

# Financial Review

## GROUP RESULTS

### Overview

For the year ended 30th June, 2005, the Group's turnover by activities and their respective earnings before interest and tax are reported as follows:-

<i>In HK\$ million</i>	Turnover		Earnings before interest and tax	
	2004	2005	2004	2005
Infrastructure project investment	50	<b>52</b>	799	<b>968</b>
Property letting, agency & management	291	<b>290</b>	173	<b>171</b>
Hotel operations, restaurant & catering <sup>(Note 1)</sup>	276	<b>331</b>	40	<b>59</b>
Property development	36	<b>5</b>	4	<b>60</b>
Others <sup>(Note 1)</sup>	-	-	58	<b>(19)</b>
	<b>653</b>	<b>678</b>	<b>1,074</b>	<b>1,239</b>

<i>In HK\$ million</i>	Results	
	2004	2005
Earnings before interest & tax <sup>(Note 2)</sup>	1,074	<b>1,239</b>
Exceptional items	975	<b>951</b>
Finance costs <sup>(Note 3)</sup>	(233)	<b>(92)</b>
Taxation	(51)	<b>(99)</b>
Minority interests	(311)	<b>(337)</b>
Net profit	<b>1,454</b>	<b>1,662</b>

#### Notes:

- (1) Contribution from China Hotel for the financial year 2004 of HK\$36 million was included under "Others" following the expiry of the joint venture operation on 9th June, 2004.
- (2) Earnings before interest & tax is the sum of (i) profit from operations before gain on disposal of power station project and net losses on properties and investment of HK\$97 million (2004: HK\$135 million); and (ii) share of results of jointly controlled entities and associates of HK\$1,142 million (2004: HK\$939 million).
- (3) The amount included interest expenses and related finance costs of Notes totaling HK\$19 million (2004: HK\$151 million).

### Turnover

The Group's turnover for the year ended 30th June, 2005 was HK\$678 million as compared with HK\$653 million of last financial year, resulting mainly from revenue growth of the hospitality business.

The Group's attributable share of toll revenue of the three toll roads under operation, namely Guangzhou-Shenzhen Superhighway, Guangzhou East-South-West Ring Road and Phase I of the Western Delta Route amounted to HK\$1,514 million for the year under review, representing a 22% increase over the last corresponding year. However, since equity accounting method is adopted, turnover attributable to the Group from the PRC joint venture companies ("PRC Joint Ventures") of such infrastructure projects has not been accounted for in the Group's turnover.

### **Earnings before Interest and Tax**

The Group's earnings before interest and tax ("EBIT") from recurring operating activities increased by 15% to HK\$1,239 million from HK\$1,074 million of the last corresponding year, mainly attributable to the growth in traffic flow and toll revenue of the toll roads, which, under the equity accounting method, is reflected in the Group's attributable share of results from the PRC Joint Ventures. During the year under review, property development business also reported prominent growth in EBIT.

### **Profit Attributable to Shareholders**

The Group's net profit increased to HK\$1,662 million, representing an increase of 14% as compared with HK\$1,454 million of last corresponding year. The increase mainly comes from, (i) the encouraging results of the road infrastructure projects of HK\$968 million as well as property development business of HK\$60 million; and (ii) lower finance cost of HK\$92 million as compared to HK\$233 million of the last corresponding year resulting from the significantly reduced debt level.

### **Liquidity and Financial Resources**

The Group remains financially sound and solid. As at 30th June, 2005, the Group's net cash, including cash and liquid notes of HHI, increased to HK\$3,329 million (30th June, 2004: HK\$1,763 million). Its total available and undrawn general banking facilities and project loan facilities, together with deposits, cash holdings and liquid notes, amounted to approximately HK\$8,897 million (30th June, 2004: HK\$6,476 million). Interest coverage ratio increased to 17.5 times (year ended 30th June, 2004: 5.3 times). Although the US\$194 million unsecured 9<sup>7</sup>/<sub>8</sub>% fixed-rate Notes were redeemed at their maturity in August 2004 at 100% of their principal amounts, the redemption did not have any impact on the Group's cash position as the settlement was served by a cash reserve already set aside since February 2002.

In August 2005, the Group's listed subsidiary, HHI, successfully obtained a fully underwritten commitment for a 5-year unsecured syndicated bank revolving credit and term loan facility of HK\$ 3.6 billion from a group of commercial banks, which is currently being syndicated. The above facility, together with the Group's deposits, cash holdings and liquid notes as well as the existing banking facilities on hand, totalling HK\$12.5 billion, provides the Group with adequate financial resources to meet its funding requirements for recurring operating activities and investment activities.

### Treasury Policies

The Group centralizes its treasury activities at group level for better management of financial risks including interest rate and foreign exchange risks, and for obtaining cost efficient funds. The Group focuses on reducing the overall net interest expenses in managing its interest rate exposure, and will replace banking facilities with new ones should good pricing opportunities arise. As 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, no speculative derivative transactions were made during the year.

All the Group's borrowings are subject to floating interest rates and are substantially denominated in Hong Kong dollars. In order to mitigate the Group's exposure on exchange rate fluctuation, borrowings are also designated in local currencies to match the corresponding payment currencies. As at 30th June, 2005, the maturity profile of the Group's borrowings was as follows:

As at 30th June	2004		2005	
	HK\$'million	%	HK\$'million	%
Within 1 year	234	19%	-	-
2-5 years	1,000	81%	55	100%
Total	1,234	100%	55	100%

The Group's capital structure, which is mainly financed by equity, is shown as below:

As at 30th June	2004	2005
<i>In HK\$ million</i>		
Equity	14,866	16,310
Total net debt	Net Cash	Net Cash
Total capitalization	17,574	16,365
<i>In %</i>		
Total net debt vs total capitalization	N/A	N/A
Total net debt vs equity	N/A	N/A

### **Contingent Liabilities**

Details of the contingent liabilities are set out in note 41 to the financial statements.

### **Charges on Assets**

During the financial year, no mortgage was charged on the Group's properties.

### **Project Commitments**

Details of the project commitments are set out in note 39 to the financial statements.

### **Material Acquisition or Disposal**

During the year ended 30th June, 2005, there was no material acquisition or disposal of the Company's subsidiaries and associates.