Chairman City University of Hong Kong Council
- Vice President Hong Kong Real Estate Developer's Association
- Member The Greater Pearl River Delta Business Council

#### *In the PRC*

- Deputy Director Chinese People's Political Consultative Conference – Overseas Chinese Affairs Committee
- Director United Nations Association of China
- Advisor Xiamen Special Economic Zone, Guangxi Zhuang Autonomous Region and Qinhuangdao

Sir Gordon received Honorary Doctorate Degrees from Hong Kong Polytechnic University, University of Strathclyde, UK and University of Edinburgh, UK. He is a Fellow of The Institution of Civil Engineers and Honorary Fellow of Australian Society of Certified Practising Accountants. He has been appointed the Honorary Consul of The Republic of Croatia in the Hong Kong SAR. His other awards include:

#### *Honorary Citizen*

- The City of New Orleans, USA
- The City of Guangzhou, PRC
- The City of Shunde, PRC
- The City of Nanhai, PRC
- The City of Shenzhen, PRC
- The City of Huadu, PRC
- The Province of Quezon, the Republic of the Philippines

#### *Awards and Honours*

	<i>Year of Award</i>
• Gold Bauhinia Star (G.B.S.) by the Hong Kong SAR	2004
• Leader of the Year 2003 (Business/Finance) by Sing Tao Newspaper Group	2004
• Personality of the Year 2003 by the Asian Freight & Supply Chain Awards	2003
• Knight Commander of the Order of St. Michael and St. George for Services to British Exports by the Queen of England	1997

- Industry All-Star by Independent Energy, USA 1996
- International CEO of the Year by George Washington University, USA 1996
- Among “the Best Entrepreneurs” by Business Week 1994
- Man of the Year by the International Road Federation, USA 1994
- Business Man of the Year by the South China Morning Post and DHL 1991
- Asia Corporate Leader by Asia Finance Magazine, HK 1991
- Chevailier De L'Ordre De La Corona by the King of Belgium 1985

#### **Mr. Eddie Ping Chang HO**

Aged 71, he was appointed Vice Chairman of the Company since August 2003 and Managing Director of the Company since January 2002. He was Deputy Managing Director when the Company was listed on the Stock Exchange in 1972. He has been involved in developing all of the Group projects in the PRC, including highway, hotel and power station projects. In addition, he has extensive experience in building and development projects in Hong Kong. He is a Honorary Citizen of the Shunde District and the cities of Shenzhen and Guangzhou in the PRC. He is also the Vice Chairman of HHI and a director of various members of the Group. He is the father of Mr. Eddie Wing Chuen HO Junior.

#### **Mr. Josiah Chin Lai KWOK**

Aged 52, he was appointed Deputy Managing Director of the Company in January 2002 and is also a director of various members of the Group. He is a solicitor. Previously, he worked as a consultant to the Group on various important projects such as Guangzhou-Shenzhen-Zhuhai Superhighway, Shajiao B and C Power Stations, etc. Afterwards, he worked as Secretary for The Hong Kong Association of Banks, Legal Advisor of The Airport Authority, Hong Kong and Group Legal and Compliance Director of the BNP Paribas Peregrine Group.

#### **Mr. Thomas Jefferson WU**

Aged 32, he was appointed Deputy Managing Director of the Company in August 2003. He holds a Master of Business Administration degree from Stanford University and a Bachelor degree in Mechanical and Aerospace Engineering from Princeton University. He joined the Group in 1999 as Manager of Executive Committee Office, and was promoted to Group Controller in March 2000. He has been an Executive Director of the Company since June 2001 and the Chief Operating Officer since January 2002. He has been involving in the review of the Group's operational performance, strategic planning and organizational effectiveness and has upgraded the financial and management accounting systems of the Group. He is a member of the Chinese People's Political Consultative Conference in Huadu District in the PRC. He is also the Managing Director of HHI and is a director of various members of the Group. He is a son of Sir Gordon Ying Sheung WU and Lady Ivy Sau Ping KWOK WU JP.

## Profile of Directors (continued)

**Mr. Robert Van Jin NIEN**

Aged 57 and an Executive Director of the Company since 1980, he is responsible for corporate finance, corporate affairs, administration and property management of the Group. He is a director of various members of the Group. He has been involved in the Group's major fund raising activities on both project and corporate levels. He holds a Master of Business Administration degree from University of Pennsylvania's Wharton Graduate Business School.

**Mr. Albert Kam Yin YEUNG**

Aged 53, he was appointed as an Executive Director of the Company in November 2002 and is also a director of various members of the Group. Prior to joining the Group, he was a director of WMKY Limited from 1986 to 1998 and acted as a consultant of the Group's recent construction projects. He has a Bachelor of Architecture degree from the University of Hong Kong. He is a Registered Architect, an Authorized Person and a member of the Hong Kong Institute of Architects and various professional bodies.

**Mr. Colin Henry WEIR**

Aged 58, he joined the Group in 1985 and was appointed as an Executive Director in 1997. He is also a Director of Hopewell (Thailand) Limited and a director of various members of the Group. He became a member of the Institution of Civil Engineers in 1975. He was the Engineering Manager for the design and construction of power station and highway. In 1991, he became the Engineering Manager and subsequently Project Director for the BERTS project. He is now responsible for the overseas projects of the Group.

**Mr. David Yau-gay LUI**

Aged 59, he was appointed as an Executive Director in 1997. He is also a Director of Hopewell (Thailand) Limited and is a director of various members of the Group. He was the Founder Director of Pat Davie Ltd., one of the leading interior design and contracting firms in Hong Kong. Since 1990, he has been involved in the Group's BERTS project in Thailand.

**Mr. Andy Lee Ming CHEUNG**

Aged 38, he was appointed as an Executive Director in July 2003 and is also a director of various members of the Group. He joined the Group in 1997. He has a Bachelor degree in Business Administration from Boston University and a Master of Business Administration degree from McMaster University. He is a Certified Public Accountant of the State of Illinois in the United States. He is involved in the Group's financial activities and development and control of the Group's investments in power project in Indonesia. He has considerable experience in the areas of business development, finance and audit.

**Mr. Eddie Wing Chuen HO Junior**

Aged 35, he was appointed as an Executive Director in August 2003. He holds a Bachelor of Arts degree from California State University in the U.S.A. He is a son of Mr. Eddie Ping Chang HO. He joined the Group in 1994 and has held various management positions, including Director of Marketing and Sales and Deputy General Manager, at the Group's Hongkong International Trade and Exhibition Centre in Kowloon Bay.

## Non-Executive Directors

### Mr. Henry Hin Moh LEE

Aged 76, he has been involved with the Group since the Company was listed in 1972. He is a Non-Executive Director and a Consultant of the Company. Prior to his retirement from his executive duties of the Company in December 2001, he was responsible for real estate development and property rental and sales of the Group. He was actively engaged in the property business in Hong Kong. He is a Honorary Citizen of the Shunde district in the PRC.

### Lady Ivy Sau Ping KWOK WU JP

Aged 55 and a Non-Executive Director of the Company, she joined the board in 1991. She serves on the committees and boards of numerous commercial and social organizations including Asian Cultural Council (Hong Kong), Asia Society and Hong Kong Red Cross. She was appointed a Justice of the Peace effective 1st July, 2002. She is the wife of Sir Gordon Ying Sheung WU and mother of Mr. Thomas Jefferson WU.

### Mr. Carmelo Ka Sze LEE

Aged 44, an Independent Non-Executive Director since March 2001 and was re-designated as a Non-Executive Director on 6th September, 2004. He holds a Bachelor of Laws degree from the University of Hong Kong. He is a practicing solicitor and is a partner of Messrs. Woo, Kwan, Lee & Lo, Solicitors & Notaries, which firm rendered professional services to the Group and received normal remuneration for such services.

## Independent Non-Executive Directors

### Mr. Guy Man Guy WU

Aged 47 and an Independent Non-Executive Director of the Company, he joined the board in 1987. He has a Bachelor of Science degree in industrial engineering from Purdue University, U.S.A. He is also the Managing Director of the Liverton Group and Video Channel Productions Limited.

### Ms. Linda Lai Chuen LOKE

Aged 66 and an Independent Non-Executive Director, she joined the board in 1991. A graduate of the University of California at Berkeley, she has over 30 years of professional experience in the securities and investment field. She was the emeritus Managing Director of Dean Witter Reynolds (Hong Kong) Limited and Vice President (Private Wealth Management) at Morgan Stanley Inc.

### Mr. Lee Yick NAM

Aged 57, he was appointed as an Independent Non-Executive Director of the Company on 6th September, 2004. He is also an Independent Non-Executive Director of HHI. He holds a certificate in management studies from Carnegie Mellon University of U.S. in 1977. He has over a 30 years' experience in the banking, investment and finance industry. He was an Executive Director of Liu Chong Hing Bank from 1990 to 2001. Prior to that, he was a Vice President at Citibank, Mellon Bank and American Express Bank. He was appointed as a member of the Hong Kong Deposit Protection Board on 1st July, 2004.



## Operations Review

*The Group's investment portfolio of rental properties includes Hopewell Centre, Hongkong International Trade and Exhibition Centre, shopping arcades of Panda Hotel and Allway Gardens, three floors of Hing Wai Centre at Aberdeen and various car parking spaces at Allway Gardens, Wu Chung House and Hing Wai Centre. Turnover of the property division amounted to HK\$291 million, compared with HK\$328 million of last financial year, representing 45% of the Group's turnover, and is mainly attributed to the Group's two largest properties – Hopewell Centre and Hongkong International Trade and Exhibition Centre.*





## Rental Property





Operations Review (continued) — RENTAL PROPERTY

## Hopewell Centre

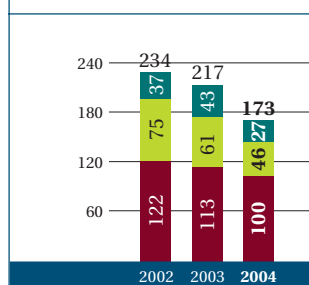
The office leasing market remained very competitive as a result of the substantial supply of office space on Hong Kong Island. However, starting from early 2004, office leasing has been showing signs of improvement due to the spur of the increasing demand from companies expanding their premises and newcomers establishing presence in Hong Kong.

Hopewell Centre, our Group's flagship property, remains a Hong Kong landmark. Overall average occupancy was maintained around the same level as that of last financial year at about 91% despite the soft office leasing market during the second half of 2003. With the recovery of the economy, we had effective and flexible marketing strategy to handle both lease renewals and new leases. We also committed ourselves to providing a renovated office environment to our tenants. A comprehensive renovation program has been underway to upgrade the main lobbies, shopping arcade and building facilities. Retail mix in the shopping arcade was tailored to suit the customers' needs.

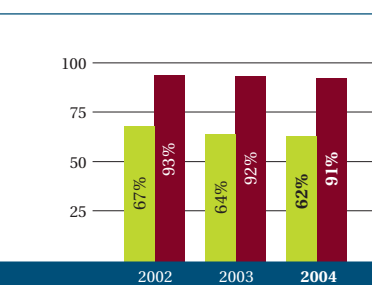
The Group believes the office sector will continue to benefit from CEPA, with occupancy remaining high and rental rate firming up.



**Hong Kong Rental Property EBIT (HK\$m)**



**Hopewell Centre and HITEC Average Occupancy (%)**



■ Hopewell Centre ■ HITEC ■ Others

## Hongkong International Trade and Exhibition Centre (“HITEC”)

The Hongkong International Trade and Exhibition Centre, a commercial complex located at the hub of Kowloon Bay, one of the major commercial districts in East Kowloon, offers a comprehensive range of showrooms, office spaces and facilities to hold large scale trade shows, conferences and banquets.

