

## 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.