



# Financial Review

## Group Results

For the year ended 30th June, 2003, the Group's turnover by activities and their respective earnings before interest and tax are reported as follows:

	Turnover		Earnings before interest and tax	
	2002 HK\$ million	2003 HK\$ million	2002 HK\$ million	2003 HK\$ million
Infrastructure project investment				
– Operating & other activities	21	16	475	577
– Financing	202	58	202	58
Property letting, agency & management	354	328	234	217
Hotel operations, restaurant & catering	250	225	27	19
Construction & project management	276	172	(23)	(34)
Other activities	29	–	96	93
	<u>1,132</u>	<u>799</u>	1,011	930
Administrative expenses			(58)	(71)
Charitable donation			–	(20)
Earnings before interest & tax (Note 1)			<u>953</u>	<u>839</u>
			Results	
			2002	2003
			HK\$m	HK\$m
Earnings before interest & tax			953	839
Impairment loss on a power plant written back			–	366
Profit on disposal of investment			192	–
Finance costs (Note 2)			(782)	(372)
Taxation			(13)	(116)
Minority interests			(10)	(99)
Net profit			<u>340</u>	<u>618</u>
Earnings per share (HK cents)			<u>38.8</u>	<u>70.5</u>

Note:

- (1) Earnings before interest & tax is the sum of profit from operations of HK\$129 million before impairment loss written back (2002: HK\$395 million) and share of results of jointly controlled entities and associates totalling HK\$710 million (2002: HK\$558 million)
- (2) The amount included interest expenses and related finance costs of 2004 and 2007 Notes and premium on early redemption of 2007 Notes totalling HK\$237 million (2002: HK\$610 million). The 2007 Notes was repaid in August 2002.

The Group's turnover for the year ended 30th June, 2003 was HK\$799 million as compared with HK\$ 1,132 million of last financial year. Since the 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. Total gross turnover of the Joint Ventures amounted to RMB2,808 million for the year ended 30th June, 2003, representing an 11% increase from the same period of the previous year.

The Group's earnings before interest and tax ("EBIT") was HK\$839 million as compared with HK\$ 953 million of the last financial year, mainly due to a decrease of HK\$144 million interest income from the PRC Joint Ventures after the repayment during 2002 of a substantial amount of the advances made by the Group to one of the joint ventures operating in the PRC. Proceeds received were applied in August 2002 to effect defeasance and repayment of the Group's fixed rate unsecured Notes due 2004 and 2007 which reduced interest expenses substantially. Under the equity

accounting method, the Group's attributable share of results from the Joint Ventures is reflected in the Group's results. The amount increased by 28% from HK\$516 million of the last financial year to HK\$661 million for the year as a result of increased contribution from the road infrastructure projects.

The Group reported a net profit of HK\$618 million, an 82% increase compared with HK\$340 million of the last financial year. The increase was attributable to (a) the improved operating results of road infrastructure projects of HK\$577 million as compared to HK\$475 million of the last year, (b) the lower finance costs of the current year of HK\$372 million as compared to HK\$782 million of the last year due to the low interest rate environment and the redemption of the Group's unsecured Notes due 2007, and (c) the impairment loss provision written back of HK\$366 million resulting from the disposal of the Tanjung Jati B ("TJB") Power Plant project. Tax written back in last financial year and increase in the provision for Hong Kong Profits Tax resulted in an increase in net taxation charge for the year as compared with last year. The increase in minority interests is attributable to the minority's share of the impairment loss written back for the TJB project.

### Liquidity and Financial Resources

During the year, in addition to the recurring cash contributed by operations in Hong Kong, the Group also received substantial cash from its projects in the PRC, particularly the Guangzhou-Shenzhen Superhighway project. Even after distribution of HK\$385 million cash dividends (including the special dividends) to shareholders during the year, the Group utilized part of its cash balances to repay outstanding debt. By the year end, the Group reduced its net debt by 23% to HK\$2,258 million (2002: HK\$2,950 million), and lowered its net debt to equity ratio to 16% (2002: 21%).

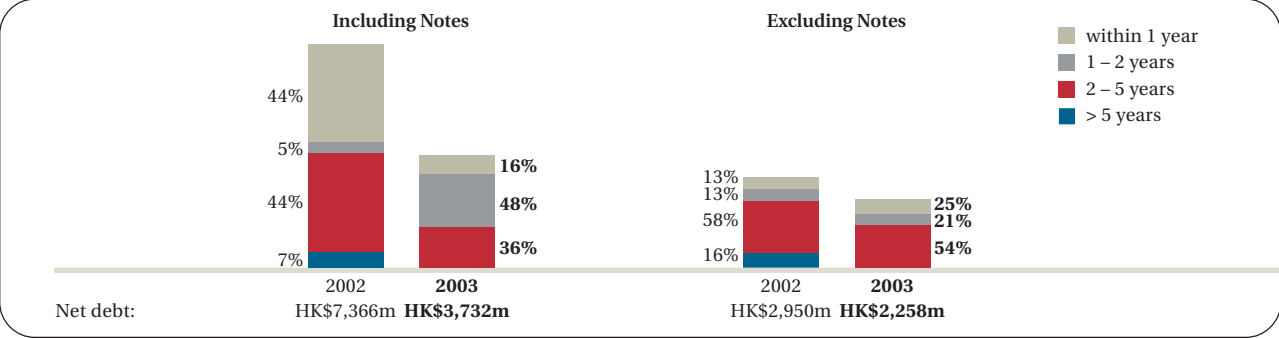
On 15th August, 2002, the Group early redeemed the US dollar denominated unsecured Notes due 2007 of US\$372 million bearing a fixed interest rate of 10<sup>1</sup>/<sub>4</sub>% per annum. In addition, the Group also repaid, by way of covenant defeasance, US dollar denominated unsecured Notes due 2004, of US\$194 million bearing a fixed interest rate of 9<sup>7</sup>/<sub>8</sub>% per annum. As a result, the Group's borrowings, excluding Notes due 2004, was HK\$2,952 million on 30th June, 2003.

The Group's capitalization structure (comprising shareholders' equity and borrowings) is set out as follows:

<i>At as 30th June</i>	<i>2002</i>	<i>2003</i>
<i>(HK\$ million)</i>		
Equity	13,794	<b>13,699</b>
Total net debt	2,950	<b>2,258</b>
Total capitalization	21,304	<b>18,125</b>
<i>(%)</i>		
Total net debt vs total capitalization	14%	<b>12%</b>
Total net debt vs equity	21%	<b>16%</b>

Resultant debt (net debt after setting off interest bearing loans provided by the Group to China projects) was HK\$499 million, representing 3.6% of equity.

The maturity profile of the Group's borrowings at 30th June 2003 as compared to that at 30th June 2002, is as follows:



The majority of the Group's borrowings, excluding the Notes due 2004, carry interest at floating rates and are denominated in Hong Kong dollars and the exchange risk to the Group in this respect is immaterial.

The Group is in a strong financial position and possesses a large capital base whilst the net debt position remains low. With substantial committed banking facilities in place and continuous cash inflow from a solid base of recurrent income, the Group has adequate financial resources to fund its ongoing operations and present investments.

Subsequent to the year end, the Group spun off 25% of its shareholding in HHI, which is the holding company of the Group's highway infrastructure business except for the Group's interest in the Shunde Roads and the Shunde 105 projects. After the spin-off, the Company received approximately HK\$550 million from HHI as repayment of shareholders' loans advanced by the Company for the ESW Ring Road project, and HHI Group repaid outstanding bank loan of approximately HK\$372 million in relation to the ESW Ring Road project.