Despite severe competition from new office supply in the neighbourhood, average occupancy was kept at about 62%, as compared to about 64% last year. Looking ahead, competition is still fierce due to new office supply in Kwun Tong and Kowloon Bay. The Group will continue to adopt a flexible marketing strategy coupled with ongoing customer-care services to ensure HITEC’s competitiveness. Introducing commercial uses to HITEC is an underlying policy to address the customers’ needs. Implementation of this policy is underway and lease modification relating to the usage for commercial purpose is expected to be completed in the next few months.



## Panda Shopping Arcade

In order to introduce a new image to the shopping arcade that occupies the ground floor and three basements of Panda Hotel, a revamp project is planned. Plans for alteration and addition works have been approved by the Buildings Department. Renovation works for this shopping mall, named Panda Place, are expected to be completed in 2005. Panda Place will feature a modern and stylish design and offer greater choice of shopping as well as food and beverage and entertainment to the hotel guests and the residents in Tsuen Wan.



Operations Review (continued) — **PROPERTY DEVELOPMENT**



# Property Development

PROJECT	LOCATION	DESCRIPTION	STATUS
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## HONG KONG SAR

Mega Tower Hotel	Wanchai, Hong Kong Island, near Hopewell Centre	A planned site of about 14,000 sq.m. under various approval processes for the development of a hotel complex with recreation, shopping, restaurant and other commercial facilities.	Project has been undergoing various processes for the Town Planning Board's approval.
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## GUANGZHOU CITY – GUANGDONG PROVINCE, PRC

Hopewell New Town	Huadu District, Guangzhou, near the Guangzhou New Baiyun International Airport	The Group has a 95% interest in the project with a site of about 733,000 sq.m. for a composite development with residential, logistic and commercial developments.	Project will be developed by phases. Master Layout Plan for the development has been approved. Sample flats have been completed. Construction of row houses and four 14-storey blocks has commenced in 2004.
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## MACAU SAR

Nova Taipa Gardens	Taipa Island, Macau	The Group has a 50% interest in the joint venture project with Shun Tak and STDM. Total site area of 176,000 sq.m. will be developed by phases into residential, commercial and hotel properties with social amenities.	Construction of the first five residential blocks with 680 flats of Phase 2 is underway. Pre-sale of Phase 2 units is scheduled for launching in 2005.
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Operations Review (continued) — **PROPERTY DEVELOPMENT**

## Mega Tower Hotel

Mega Tower Hotel is the Group's latest hotel development in Hong Kong. The proposed hotel, adjacent and to the west of Hopewell Centre, is planned to incorporate shopping, restaurant, commercial and convention facilities as well as much needed community open space in the vicinity.

During the financial year, the Group acquired the last two property units in the proposed site and submitted planning application to the Town Planning Board. The application submitted was rejected under Section 16 of the Town Planning Ordinance and is being reviewed under Section 17 of the same ordinance.



## Hopewell New Town, Huadu, Guangzhou

The Group owns a 95% interest in this composite development project in Huadu, Guangzhou – the Hopewell New Town, a residential, commercial and logistic complex development on a site area of about 733,000 sq.m. Hopewell New Town is strategically located 2 km from the Guangzhou New Baiyun International Airport and is planned to be developed in several phases with a total development areas of about 1.4 million sq.m. The project is expected to capture the robust demand for residential, commercial and logistic developments being generated by the new airport which was opened in August this year. It is also conveniently located to the nearby Guangzhou Huadu Auto City and other commercial and manufacturing facilities.

The master plan of the development has been approved. The first phase development consists of townhouses and apartment units with a total development area of approximately 160,000 sq.m. Its development cost is around RMB 450 million. Construction work has commenced.





Hopewell New Town is positioned to complement the growth of Guangzhou as one of the most important logistical hubs in Southern China brought by its extensive transportation network and the increasing number of major manufacturing plants and also closely meets the needs of the region's ever more affluent population.



## Nova Taipa Gardens

Nova Taipa Gardens is a multi-phase joint venture development of residential, commercial, social amenities, offices and a hotel on a 176,000 sq.m. site on Taipa Island, Macau and one of the largest property development projects in Macau. It is planned to be developed in 5 phases. Upon completion, it will consist of more than 4,000 residential units and 4,000 carparking spaces. The Group has a 50% interest in the project.



Phase 1 was completed in July 1997. Phase 2 is divided into 3 sub-phases of development. The first sub-phase, Phase 2C, consists of 5 residential blocks with development areas of approximately 100,000 sq.m. providing 680 apartments and 800 car parking spaces. The construction work started in August 2004 and sales is expected to commence in 2005.

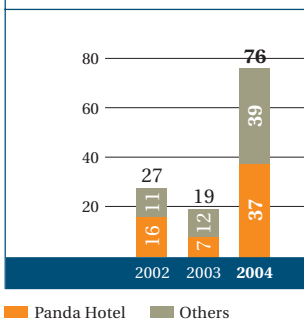
The Group believes Nova Taipa Gardens, a high quality property development project, will allow residents to enjoy high quality living in pleasant environment on Taipa Island.

Operations Review (continued) — **HOTEL AND CATERING**

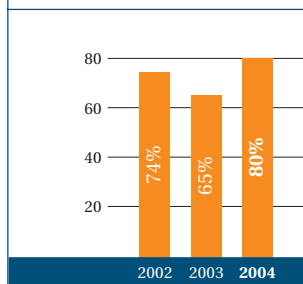


# Hotel and Catering

**Hospitality EBIT (HK\$m)**



**Panda Hotel Average Occupancy (%)**



■ Panda Hotel ■ Others

## Panda Hotel

Panda Hotel experienced a swift business revival during the financial year after facing unprecedented challenges brought by the SARS outbreak in 2003. The average room occupancy increased from 65% to 80 % while the average room rate increased by 14 %. PRC visitors made up the majority of our hotel guests while tourists, corporate and long staying guests also contributed to a steady flow of guest arrivals. In order to increase the hotel's competitiveness, it has started a programme of refurbishment and renovation to its guest rooms and restaurants by phases since two years ago, with 249 rooms, the restaurants and the ballroom completed by the financial year-end. The programme will continue until all rooms are renovated.

Since global economic recovery has created a positive macro-environment, revival in the Hong Kong economy is well on track and becomes more entrenched in the coming months. According to the recent visitor arrivals forecast by the Hong Kong Tourism Board, visitors from PRC will continue to be the leading contributor capitalizing on the Individual Visit Scheme, access to the World Trade Organization ("WTO") and CEPA. A continued steady growth from our targeted short and long haul markets is also expected. In order to address the growing marketing, the Group will strengthen its marketing schemes such as introducing attractive packages and special promotions for both rooms and food and beverage business.





Operations Review (continued) — **HOTEL AND CATERING**

## China Hotel, Guangzhou, PRC

On 9 June 2004, upon the expiry of its 20 years' joint venture co-operation, China Hotel, a five-star hotel in Guangzhou, was transferred to the Guangzhou authorities. The hotel project was the first Sino-foreign co-operative joint venture in Guangzhou. The Group had a 20% interest in the venture.



## Restaurant and Catering Services

Apart from the food and beverage outlets at Panda Hotel, the Group operates Revolving 66 Restaurant located at Hopewell Centre, Yuet Loy Heen and Grand Buffet Restaurant located at HITEC, and the food manufacturer and supplier – Bayern Gourmet Food. The food and beverage business recorded improvement during the year under review as a result of the improved consumer sentiment brought by the economic recovery and the Group's series of innovative promotions.



## Construction and Project Management

The Group's construction subsidiaries have completed all existing construction contracts. Due to difficult market conditions in the local construction industry, the Group's construction expertise will focus on project management of the Group's own property developments.

### Tanjung Jati B Power Plant Project (“TJB”)

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During the financial year, the disposal of TJB in Indonesia was concluded and became effective. The aggregate cash consideration is approximately HK\$2,388 million and receivable in instalments which, if fully settled, will enable the Group to generate a net cash surplus of approximately HK\$1,660 million after discharging all liabilities relating to the project. Up to this financial year-end, the disposal has generated a net cash surplus of HK\$940 million to the Group with the remaining balance of HK\$720 million to be received in the next three years.

### Grand Hotel Excelsior and South Luzon Tollway

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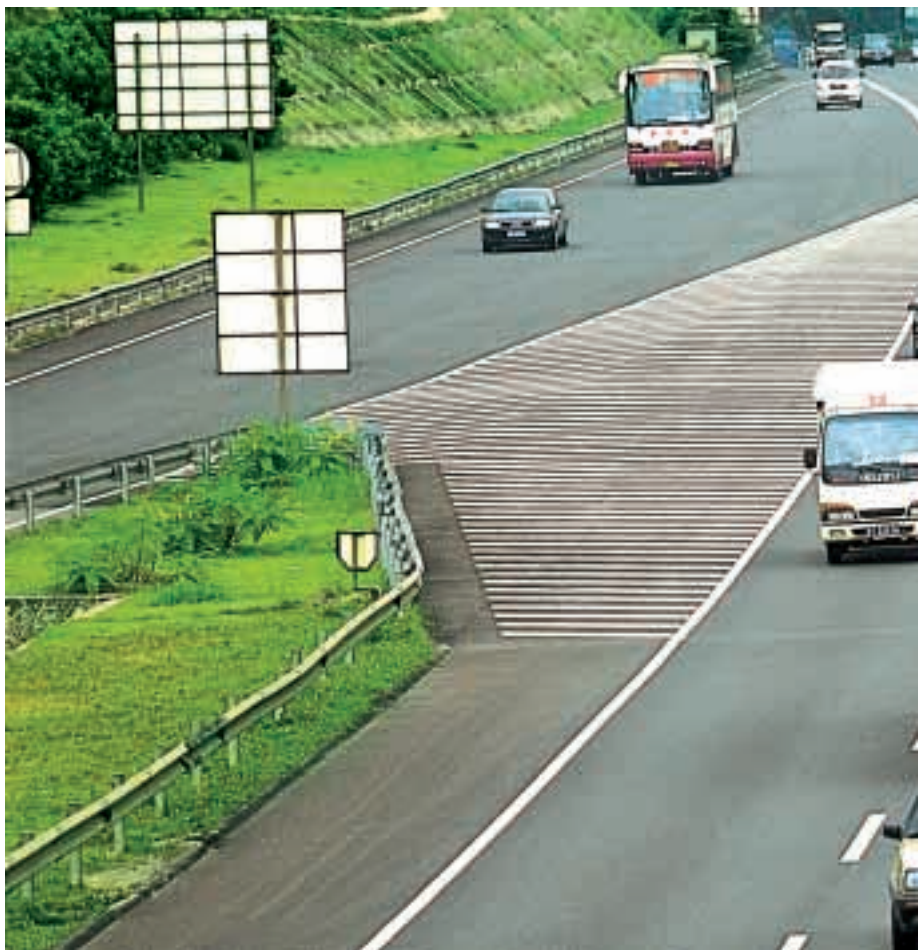
Continuing our strategy to dispose of non-core investments, the Group entered into agreements for the sale of its interests in the Grand Hotel Excelsior project in Malta and for the sale, subject to certain conditions, of its interest in the South Luzon Tollway project in the Philippines in October 2003. The cash consideration under the sale agreements together with the repayment of various loans owed to the Group, both receivable in instalments, will be approximately HK\$80 million if materialized.

### Bangkok Elevated Road and Train System (“BERTS”)

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The Group continued its efforts during the financial year to seek a resolution for the BERTS project.

*On 6 August, 2003, the Group listed its subsidiary, Hopewell Highway Infrastructure Limited (“HHI”), on the Main Board of the Stock Exchange of Hong Kong Limited. The initial public offering (“IPO”) in Hong Kong and the international placing raised over HK\$3 billion for HHI. A deemed profit of HK\$484 million resulting from the IPO was recorded by the Group. The Group will continue to operate its core businesses of property and hospitality and retain approximately 75% shareholding in HHI, which focuses on the initiation, promotion, development, investment and operation of toll expressways and bridges.*



## Infrastructure

### HHI

Three toll expressway projects across the Pearl River Delta region (“PRD”) of Guangdong Province were invested by HHI. They are operational and have exhibited remarkable growth in terms of traffic volume and toll revenue.

For the financial year ended 30th June, 2004, HHI’s investment in Guangzhou-Shenzhen Superhighway and Guangzhou East-South-West Ring Road achieved strong growth. As compared with previous year, tolled traffic at the joint venture level for both expressways increased 22%, and toll revenue increased 20% and 27% respectively. The third toll expressway project, Phase 1





of the Western Delta Route, commenced operation on 30th April, 2004, 2 months ahead of the original schedule and started contribution to HHI's revenue.

The continued growth in HHI's operations has been a result of a variety of factors, all of which point to the robust economic growth of the PRD. The PRC's open-door economic policy has led to initiatives such as its entry in the WTO, the creation of CEPA, the Pan-PRD programs, and the opening of the Guangzhou New Baiyun International Airport and various industrial and economic zones and seaports. These will no doubt collectively further enhance the growth of the PRD.

Today, the PRD has become one of the world's most important manufacturing centers in the world, and is increasingly becoming more competitive on a worldwide basis. As HHI's primary business focus will continue to be the PRD, HHI aims to grow and expand its business in tandem with the PRD.

Operations Review (continued) — **INFRASTRUCTURE**

	PROJECT SUMMARY			
	Location	Guangzhou to Shenzhen, Guangdong, PRC		
	Length	122.8 km		
	Lane	Dual three lane		
	Class	Expressway		
	JV Contractual Operation Period	Jul 1997 – Jun 2027		
	Profit Sharing Ratio	Year 1-10: 50%	Year 11-20: 48%	Year 21-30: 45%

## Guangzhou-Shenzhen Superhighway (“GS Superhighway”)

GS Superhighway is a 122.8 km, dual three lane closed system toll expressway. There are 18 toll stations along the route, which is fully lit and installed with computerized toll collection, surveillance, and data communication systems. GS Superhighway is a key arterial expressway in the PRD, connecting airports, ports and major cities and is the only expressway linking up Guangzhou, Dongguan, Shenzhen and Hong Kong. Both traffic flow volume and toll revenue continued to record strong growth since it opened in 1994.

Maintaining a high quality standard of expressways is of paramount importance to HHI. This year, the joint venture company completed repaving the final sections of GS Superhighway, completing a two year program that eventually saw the repavement of approximately 100 km of expressway. Additional toll lanes at some stations have also allowed for better throughput of traffic.

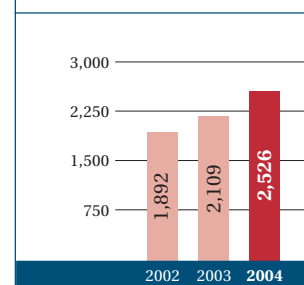
Another major program to enhance the flow of traffic completed this year was the widening from 3 to 4 lanes (each way) for a 2.7 km stretch of expressway between Hezhou and Fuyong.

Even though during the implementation of these improvement works, average daily traffic still increased by 22% from 155,394 to 188,768, and average daily revenues increased by 20% from RMB 5.78 million to RMB 6.90 million, over last financial year at joint venture level.

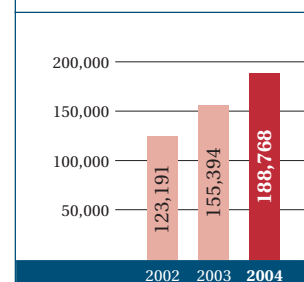
In our efforts to continue to improve the safety for traffic travelling on GS Superhighway, the joint venture company continues to carry out works such as improving road lighting, installing antidazzle boards and better road signs, as well as upgrading traffic monitoring and management systems. Landscaping at interchanges along the expressway and under bridges are also being carried out to improve the aesthetics.

HHI believes that the economic growth in the PRD, together with the continuous improvement in ancillary traffic facilities and service quality, will continue to drive the traffic and revenue growth of the GS Superhighway.

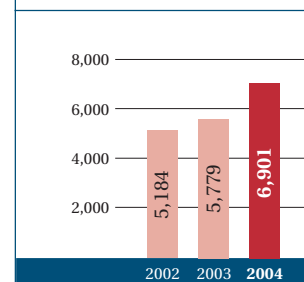
**Toll Revenue**  
(RMBm)



**Average Daily Traffic**  
(No. of vehicles)



**Average Daily Toll Revenue** (RMB'000)





#### PROJECT SUMMARY

<b>Location</b>	Guangzhou, Guangdong, PRC		
<b>Length</b>	38 km		
<b>Lane</b>	Dual three lane		
<b>Class</b>	Expressway		
<b>JV Contractual Operation Period</b>	Jan 2002 – Dec 2031		
<b>Profit Sharing Ratio</b>	Year 1-10: 45%	Year 11-20: 37.5%	Year 21-30: 32.5%

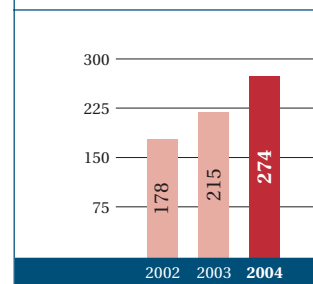
## Guangzhou East-South-West Ring Road (“ESW Ring Road”)

The ESW Ring Road, is a 38 km long closed system expressway with dual three lanes, 11 interchanges and computerized toll collection and surveillance and telecommunication systems. It is connected to the Guangzhou Northern Ring Road to form a ring road around the major commercial and trading centers of Guangzhou. Through the interchanges, ESW Ring Road closely connects to other nearby expressways and many major routes around Guangzhou city.

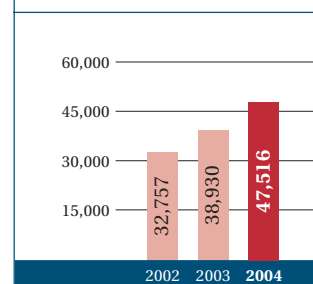
Over the past year, the ESW Ring Road continued to record robust growth. At the joint venture level, its average daily tolled traffic figure was 47,516, 22% higher than last year’s figure and annual toll revenue reached RMB 274 million, 27% higher than the previous financial year.

The ESW Ring Road connects with a host of additional expressways and local roads, such as the Guangzhou Southern Expressway, which will connect Guangzhou and the Nansha Development Zone, which is expected to be completed by 2005. Additional traffic will also be attracted to ESW Ring Road with the recent opening of Phase I West, which reduces traveling time from Guangzhou to Shunde from 40 minutes to approximately 10 minutes.

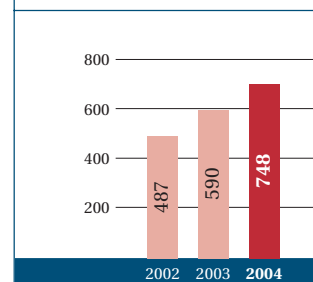
**Toll Revenue**  
(RMBm)



**Average Daily Traffic**  
(No. of vehicles)



**Average Daily Toll Revenue** (RMB'000)





Operations Review (continued) — **INFRASTRUCTURE****PROJECT SUMMARY**

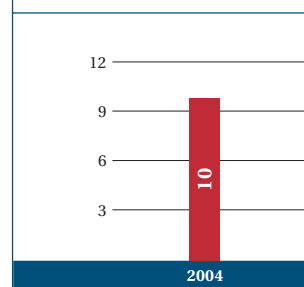
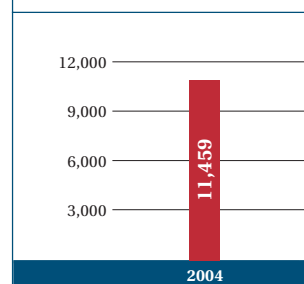
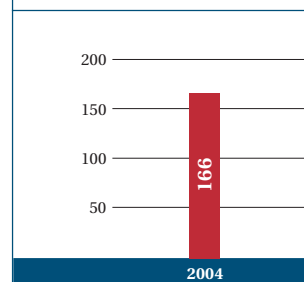
<b>Location</b>	Guangzhou to Shunde, Guangdong, PRC
<b>Length</b>	14.7 km
<b>Lane</b>	Dual three lane
<b>Class</b>	Expressway
<b>JV Contractual Operation Period</b>	Sep 2003 – Sep 2033
<b>Profit Sharing Ratio</b>	50%

**Phase I of the Western Delta Route (“Phase I West”)**

Phase I West is a 14.7 km closed system dual three lane expressway project. It connects the ESW Ring Road in the north to National Highway 105 and Bigui Road in the south.

Phase I West was opened to traffic on 30th April, 2004, 2 months ahead of schedule. The relevant authority of the Guangdong provincial government judged the Phase I West works as one of the top quality projects in the province.

Currently, Phase I West is the only expressway linking Guangzhou and Shunde. It provides a speedy transportation link and reduces the traveling time between the two cities from 40 minutes to approximately 10 minutes. Traffic flow and toll revenue have been growing strongly since operations started. Up to the end of June 2004, average daily traffic was 11,459 at the joint venture level.

**Toll Revenue**  
(RMBm)**Average Daily Traffic**  
(No. of vehicles)**Average Daily Toll Revenue** (RMB'000)

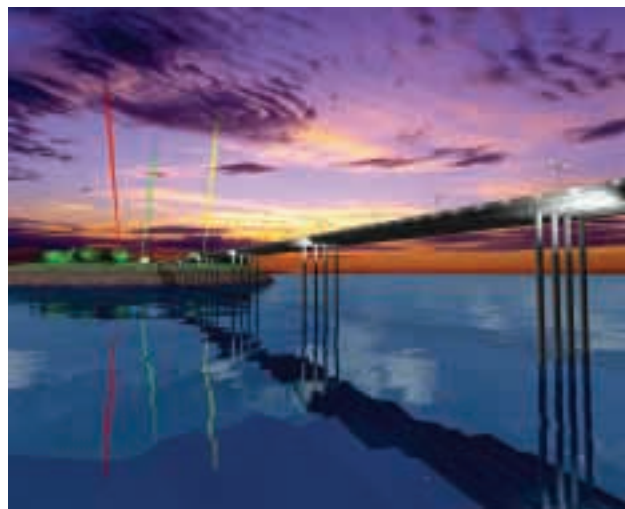
## Phases II and III of the Western Delta Route

The Western Delta Route comprises Phases I, II (previously referred to as Phases 2 and 3) and III. The 14.7 km Phase I West project was completed and started operations on 30th April, 2004. On 14th July, 2004, HHI conditionally amended their agreement with the Phase I West's joint venture partner to invest, construct and operate Phase II of the Western Delta Route ("Phase II West"). Phase II West will be approximately 46 km length of expressway linking Shunde to Zhongshan. In addition, HHI is currently in the process of negotiating the terms of a possible co-operation with the PRC joint venture partner of Phase I West and Phase II West to also invest, construct and operate Phase III of the Western Delta Route ("Phase III West"). On completion of the Western Delta Route, an arterial expressway system directly linking Guangzhou, Nanhai, Shunde, Zhongshan and Zhuhai will be formed, creating a strategic route in that area.



## Hong Kong-Zhuhai-Macau Bridge Project

The proposed 29 km Y-shaped bridge will connect Hong Kong, Zhuhai and Macau. In the past 12 months, the Guangdong, Hong Kong SAR and Macau SAR governments formed a joint working committee to push forward and organize the related preliminary works of the project. In early 2004, the Guangdong, Hong Kong SAR and Macau SAR governments appointed the China Highway Planning and Design Institute Consultants, Inc. to undergo a feasibility study of the Hong Kong-Zhuhai-Macau bridge project. HHI believes when the project advances further, it will be in an advantageous position to take up an important role.



Operations Review (continued) — OTHER INFRASTRUCTURE PROJECTS

## Other Infrastructure Projects

SHUNDE ROADS PROJECT SUMMARY	
Location	Shunde district, Guangdong, PRC
Length	102.4 km
Lane	Dual three lane
Class	Class 1 Highway
JV Contractual Operation Period	Aug 1996 – Aug 2026
Profit Sharing Ratio	25%

SHUNDE 105 ROAD PROJECT SUMMARY	
Location	Shunde district, Guangdong, PRC
Length	40 km
Lane	Dual three lane
Class	Class 1 Highway
JV Contractual Operation Period	Jan 2001 – Dec 2025
Profit Sharing Ratio	30%

### Shunde Roads and Shunde 105 Road (not under the portfolio of HHI)

Shunde Roads are a system of four interconnecting dual three-lane highways that form the core road network around the Shunde District of Foshan Municipality; whereas Shunde 105 Road is a separate major highway through the district.

Subsequent to the financial year-end, the disposal of the Group's interest in Shunde 105 Road project has become effective and the consideration of HK\$438 million was received in full. The gain of approximately HK\$178 million arising therefrom will be accounted for in the financial statements for the ensuing year.

The disposal of the Group's interest in Shunde Roads project has also become effective and a portion of the consideration amounting to HK\$583 million was received subsequent to the financial year-end. A gain of approximately HK\$314 million (mainly represents prior years' losses recovered) will be recognized in the financial statements for the ensuing year. The remaining balance of HK\$240 million, which is unsecured, is receivable by 3 equal annual installments commencing from December 2005 and these amounts will be recognized as gains if and when received.





Operations Review (continued) — OTHERS

## Others

### Employees and Remuneration Policies

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There were approximately 1,057 employees in the Group as at 30th June 2004. The Group continues to provide remuneration packages to employees with reference to prevailing market practices and individual performance. Various benefits including medical and personal accident insurance coverage are also provided to employees. In addition, training programs are conducted on an ongoing basis throughout the Group aiming at improving the employee productivity. Share options may be granted at the discretion of the Board of Directors to employees as appropriate.

### Relations with Shareholders and Investors

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The Group is committed to fostering a good and long-term relationship through open and prompt communication with shareholders and investors. In addition to the annual general meeting which avails shareholders of opportunity to raise comments on the Group's performance with directors, press and analysts conferences are held at least twice a year subsequent to the interim and final results announcements at which the directors are available to answer queries on the Group. Copies of presentation materials at the conferences are made available to the public through our corporate website [www.hopewellholdings.com](http://www.hopewellholdings.com), which also contains a wide range of additional information on the Group's business activities and is interlinked with the listed subsidiary HHI's website [www.hopewellhighway.com](http://www.hopewellhighway.com).

### Community Relations

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As a committed and responsible corporate citizen, the Group continued to support a wide spectrum of community activities such as Casual Dress Day, Blood Donation, Toys Donation, Food Donation, Fund Raising for charitable organizations like Crisis Service for Youth and Worldwide Fund for Nature Hong Kong, Walks for millions. We also continued to support education in the Mainland China through donations in universities.

## Financial Review

### Group Results

For the year ended 30th June, 2004, the Group's turnover by activities and their respective earnings before interest and tax were reported as follows:

<i>In HK\$ million</i>	<i>Turnover</i>		<i>Earnings before interest and tax</i>	
	<i>2003</i>	<i>2004</i>	<i>2003</i>	<i>2004</i>
Infrastructure project investment	74	<b>50</b>	635	<b>799</b>
Property letting, agency & management	328	<b>291</b>	217	<b>173</b>
Hotel operations, restaurant & catering	225	<b>276</b>	19	<b>76</b>
Construction & project management	172	<b>36</b>	(34)	<b>(9)</b>
Others	–	–	2	<b>35</b>
	<b>799</b>	<b>653</b>	<b>839</b>	<b>1,074</b>

<i>In HK\$ million</i>	<i>Results</i>	
	<i>2003</i>	<i>2004</i>
Earnings before interest & tax <sup>(Note 1)</sup>	839	<b>1,074</b>
Exceptional items	366	<b>975</b>
Finance costs <sup>(Note 2)</sup>	(372)	<b>(233)</b>
Taxation <sup>(Note 3)</sup>	(122)	<b>(51)</b>
Minority interests	(99)	<b>(311)</b>
Net profit <sup>(Note 3)</sup>	<b>612</b>	<b>1,454</b>

*Note:*

- (1) *Earnings before interest & tax is the sum of (i) profit from operations before impairment loss written back/gain on disposal of TJB project and losses on properties and investment of HK\$135 million (2003: HK\$129 million); and (ii) share of profits of jointly controlled entities and associates totalling HK\$939 million (2003: HK\$710 million).*
- (2) *The amount included interest expenses and related finance costs of Notes totalling HK\$151 million (2003: HK\$237 million).*
- (3) *The comparative figure of last year has been restated following the adoption of Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income Taxes" retrospectively.*

The Group's turnover for the year ended 30th June, 2004 was HK\$653 million as compared with HK\$799 million of last financial year. Since equity accounting method is adopted, turnover attributable to the Group from the PRC joint ventures (the "Joint Ventures") has not been accounted for in the Group's turnover. Toll revenue of the GS Superhighway, ESW Ring Road and Phase I West joint venture amounted to RMB 2,810 million for the financial year ended 30th June, 2004, representing a 21% increase over last year.

The Group's earnings before interest and tax ("EBIT") from recurring operating activities increased by 28% to HK\$1,074 million from HK\$839 million of the last financial year, mainly attributable to the growth in traffic and toll revenue of GS Superhighway, which, under the equity accounting method, is reflected in the Group's attributable share of profits of the Joint Ventures. During the year, the improved operating results from the hospitality business also contributed to the EBIT increase.

The Group reported a net profit of HK\$1,454 million, an increase of 138% as compared with HK\$612 million of the last financial year. The increase, after

deducting the cost for share option cancellation and the minority interests, mainly comes from, (i) the encouraging results of the road infrastructure projects of HK\$799 million (or 26% increase as compared with the last financial year), (ii) lower finance cost of HK\$233 million as compared to HK\$372 million of the last corresponding year resulting from the lower debt level, (iii) the disposal gain of HK\$580 million resulting from the TJB project, which was concluded in August 2003, and (iv) the IPO gain of HK\$484 million due to the listing of HHI in August 2003.

### Liquidity and Financial Resources

The Group has strengthened its financial position, resulting in positive net cash position at the end of the financial year. With zero net debt, the net debt to equity ratio also correspondingly became zero, compared with 14% of last financial year. Interest coverage ratio increased to 5.3 times (2003: 2.7 times).

Excluding the US dollar denominated unsecured Notes of US\$194 million due and fully repaid in August 2004, the Group's total borrowings amounted to HK\$1,234 million (2003: HK\$2,952 million). After deducting deposits and cash holdings of approximately HK\$1,239 million (2003: HK\$1,051 million), the Group was in positive net cash position (2003: net debt of HK\$1,901 million) as at the financial year-end. Subsequently, as at 31st August, 2004, the Group's net cash position has increased to approximately HK\$1.5 billion while the total available facilities were approximately HK\$4.0 billion.

In managing the debt portfolio, the Group has endeavoured to take advantage of the favourable loan market conditions and successfully arranged a HK\$2,880 million syndication loan and various bilateral bank loans. The syndicated loan is a 5-year unsecured revolving facility arranged in October 2003 and was well supported by the banking community with participation by a group of eleven reputable banks.

As the majority of the Group's borrowings, excluding the Notes due in August 2004, carries interest at floating rates and is denominated in Hong Kong dollars, the Group's exposure to exchange rate fluctuation is insignificant.

In managing the asset portfolio, the Group has remarkable achievements during the financial year ended 30th June, 2004. Firstly, the Group successfully spun off 25% of its shareholding in HHI, and received over HK\$3 billion from the listing. Secondly, the Group concluded its disposal of TJB project in Indonesia in August 2003. The aggregate cash consideration, receivable in instalments, is approximately HK\$2,388 million which, if fully settled, will enable the Group to generate a net cash surplus of approximately HK\$1,660 million after discharging all liabilities relating to the project. Up to 30th June, 2004, the disposal has generated a net cash surplus of HK\$940 million to the Group.





## Financial Review (continued)

The debt maturity profile was spread out over different terms, with 81% of debts being due beyond four years while only 19% due within one (excluding the US\$194 million fixed rate notes maturing in August 2004 which a cash reserve was set aside to sufficiently cover all outstanding principals and coupons when due). Such maturity structure enabled the Group to have sufficient flexibility in managing its current and future funding needs.

The maturity profile of the Group's borrowing as at 30th June, 2004, other than the Notes due and fully repaid in August 2004, is shown as follows:

<i>At 30th June</i>	<i>2003</i>	<i>2004</i>
Within 1 year	25%	<b>19%</b>
1-2 years	21%	–
2-5 years	54%	<b>81%</b>

Management of the Group's financing and treasury activities were centralized at the corporate level. The use of financial instruments is strictly controlled and is solely for managing the Group's interest rate and foreign currency exchange rate exposures in connection with its borrowings.

With bank deposits and cash in hand as well as available banking facilities, the Group maintains strong and sound liquidity position, having sufficient financial resources to fund its recurring operating activities, its present investment as well as future investment opportunities.

The Group's capitalization structure is shown as follows:

<i>At 30th June</i>	<i>2003</i>	<i>2004</i>
<i>HK\$ million</i>		
Equity <sup>(Note)</sup>	13,653	<b>14,866</b>
Net debt	1,901	N/A
Total capitalization <sup>(Note)</sup>	<u>18,079</u>	<u><b>17,574</b></u>
<i>In %</i>		
Net debt vs total capitalization	11%	N/A
Net debt vs equity	<u>14%</u>	<u>N/A</u>

*Note:*

*The comparative figures of last corresponding period have been restated following the adoption of SSAP 12 (Revised) "Income Taxes" retrospectively.*

### Charges on Assets

During the year, mortgages on the Group's properties were discharged upon refinancing of the bank loans by unsecured bank borrowings. The pledge of the Group's interest in a jointly controlled entity engaging in the development of an infrastructure project was also released upon full repayment of bank loan in the year.

### Project Commitments

Details of the project commitments are set out in note 40 to the financial statements.

### Contingent Liabilities

Details of the contingent liabilities are set out in note 42 to the financial statements.

# 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, 2004.

## Principal Activities

The principal activity of the Company is investment holding and its subsidiaries are active in the field of 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.

## Results

The results of the Group for the year ended 30th June, 2004 are set out in the consolidated income statement on page 51.

## Dividends

The directors recommended the payment of a final dividend of HK30 cents (2003: HK18 cents) per share which, together with an interim dividend of HK10 cents (2003: HK7 cents) and a special interim dividend of HK30 cents (2003: Nil) per share paid on 25th March, 2004, represents a total dividend distribution of HK70 cents (2003: HK25 cents) per share, totaling HK\$622 million in respect of the year ended 30th June, 2004 (2003: HK\$219 million). The dividends proposed have been incorporated in the financial statements.

## 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 14 to 33.

## Share Capital

Movements in share capital of the Company during the year are set out in note 32 to the financial statements.

## Reserves

Movements in reserves during the year are set out in note 33 to the financial statements.

## Donations

Donations made by the Group during the year for charitable and other purposes amounted to HK\$4,495,000.

Report of the Directors (continued)

### Fixed Assets

Movements in investment properties and property, plant and equipment during the year are set out in notes 17 and 18 to the financial statements respectively. Particulars regarding the major properties and property interests of the Group are set out on pages 111 and 112.

### Major Customers and Suppliers

During the year, the turnover attributable to the Group's five largest customers combined was less than 30% of the Group's turnover. The five largest suppliers of the Group accounted for less than 30% of the Group's total purchases for the year.

### Purchase, Sale or Redemption of Shares

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

### Directors

The Directors of the Company as at the date of the report are set out on pages 10 to 13 of the annual report. Changes and re-designation of titles during the year and up to the date of this report are as follows:

Mr. Eddie Ping Chang HO	(re-designated as Vice Chairman and Managing Director on 6th August, 2003)
Mr. Thomas Jefferson WU	(re-designated as Deputy Managing Director on 6th August, 2003)
Mr. Andy Lee Ming CHEUNG	(appointed on 16th July, 2003)
Mr. Eddie Wing Chuen HO Junior	(appointed on 6th August, 2003)
Mr. Lawrence Sai Kit MIAO	(retired at the annual general meeting held on 21st October, 2003)
Mr. Alan Chi Hung CHAN	(resigned on 25th July, 2003)
Mr. Lee Yick NAM	(appointed on 6th September, 2004)

In accordance with the Company's Articles of Association, Sir Gordon Ying Sheung WU, Messrs. Henry Hin Moh LEE, Robert Van Jin NIEN, Carmelo Ka Sze LEE, Thomas Jefferson WU and Lee Yick NAM will retire at the forthcoming Annual General Meeting and all of them, being eligible, offer themselves for re-election.

### Profile of Directors

Profile of Directors of the Company as at the date of the report are set out on pages 10 to 13.



## Senior Management

Mr. Tai Tei YU, aged 44, Qualified Accountant, joined the Group in October 2000 as the Group Financial Controller. He is involved in the Group's finance and accounting activities as well as operation review. He has a Master degree in Business Administration from Warwick University. He is a fellow member of the Hong Kong Society of Accountants, the Association of Chartered Certified Accountants, the Hong Kong Institute of Company Secretaries, the Institute of Chartered Secretaries and Administrators; and a member of the Certified General Accountants Association of Canada. Prior to joining the Group, he has worked for renowned multi-national companies and Inland Revenue Department in the areas of business control, finance and accounting, audit and tax.

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

## Directors' Interest in Contracts of Significance

No contracts of significance 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.

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

As at 30th June, 2004, 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 <sup>(iv)</sup> (i.e. share option)	Total interests	% of issued share capital
	Personal interest (held as beneficial owner)	Family interests (interests of spouse or child under 18)	Corporate interests <sup>(ii)</sup> (interests of controlled corporation)	Other interests <sup>(iii)</sup>			
Gordon Ying Sheung WU	63,494,032	21,910,000 <sup>(v)</sup>	111,250,000 <sup>(vi)</sup>	30,680,000	8,000,000	235,334,032 <sup>(x)</sup>	26.62%
Eddie Ping Chang HO	25,360,000	246,000	2,050,000	–	–	27,656,000	3.13%
Thomas Jefferson WU	24,450,000	–	820,000	–	2,400,000	27,670,000	3.13%
Josiah Chin Lai KWOK	2,000,000	–	–	–	1,000,000	3,000,000	0.34%
Henry Hin Moh LEE	7,695,322	–	–	–	–	7,695,322	0.87%
Robert Van Jin NIEN	100,000	–	–	–	1,000,000	1,100,000	0.12%
Guy Man Guy WU	2,645,650	–	–	–	–	2,645,650	0.30%
Ivy Sau Ping KWOK WU	21,910,000	113,554,032 <sup>(vii)</sup>	61,190,000 <sup>(viii)</sup>	30,680,000	8,000,000 <sup>(ix)</sup>	235,334,032 <sup>(x)</sup>	26.62%
Linda Lai Chuen LOKE	–	1,308,981	–	–	–	1,308,981	0.15%
David Yau-gay LUI	8,537	–	–	–	–	8,537	0.00%

## Report of the Directors (continued)

## 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 30,680,000 shares represented the interests held by Sir Gordon Ying Sheung WU ("Sir Gordon WU") jointly with his wife Lady Ivy Sau Ping KWOK WU ("Lady Ivy WU").
- (iv) The interests in underlying shares of equity derivatives represented interests in options granted to the directors under the 1994 Share Option Scheme to subscribe for shares of the Company, further details of which are set out in the section headed "Share Options of the Company".
- (v) The family interests in 21,910,000 shares represented the interests of Lady Ivy WU.
- (vi) The corporate interests in 111,250,000 shares held by Sir Gordon WU included the interests in 61,190,000 shares referred to in Note (viii).
- (vii) The family interests in 113,554,032 shares represented the interests of Sir Gordon WU, the husband of Lady Ivy WU. This figure included 50,060,000 shares held by Sir Gordon WU through corporations.
- (viii) The corporate interests in 61,190,000 shares were held through corporations owned by Sir Gordon Ying Sheung WU and Lady Ivy WU as to 50% each.
- (ix) These represented interests of options granted to Sir Gordon WU.
- (x) Sir Gordon WU and Lady Ivy WU were deemed under the SFO to have same interests with each other.

**(B) Associated Corporations****(a) Hopewell Highway Infrastructure Limited ("HHI")**

Directors	HHI Shares	Underlying shares of Equity derivatives <sup>(i)</sup> (i.e. HHI warrants)				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	300,000 <sup>(iii)</sup>	6,249,403	2,191,000 <sup>(iii)</sup>	11,124,999 <sup>(iv)</sup>	3,068,000 <sup>(v)</sup>	22,933,402 <sup>(x)</sup>	0.80%
Eddie Ping Chang HO	–	1,936,000	24,600	205,000	–	2,165,600	0.08%
Thomas Jefferson WU	100,000 <sup>(vi)</sup>	2,435,000	–	82,000	–	2,617,000	0.09%
Henry Hin Moh LEE	–	279,530	–	–	–	279,530	0.01%
Robert Van Jin NIEN	–	10,000	–	–	–	10,000	0.00%
Guy Man Guy WU	–	264,565	–	–	–	264,565	0.01%
Ivy Sau Ping KWOK WU	300,000 <sup>(vii)</sup>	2,191,000	11,255,403 <sup>(viii)</sup>	6,118,999 <sup>(ix)</sup>	3,068,000 <sup>(v)</sup>	22,933,402 <sup>(x)</sup>	0.80%
Linda Lai Chuen LOKE	–	–	130,898	–	–	130,898	0.00%
David Yau-gay LUI	–	853	–	–	–	853	0.00%

## Notes:

- (i) These represented warrants of HHI, which conferred rights to subscribe for HHI shares at HK\$4.18 per HHI share (subject to adjustments) exercisable during a period of 3 years from 6th August, 2003 to 5th August, 2006.
- (ii) These HHI warrants 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 interests in 300,000 HHI shares and 2,191,000 underlying shares of HHI warrants were interests held by Lady Ivy Sau Ping KWOK WU ("Lady Ivy WU"), the wife of Sir Gordon Ying Sheung WU ("Sir Gordon WU"). The former interests represented the same block of shares in Note (vii).
- (iv) The corporate interests in 11,124,999 underlying shares of HHI warrants held by Sir Gordon WU included the corporate interests in 6,118,999 underlying shares of HHI warrants referred to in Note (ix).
- (v) The other interests in 3,068,000 underlying shares of HHI warrants represented the interests held jointly by Sir Gordon WU and Lady Ivy WU.
- (vi) The interests in 100,000 HHI shares represented beneficial interests of Mr. Thomas Jefferson WU.
- (vii) The interests in 300,000 HHI shares were personal interests beneficially owned by Lady Ivy WU and represented the same block of shares in Note (iii).
- (viii) The family interests in 11,255,403 underlying shares of HHI warrants represented the interests of Sir Gordon WU, the husband of Lady Ivy WU. This figure included 5,006,000 underlying shares of HHI warrants held by Sir Gordon WU through corporations.
- (ix) The corporate interests in 6,118,999 underlying shares of HHI warrants were held through corporations owned by Sir Gordon WU and Lady Ivy WU as to 50% each.
- (x) Sir Gordon WU and Lady Ivy WU were deemed under the SFO to have same interests with each other.

## (b) HCNH Insurance Brokers Limited (“HCNH”)

Mr. Eddie Ping Chang HO together with his associate beneficially owned 600,000 ordinary shares of HCNH, representing 50% of its issued share capital, through Hong Kong Insurance Agency Limited which was 100% owned by him together with his associate.

## (c) Guangzhou-Shenzhen Superhighway (Holdings) Ltd. (“GSSH”)

Mr. Thomas Jefferson WU beneficially owned the 9<sup>7</sup>/<sub>8</sub>% Notes due 2004 (which matured on 15th August, 2004) for a face amount of US\$4,850,000 issued by GSSH through companies 100% controlled by him.

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

Save as aforesaid, as at 30th June, 2004, none of the directors or chief executives had any other interests or short positions 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.

### Share Options of the Company

The shareholders of the Company approved the termination (to the effect that no further options shall be offered) of the 1994 Share Option Scheme and the adoption of a new share option scheme (the “2003 Share Option Scheme”) both effective on 1st November, 2003. As at 30th June, 2004, options to subscribe for a total of 14,200,000 option shares were still outstanding under the 1994 Share Option Scheme. No option has been granted under the 2003 Share Option Scheme.

The following is a summary of some of the principal terms of these share option schemes (for the 1994 Share Option Scheme, only those terms applying to the outstanding option shares are set out).

#### (i) 1994 Share Option Scheme

- (a) The purpose of the 1994 Share Option Scheme is to give an interest to executive directors and employees of the Company or any of its subsidiaries in preserving and maximizing shareholder value in the long term. It also enables the Company to attract and retain experienced and capable individuals by providing them with incentives for future performance.

Under the 1994 Share Option Scheme and the Listing Rules, the maximum number of shares in the Company in respect of which options may be granted (together with shares issued pursuant to options exercised and shares in respect of which any option remains outstanding) will not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of adoption of the 1994 Share Option Scheme. The maximum entitlement of each participant under the 1994



## Report of the Directors (continued)

Share Option Scheme in any 12-month period must not exceed 1% of the issued share capital of the Company.

The period under which an option may be exercised will be determined by the Board of Directors of the Company in its discretion, save that an option may not be exercised earlier than 6 months after the date of grant (i.e. the date on which the option is accepted) and shall expire not later than 10 years after the date of grant. 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 at the time of grant of the relevant option and shall be stated in the letter containing the offer of the grant of option. 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 quotations sheet on the date of grant, which must be a business day; (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 date of grant; and (c) the nominal value of a share in the Company.

The 1994 Share Option Scheme was terminated on 1st November, 2003. No further options may be granted under the 1994 Share Option Scheme but in all other respects the provisions of the 1994 Share Option Scheme shall remain in force. However, all options granted prior to the termination of the 1994 Share Option Scheme shall continue to be subject to the provisions of the 1994 Share Option Scheme.

- (b) Particulars of the options held by the executive directors of the Company and employees granted under the 1994 Share Option Scheme are set out below:

Directors	Date of grant	Exercise Price HK\$	Balance of outstanding options at 01/07/2003	Options granted during the year	Options exercised during the year	Options cancelled/lapsed during the year	Balance of outstanding options at 30/06/2004	Exercise period	Closing price immediately before date of grant falling within year HK\$
Gordon Ying Sheung WU	09/09/2003	9.55	–	8,000,000	–	–	8,000,000	09/03/2004 – 09/09/2008	9.40
Eddie Ping Chang HO	09/09/2003	9.55	–	6,000,000	6,000,000	–	–	09/03/2004 – 09/09/2008	9.40
Thomas Jefferson WU	03/04/2002	6.15	2,500,000	–	100,000	–	2,400,000	03/10/2002 – 02/10/2005	–
Josiah Chin Lai KWOK	28/03/2002	6.15	3,000,000	–	2,000,000	–	1,000,000	28/09/2002 – 27/09/2005	–
Robert Van Jin NIEN	01/04/2002	6.15	1,000,000	–	–	–	1,000,000	1/10/2002 – 30/09/2005	–
Employees <sup>(Note)</sup>	02/04/2002	6.15	1,800,000	–	–	–	1,800,000	2/10/2002 – 01/10/2005	–
<b>Total</b>			<b>8,300,000</b>	<b>14,000,000</b>	<b>8,100,000</b>	<b>–</b>	<b>14,200,000</b>		

*Note:*

Subsequent to the resignation of Mr. Alan Chi Hung CHAN as director of the Company on 25th July, 2003, the options granted to him was reclassified under options granted to employees.

The weighted average closing price of the shares of the dates immediately before the dates on which the options were exercised during the year was HK\$14.40.

The options granted on 9th September, 2003 are exercisable during a period of 4.5 years after the expiry of 6 months from the date of grant.

The options granted, other than those granted on 9th September, 2003, are exercisable in the following manner:

<i>Maximum proportion of options exercisable including the proportion of options previously exercised</i>	<i>Exercisable period</i>
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

The fair value of the share options granted during the year with the exercise price per share of HK\$9.55 using the Black-Scholes option pricing model is estimated at HK\$6.8. The value is estimated based on the risk-free of 3.37% per annum with reference to the rate on the 4-year Exchange Fund Notes, an estimated historical volatility of 35.8% of the closing price of the shares of the Company for the year ended 30th June, 2004, and assuming an expected option life of 4.2 years and same level of annual dividends as the current year's regular dividends of HK40 cents per share over the option life.

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. As the characteristics of the options granted during the year are significantly different from those of publicly traded options and changes in the subjective inputs may materially affect the fair value estimate, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

#### (ii) 2003 Share Option Scheme

The 2003 Share Option Scheme is designated to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and / or providing benefits to any eligible persons (including substantial shareholders of the Company, directors or employees or consultants, professionals or advisers of / to each member of the Group) and for such other purposes as the Board may approve from time to time.

Under the 2003 Share Option Scheme, the maximum number of shares in the Company in respect of which options may be granted (together with shares issued pursuant to options exercised and shares in respect of which any option remains outstanding) will not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of adoption of the 2003 Share Option Scheme, unless a fresh approval from the

## Report of the Directors (continued)

shareholders is obtained. The maximum entitlement of each participant under the 2003 Share 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 87,748,212 shares (representing approximately 9.80% of the issued share capital of the Company) are available for issue under the 2003 Share Option Scheme.

The period under which an option may be exercised will be determined by the Board of Directors of the Company in its discretion, save that an option shall expire not later than 10 years after the date of grant. An option is open for acceptance for a period of 14 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 at the time of grant of the relevant option and shall be stated in the letter containing the offer of the grant of option. 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 quotations sheet on the date of grant (deemed to be the date of offer), which must be a business day; (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 date of grant; and (c) the nominal value of a share in the Company.

The 2003 Share Option Scheme will expire on 31st October, 2013, but any options then outstanding will continue to be exercisable.

During the year under review, no option was granted by the Company under the 2003 Share Option Scheme.

### Share Options of HHI

The share option scheme of HHI was approved by the written resolutions of the then sole shareholder of HHI passed on 16th July, 2003 and approved by shareholders of the Company at an extraordinary general meeting held on 16th July, 2003 (the "Option Scheme"). The purpose of the Option Scheme is to provide HHI 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 HHI group; (ii) any discretionary objects of a discretionary trust established by any employees, executive or non-executive directors of each member of the HHI group; (iii) any consultants, professional and other advisers to each member of the HHI group; (iv) any chief executives, or substantial shareholders of HHI; (v) any associates of director, chief executive or substantial shareholder of HHI and (vi) any employees of substantial shareholder of HHI or such other purposes as the board of directors of HHI may approve from time to time.

Under the Option Scheme, the maximum number of shares in HHI which may be issued upon exercise of all options to be granted under the Option Scheme and any other share option scheme of HHI will not exceed 10% of the total number of shares of HHI in issue immediately following completion of the initial public offering, unless a fresh approval of shareholders of HHI 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 HHI. As at the date of this report, a total of 288,000,000 shares (representing 9.998% of the issued share capital of HHI) 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 HHI in its discretion and shall expire not later than 10 years after the date of grant. 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 HHI 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 HHI.

The Option Scheme will expire on 15th July, 2013. No option was granted by HHI since the adoption of the Option Scheme.

### **Arrangements to Acquire Shares or Debentures**

Save as disclosed in the previous section headed "Share Options of the Company" and "Share Options of HHI", at no time during the year ended 30th June, 2004 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.

### **Employees and Remuneration Policies**

There were approximately 1,057 employees in the Group as at 30th June, 2004. The Group continues to provide remuneration packages to employees with reference to prevailing market practices and individual performance. Various benefits include medical and personal accident insurance coverage are also provided to employees. In addition, training programs are conducted on an



## Report of the Directors (continued)

ongoing basis throughout the Group aiming at improving employee productivity. Share options may be granted at the discretion of the Board of Directors to employees as appropriate.

### Service Contracts of Directors

No directors 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 meeting of the Company in accordance with the Company's Articles of Association.

### Retirement and Pension Plan

To comply with the statutory requirements of the Mandatory Provident Fund ("MPF") Scheme Ordinance, the Group has set up the MPF Schemes. Mandatory contributions to these schemes are made by both the employers and employees at 5% of the employees' monthly relevant income capped at HK\$20,000. During the year, the Group made contributions to the MPF Schemes amounted to HK\$6,841,000.

### Management Contracts

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

### Substantial Shareholder

As at 30th June, 2004, to the best knowledge of the directors, the interests of person (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	No. of Shares (corporate interests) <sup>(i)</sup>	% of issued share capital <sup>(ii)</sup>
The Capital Group Companies, Inc.	Investment Manager	43,898,000	4.97%

*Note:*

- (i) The interests represent long positions in the shares of the Company.
- (ii) An interest of 5.01% was recorded on the register required to be kept under section 336 of the SFO based on the relevant notification dated 27th October, 2003. However, 43,898,000 Shares of the Company were equivalent to approximately 4.97% of the issued share capital of the Company as at 30th June, 2004.

Save as disclosed above, the Company has not been notified of any other interest 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, 2004.

### **Code of Best Practice**

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year ended 30th June, 2004.

### **Audit Committee**

The Company has established an audit committee since March 1999 with written terms of reference which deal clearly with its authority and duties in compliance with paragraph 14 of The Code of Best Practice. The audit committee's principal duties are the review and supervision of the Company's financial reporting process and internal control systems. It has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing internal control, and financial reporting matters including review of unaudited interim financial statements and audited annual financial statements. Subsequent to the appointment of Mr. Lee Yick NAM as the new Chairman on 6th September, 2004, the Audit Committee comprises three independent non-executive directors. The other two members are Ms. Linda Lai Chuen LOKE and Mr. Guy Man Guy WU.

### **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.

### **Financial Assistance to a non wholly-owned subsidiary**

During the year, a wholly-owned subsidiary named Hopewell (Huadu) Estate Investment Company Limited has provided unsecured shareholder loans of approximately RMB 200 million to its 95% owned subsidiary named Guangzhou Hopewell (Huadu) Estate Investment Company Limited at lending rates quoted by The People's Bank of China to finance a property development project, which shall be repayable on 31st December, 2005.

Report of the Directors (continued)

### Disclosure under Chapter 13 of the Listing Rules

The Company through its subsidiaries has entered into contractual joint venture agreements and has undertaken substantial investments for development of certain infrastructure and property projects. The capital investments and advances made to the joint venture companies and associates (“the Affiliated Companies”) were classified and disclosed under the headings “Interests in Jointly Controlled Entities” and “Interests in Associates” in the consolidated balance sheet as at 30th June, 2004.

A proforma combined balance sheet of the Affiliated Companies as at 30th June, 2004, is presented below:

<i>In HK\$ Million</i>	<i>Combined total</i>	<i>Funds injected by the Group</i>
Total assets	22,064	
Financed by:		
Registered capital/share capital	2,438	1,409
Reserves	153	
Accumulated losses	(134)	
	2,457	
Long term liabilities		
– Advances from shareholders/ joint venture partners/related companies	7,184	2,052
– Other long-term loans	10,561	
	17,745	
Current liabilities	1,862	380
Total equity and liabilities	22,064	3,841

\* With the exception of the investment in a property-development joint venture which is immaterial, all property, plant and equipment, including essential production facilities, will be reverted to PRC joint venture partners without compensation at the end of the joint venture co-operation period. Disclosure of the attributable interests of the Group in the assets and liabilities of the Affiliated Companies is deemed not appropriate.

### Post Balance Sheet Events

Details of the post balance sheet events are set out in note 47 to the financial statements.

### 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, 6th September, 2004

# Financial Report

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# Report of the Auditors

**Deloitte.**

德勤

## TO THE MEMBERS OF HOPEWELL HOLDINGS LIMITED

*(incorporated in Hong Kong with limited liability)*

We have audited the financial statements on pages 51 to 110 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30th June, 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

**Deloitte Touche Tohmatsu**  
Certified Public Accountants  
Hong Kong  
6th September, 2004

# Consolidated Income Statement

For the year ended 30th June, 2004

	Notes	2003 HK\$'000 (restated)	2004 HK\$'000
Turnover	4	799,177	<b>653,337</b>
Cost of sales and services		(495,759)	<b>(341,939)</b>
Other operating income	6	303,418	<b>311,398</b>
Selling and distribution costs		(23,812)	<b>(21,742)</b>
Administrative expenses		(161,957)	<b>(177,139)</b>
Other operating expenses	7	(110,301)	<b>(115,995)</b>
Impairment loss written back/gain on disposal of infrastructure project	8	366,000	<b>580,415</b>
Losses on properties and investment	9	–	<b>(19,442)</b>
Profit from operations	10	494,674	<b>695,703</b>
Gain on deemed disposal of interests in subsidiaries	11	–	<b>483,847</b>
Loss on cancellation of share purchase option	11	–	<b>(70,000)</b>
Finance costs	12	(372,187)	<b>(233,637)</b>
Share of profits of			
Jointly controlled entities		687,974	<b>900,133</b>
Associates		21,980	<b>39,372</b>
Profit from ordinary activities before taxation		832,441	<b>1,815,418</b>
Income tax expense	13	(121,806)	<b>(50,811)</b>
Profit before minority interests		710,635	<b>1,764,607</b>
Minority interests		(99,119)	<b>(310,617)</b>
Net profit for the year		611,516	<b>1,453,990</b>
Dividends	14	218,996	<b>622,534</b>
Earnings per share	15	HK\$	HK\$
Basic		0.70	<b>1.65</b>
Diluted		N/A	<b>1.64</b>

# Consolidated Balance Sheet

At 30th June, 2004

	<i>Notes</i>	<i>2003</i> <i>HK\$'000</i> <i>(restated)</i>	<i>2004</i> <i>HK\$'000</i>
<b>ASSETS</b>			
<b>Non-current Assets</b>			
Investment properties	17	5,655,400	<b>5,890,800</b>
Property, plant and equipment	18	1,492,652	<b>552,448</b>
Properties for or under development	20	1,018,336	<b>907,691</b>
Interests in jointly controlled entities	21	8,207,290	<b>8,174,395</b>
Interests in associates	22	77,523	<b>19,426</b>
Other projects	23	181,637	–
Investments in securities	24	39,329	<b>731,942</b>
Long-term receivables	25	276,052	<b>146,780</b>
Defeasance/pledged deposits	26	1,680,843	<b>95,266</b>
		18,629,062	<b>16,518,748</b>
<b>Current Assets</b>			
Inventories	27	8,588	<b>8,871</b>
Properties for sale		3,762	<b>3,762</b>
Investments in securities – current portion	24	–	<b>1,046,195</b>
Trade and other receivables	28	111,876	<b>954,607</b>
Deposits and prepayments		227,127	<b>24,984</b>
Loans receivable – current portion	29	45,757	<b>12,878</b>
Amounts due from customers for contract work	30	323	–
Defeasance deposits	26	149,390	<b>1,587,990</b>
Bank balances and cash		694,604	<b>1,029,933</b>
		1,241,427	<b>4,669,220</b>
<b>Total Assets</b>		<b>19,870,489</b>	<b>21,187,968</b>

# Consolidated Balance Sheet (continued)

At 30th June, 2004

	<i>Notes</i>	<i>2003</i> <i>HK\$'000</i> <i>(restated)</i>	<i>2004</i> <i>HK\$'000</i>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Share capital	32	2,189,955	<b>2,210,205</b>
Reserves	33	11,463,202	<b>12,655,302</b>
		13,653,157	<b>14,865,507</b>
<b>Minority Interests</b>		125,101	<b>2,418,947</b>
<b>Non-current Liabilities</b>			
Long-term borrowings	34	3,692,975	<b>1,000,000</b>
Amounts due to associates	36	17,786	<b>11,657</b>
Warranty provisions	42(a)	164,059	<b>164,059</b>
Deferred tax liabilities	37	46,083	<b>54,657</b>
		3,920,903	<b>1,230,373</b>
<b>Current Liabilities</b>			
Trade and other payables	31	1,075,960	<b>756,756</b>
Rental and other deposits		111,560	<b>78,304</b>
Amounts due to customers for contract work	30	14,423	–
Tax liabilities		242,906	<b>130,682</b>
Current portion of long-term borrowings	34	320,479	<b>1,607,399</b>
Bank loans			
Secured		156,000	–
Unsecured		250,000	<b>100,000</b>
		2,171,328	<b>2,673,141</b>
<b>Total Liabilities</b>		6,092,231	<b>3,903,514</b>
<b>Total Equity and Liabilities</b>		19,870,489	<b>21,187,968</b>

**Josiah Chin Lai KWOK**  
Director

**Thomas Jefferson WU**  
Director



# Company Balance Sheet

At 30th June, 2004

	Notes	2003 HK\$'000	2004 HK\$'000
<b>ASSETS</b>			
<b>Non-current Assets</b>			
Interests in subsidiaries	19	13,298,847	12,774,140
Interests in associates	22	10,969	401
Investments in securities	24	3,000	3,000
		13,312,816	12,777,541
<b>Current Assets</b>			
Trade and other receivables		3,207	337
Deposits and prepayments		3,050	933
Bank balances and cash		1,571	186,959
		7,828	188,229
<b>Total Assets</b>		13,320,644	12,965,770
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Share capital	32	2,189,955	2,210,205
Reserves	33	9,383,722	10,543,353
		11,573,677	12,753,558
<b>Non-current Liabilities</b>			
Amounts due to subsidiaries	35	1,649,080	95,098
Amounts due to associates	36	11,376	5,278
		1,660,456	100,376
<b>Current Liabilities</b>			
Trade and other payables		22,043	21,542
Tax liabilities		64,468	90,294
		86,511	111,836
<b>Total Liabilities</b>		1,746,967	212,212
<b>Total Equity and Liabilities</b>		13,320,644	12,965,770

Josiah Chin Lai KWOK  
Director

Thomas Jefferson WU  
Director

## Consolidated Statement of Changes in Equity

For the year ended 30th June, 2004

	<i>Total equity</i> <i>HK\$'000</i>
At 1st July, 2002	
– as previously reported	13,794,220
– prior period adjustment (note 2)	(39,736)
– as restated	13,754,484
Decrease on revaluation of investment properties	(335,049)
Exchange differences on translation of financial statements of subsidiaries, jointly controlled entities and associates	2,990
Share of reserves of jointly controlled entities and associates	4,648
Net losses not recognised in the consolidated income statement	(327,411)
Net profit for the year	611,516
Dividends paid	(385,432)
At 30th June, 2003	13,653,157
Increase on revaluation of investment properties	214,877
Exchange differences on translation of financial statements of subsidiaries, jointly controlled entities and associates	10,266
Share of reserves of jointly controlled entities and associates	(25,380)
Net gain not recognised in the consolidated income statement	199,763
Net profit for the year	1,453,990
Dividends paid	(511,580)
Issue of new shares	70,177
<b>At 30th June, 2004</b>	<b>14,865,507</b>

## Consolidated Cash Flow Statement

For the year ended 30th June, 2004

	2003 HK\$'000	2004 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Profit from operations	494,674	695,703
Adjustments for:		
Interest from		
– jointly controlled entities	(58,409)	(40,297)
– defeasance and other bank deposits, loans and receivables	(95,592)	(79,834)
– held-to-maturity debt securities	–	(71,259)
Amortisation of premium on acquisition of held-to-maturity debt securities	–	48,087
Dividends from unlisted investments	(962)	–
Depreciation of property, plant and equipment	8,912	14,544
Amortisation of cost of investment in jointly controlled entities	77,271	102,638
Impairment loss written back/gain on disposal of infrastructure project	(366,000)	(580,415)
Gain on disposal of other property, plant and equipment	(6,146)	(2,270)
Impairment loss on investment securities recognised	7,540	–
Unrealised holding loss on other investments	1,693	–
Loss on repurchase of notes	3,509	–
Losses on properties and investment	–	19,442
Operating cash flows before movements in working capital	66,490	106,339
Decrease (increase) in inventories	1,108	(283)
Decrease in trade and other receivables, and deposits and prepayments	11,979	31,868
(Decrease) increase in trade and other payables, and rental and other deposits	(45,247)	18,704
Decrease in amounts due from customers for contract work	11,604	323
Decrease in amounts due to customers for contract work	(1,256)	(14,423)
Cash generated from operations	44,678	142,528
Hong Kong Profits Tax paid	(2,516)	(70,138)
Taxation elsewhere paid	(14,117)	(4,024)
Hong Kong Profits Tax refunded	116	–
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>28,161</b>	<b>68,366</b>

## Consolidated Cash Flow Statement (continued)

For the year ended 30th June, 2004

	Note	2003 HK\$'000	2004 HK\$'000
<b>INVESTING ACTIVITIES</b>			
Interest received		52,253	89,971
Dividends received		257,360	489,556
Additions to investment properties		(4,149)	(20,523)
Additions to property, plant and equipment		(23,056)	(41,234)
Interests in associates		572	(39)
Advances from (repayment to) associates		2,386	(6,129)
Investments in and loans to jointly controlled entities		(268,804)	(151,780)
Repayments of loans by jointly controlled entities		553,387	187,470
(Increase) decrease in other investments		(19,748)	18,055
Repayment from other projects		281,339	413
Acquisition of held-to-maturity debt securities		–	(2,091,378)
Proceeds on disposal of held-to-maturity debt securities		–	243,828
Cash paid for cancellation of share purchase option		–	(70,000)
Additions to properties for or under development		(127,164)	(94,538)
Net proceeds received on disposal of			
– infrastructure project		–	1,389,028
– other property, plant and equipment		13,045	3,105
Payment of project development expenditure and contractors' deposits		–	(363,089)
Deposits on infrastructure project refunded		–	143,400
Decrease in long-term receivables		464,282	32,540
Disposal of subsidiaries	38	–	7,572
Decrease in defeasance deposits		3,349,629	149,160
Decrease in bank deposits pledged		2,244	–
<b>NET CASH FROM (USED IN) INVESTING ACTIVITIES</b>		<b>4,533,576</b>	<b>(84,612)</b>
<b>FINANCING ACTIVITIES</b>			
Interest paid		(387,921)	(166,653)
Loan arrangement fees and bank charges paid		(8,621)	(24,055)
Dividends paid to			
– shareholders		(385,432)	(511,580)
– minority shareholders of subsidiaries		(250)	(88,670)
Distributions to minority shareholders		–	(231,960)
Capital contribution from minority shareholders		5,764	2,561
Net proceeds from issue of shares by			
– the Company		–	70,177
– a listed subsidiary		–	2,889,211
New bank and other loans		363,558	1,100,000
Repayment of bank and other loans		(516,704)	(2,685,115)
Repurchase of notes		(42,499)	–
Redemption of notes payable		(2,902,341)	–
Early redemption premium paid		(148,745)	–
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>		<b>(4,023,191)</b>	<b>353,916</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>538,546</b>	<b>337,670</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>145,149</b>	<b>694,604</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>		<b>10,909</b>	<b>(2,341)</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash</b>		<b>694,604</b>	<b>1,029,933</b>



# 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	<b>50,370</b>
Property letting, agency and management	328,287	<b>291,385</b>
Hotel operations and management	115,481	<b>151,899</b>
Restaurant operations and food catering	109,449	<b>124,089</b>
Construction and project management	171,683	<b>35,594</b>
	799,177	<b>653,337</b>

*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)
<b>Total turnover</b>	<b>799,177</b>	<b>–</b>	<b>799,177</b>	<b>653,337</b>	<b>–</b>	<b>653,337</b>

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
<b>Segment results from operations</b>	<b>122,586</b>	<b>687,974</b>	<b>21,980</b>	<b>832,540</b>	<b>96,679</b>	<b>900,133</b>	<b>39,372</b>	<b>1,036,184</b>

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

# 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
	<b>7,516,489</b>	<b>8,187,273</b>	<b>19,426</b>	<b>15,723,188</b>	<b>723,575</b>	<b>723,575</b>
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
				<b>21,187,968</b>		<b>3,903,514</b>

## 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
	<b>8,683,940</b>	<b>8,248,611</b>	<b>77,523</b>	<b>17,010,074</b>	<b>1,091,161</b>	<b>1,091,161</b>
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
				<b>19,870,489</b>		<b>6,092,231</b>

*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		
	<i>Capital additions</i>	<i>Depreciation and amortisation</i>	<i>Other non-cash expenses</i>	<i>Capital additions</i>	<i>Depreciation and amortisation</i>	<i>Other non-cash expenses</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	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 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
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	<b>7,157,344</b>	25,382	<b>61,410</b>
The PRC	402,658	<b>232,081</b>	1,823	<b>347</b>
Indonesia	1,116,189	<b>2,249</b>	–	–
Republic of Malta	159,613	–	–	–
Other regions	123,610	<b>124,815</b>	–	–
	8,683,940	<b>7,516,489</b>	27,205	<b>61,757</b>
Other assets (Note)	11,186,549	<b>13,671,479</b>	–	–
	19,870,489	<b>21,187,968</b>	27,205	<b>61,757</b>

*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	<b>70,905</b>
Loans and other receivables	23,292	<b>8,929</b>
Yield on held-to-maturity debt securities (after deducting premium on acquisition of HK\$48,087,000 (2003: Nil) amortised)	–	<b>23,172</b>
Profit on sale of listed equity securities	–	<b>2,517</b>
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	<b>102,638</b>
Charitable donations	20,288	<b>4,495</b>
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	–	<b>4,862</b>
Others	–	<b>4,000</b>
	110,301	<b>115,995</b>

### 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	–	<b>580,415</b>
Impairment loss written back	366,000	–
	366,000	<b>580,415</b>

*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	–	<b>24,444</b>
Interest in an associate	–	<b>11,386</b>
Gain on disposal of a development property	–	<b>(16,388)</b>
	–	<b>19,442</b>

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

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

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	<b>1,815,418</b>
Tax at the domestic income tax rate of 17.5%	145,677	<b>317,698</b>
Tax effect of expenses not deductible for tax purpose	73,683	<b>88,113</b>
Tax effect of income not taxable for tax purpose	(14,358)	<b>(117,220)</b>
Under(over)provision in respect of prior years	30,000	<b>(16,612)</b>
Tax effect of tax losses not recognised	17,024	<b>5,359</b>
Tax effect of utilisation/recognition of tax losses not previously recognised	(2,925)	<b>(16,887)</b>
Tax effect of utilisation of deferred tax assets in respect of deductible temporary differences not previously recognised	(64,050)	<b>(101,573)</b>
Tax effect of share of results of jointly controlled entities and associates	(58,279)	<b>(116,657)</b>
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)	<b>(110)</b>
Others	(8,601)	<b>8,700</b>
Income tax expense for the year	121,806	<b>50,811</b>

## 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	<b>88,408</b>
Special interim: HK30 cents (2003: Nil) per share	–	<b>265,225</b>
Final dividend for year ended 30th June, 2003 on shares issued subsequent to approval of financial statements	–	<b>270</b>
Dividend proposed		
Final: HK 30 cents (2003: HK 18 cents) per share	157,677	<b>268,631</b>
	218,996	<b>622,534</b>

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	<b>1,453,990</b>
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	–	<b>(2,046)</b>
Earnings for the purposes of diluted earnings per share	611,516	<b>1,451,944</b>

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

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	<b>0.71</b>
Adjustment arising from adoption of SSAP 12 (Revised)	<b>(0.01)</b>
Restated	<b>0.70</b>

## 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	<b>649</b>
Basic salaries, allowances and benefits-in-kind	9,609	<b>15,285</b>
Performance related bonus	400	<b>1,000</b>
Contributions to provident funds	48	<b>46</b>
	10,247	<b>16,980</b>

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	–	<b>1</b>
3,000,001 – 3,500,000	1	<b>2</b>
3,500,001 – 4,000,000	–	<b>1</b>
4,500,001 – 5,000,000	–	<b>1</b>



## Notes to the Financial Statements (continued)

For the year ended 30th June, 2004

### 17. INVESTMENT PROPERTIES

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

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

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

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>			
<b>THE GROUP</b>					
<b>COST</b>					
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)
<b>At 30th June, 2004</b>	<b>474,872</b>	<b>29,012</b>	<b>–</b>	<b>292,871</b>	<b>796,755</b>
<b>DEPRECIATION AND IMPAIRMENT</b>					
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)
<b>At 30th June, 2004</b>	<b>–</b>	<b>9,004</b>	<b>–</b>	<b>235,303</b>	<b>244,307</b>
<b>NET BOOK VALUES</b>					
<b>At 30th June, 2004</b>	<b>474,872</b>	<b>20,008</b>	<b>–</b>	<b>57,568</b>	<b>552,448</b>
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
<b>COST</b>		
At beginning of the year	1,122,491	<b>1,308,336</b>
Additions	185,845	<b>71,994</b>
Disposals	–	<b>(448,195)</b>
At end of the year	1,308,336	<b>932,135</b>
<b>IMPAIRMENT</b>		
At beginning of the year	(290,000)	<b>(290,000)</b>
Provided for the year	–	<b>(24,444)</b>
Eliminated on disposals	–	<b>290,000</b>
At end of the year	(290,000)	<b>(24,444)</b>
<b>NET BOOK VALUE</b>	<b>1,018,336</b>	<b>907,691</b>

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

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

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	<b>5,313,000</b>
Less: Impairment loss recognised	(5,313,000)	<b>(5,313,000)</b>
	–	–
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)	–	<b>1,757,592</b>	–	–
Investment securities				
Unlisted equity investments, at cost	119,765	<b>88,776</b>	3,000	<b>3,000</b>
Less: Impairment loss recognised	(98,491)	<b>(68,231)</b>	–	–
	21,274	<b>20,545</b>	3,000	<b>3,000</b>
Other investments				
Equity securities listed in Hong Kong, at market value	18,055	–	–	–
	39,329	<b>1,778,137</b>	3,000	<b>3,000</b>
Carrying amount analysed for reporting purposes:				
Non-current	39,329	<b>731,942</b>	3,000	<b>3,000</b>
Current	–	<b>1,046,195</b>	–	–
	39,329	<b>1,778,137</b>	3,000	<b>3,000</b>

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

### 26. DEFEASANCE/PLEGDED DEPOSITS

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

*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	<b>8,871</b>

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	<b>152,677</b>
31 – 60 days	55,896	<b>58,822</b>
Over 60 days	114,036	<b>146,784</b>
Retentions payable	25,055	<b>16,395</b>
Development expenditure payable (Note)	683,219	<b>382,078</b>
	1,075,960	<b>756,756</b>

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

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
<b>THE GROUP</b>								
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
<b>THE COMPANY</b>					
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)
<b>At 30th June, 2004</b>	<b>8,558,817</b>	<b>9,872</b>	<b>268,631</b>	<b>1,706,033</b>	<b>10,543,353</b>

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	<b>1,474,200</b>
Less: Unamortised note issue expenses	(6,555)	<b>(356)</b>
	1,467,267	<b>1,473,844</b>
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	<b>133,555</b>
between one and two years	133,553	–
between two and five years	–	<b>1,000,000</b>
	141,078	<b>1,133,555</b>
Other unsecured loans repayable between two and five years	47,480	–
	4,013,454	<b>2,607,399</b>
Less: Portion due within one year included in current liabilities		
Unsecured notes payable less unamortised note issue expenses	–	<b>(1,473,844)</b>
Secured bank loans	(312,954)	–
Unsecured bank loans	(7,525)	<b>(133,555)</b>
	(320,479)	<b>(1,607,399)</b>
	3,692,975	<b>1,000,000</b>

## 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
<b>At 30th June, 2004</b>	<b>103,898</b>	<b>(57,257)</b>	<b>8,016</b>	<b>54,657</b>

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	<b>344,147</b>	–	–
Contracted but not provided for	30,228	<b>24,140</b>	–	–
	129,753	<b>368,287</b>	–	–

#### (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	–	<b>235,000</b>
Contracted but not provided for	20,107	<b>11,555</b>
	20,107	<b>246,555</b>

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	<b>136,421</b>
In the second to fifth years inclusive	86,221	<b>120,943</b>
	216,044	<b>257,364</b>

## 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	<b>1,245,521</b>
A jointly controlled entity	697,551	<b>697,551</b>	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.

## List of Major Properties

A. Completed investment properties and hotel property (unless otherwise specified, these properties are held under long-term leases):

<i>Property/land</i>	<i>Location</i>	<i>Use</i>	<i>Site area (sq.m.)</i>	<i>Gross floor area (sq.m.)</i>	<i>Group's interest (%)</i>
Hongkong International Trade & Exhibition Centre (medium-term lease)	1 Trademart Drive Kowloon Bay, Kowloon.	Conference, exhibition, restaurant, showroom office and carparks	22,280	163,702*	100
Hopewell Centre	183 Queen's Road East, Wanchai, Hong Kong.	Commercial, office and carparks	5,207	78,102*	100
Panda Hotel (medium-term lease) – Shopping arcade & carparks – Hotel property	3 Tsuen Wah Street, Tsuen Wan, New Territories.	Commercial and carparks Hotel operation		22,689* 49,073	100 100
			5,750	71,762	
Allway Gardens Shopping Arcade (medium-term lease)	9 On Yuk Road, Tsuen Wan, New Territories.	Commercial	N/A	20,742	100
125 carparking spaces at Allway Gardens (medium-term lease)	9 On Yuk Road, Tsuen Wan, New Territories.	Carparks	N/A	N/A	100
80 carparking spaces at Wu Chung House (medium-term lease)	3/F–5/F, 213 Queen's Road East, Hong Kong.	Carparks	N/A	N/A	100
22/F–24/F and carparking spaces V1–V15, Hing Wai Centre (medium-term lease)	No. 7 Tin Wan Praya Road, Aberdeen, Hong Kong.	Industrial, commercial and carparks	N/A	7,551*	100

\* Excluding carparking spaces.

## List of Major Properties (continued)

### B. Properties for/under development:

<i>Property/land</i>	<i>Location</i>	<i>Use</i>	<i>Site area (sq.m.)</i>	<i>Gross floor area (sq.m.)</i>	<i>Group's interest (%)</i>
Mega Tower Hotel	Kennedy Road Ship Street, Hau Fung Lane, Wanchai, Hong Kong.	Hotel and shopping complex with multi-purpose conference rooms and auditorium facilities (Development at planning stage)	7,301 <sup>#</sup>	172,731	100
196-206 Queen's Road East	196-206 Queen's Road East, Wanchai, Hong Kong.	For development	464	Under planning	100
214-224 Queen's Road East	214-224 Queen's Road East, Wanchai, Hong Kong.	For development	459	Under planning	100
9-19 Sam Pan Street Hong Kong	9-19 Sam Pan Street, Wanchai, Hong Kong.	For development	623	Under planning	100
Nova Taipa Gardens (Phase 2 to 5)	North shore of Taipa Island, Macau.	Residential, commercial, hotel/ conventional centre and carparks (Substructure works for Phase 2 completed) (Phase 2C with development area of 100,000 sq.m. expected to be completed by mid 2006)	146,174	625,879	50
Hopewell New Town	Huadu district Guangzhou, China.	Residential, commercial, logistic and social facilities buildings (Phase 1 with development area of 160,000 sq.m. expected to be completed by end of year 2005)	733,000	1,400,000	95

*Note:*

<sup>#</sup> Total planned site area of the land required for the property development is about 14,000 sq.m. of which a total of 7,301 sq.m. are held by the Group and the remaining will be acquired by the Group mainly by way of land exchange with the government at a premium yet to be finalised.





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