

FINANCIAL REVIEW

Group Results

For the financial year ended 30th June, 2006, the toll revenue of the Group increased by 15% to HK\$1,735 million from HK\$1,514 million of the last corresponding year, mainly due to the rise in traffic flow of the Group's expressways in the People's Republic of China (the "PRC"). Of the total toll revenue, the Guangzhou-Shenzhen Superhighway ("GS Superhighway") contributed 87% or HK\$1,501 million, whereas the Guangzhou East-South-West Ring Road ("ESW Ring Road") and the Phase I of the Western Delta Route ("Phase I West") contributed 10% or HK\$176 million and 3% or HK\$58 million respectively. The rise in toll revenue was HK\$221 million, of which GS Superhighway shared HK\$174 million, ESW Ring Road and Phase I West shared HK\$33 million and HK\$14 million respectively.

The Group's proportionately shared toll revenue is set out as follows:

	Year ended 30th June	
	2005 HK\$ million	2006 HK\$ million
GS Superhighway	1,327	1,501
ESW Ring Road	143	176
Phase I West	44	58
	1,514	1,735

Total expenses for the financial year ended 30th June, 2006, including toll operation expenses, depreciation and amortisation charges, and general and administrative expenses increased 16% from HK\$451 million of the last corresponding year to HK\$525 million, mainly due to an increase in depreciation and amortisation charges. Since, under the Group's accounting policies, depreciation and amortisation charges of toll expressways and additional investment costs are calculated based on the ratio of actual traffic volume in the year compared to the total expected traffic volume over the remaining concession period of the respective jointly controlled entity, depreciation and amortisation charges increased HK\$48 million in the current financial year as a result of the stronger than expected growth of traffic flow.

The Group's earnings before interest and tax increased by 28% to HK\$1,546 million from HK\$1,208 million of the last corresponding year, mainly due to robust growth in toll revenue and benefits from Renminbi appreciation under the new Renminbi exchange rate regime since late July 2005, including an exchange gain on retranslation of the United States dollar bank loans borrowed by a PRC jointly controlled entity.

The net profit attributable to equity holders of the Company, benefiting from an exchange gain of HK\$146 million arising from Renminbi appreciation, grew 25% to HK\$1,128 million from HK\$899 million despite a 26% increase in finance costs to HK\$286 million from HK\$227 million and 143% increase in the PRC income tax to HK\$85 million from HK\$35 million. The increase in finance costs was due to interest rate hikes of the United States dollar bank loans while the PRC income tax, has been charged at 7.5% on the profit of the Guangzhou-Shenzhen-Zhuhai Superhighway Company Limited ("GS Superhighway JV") following the expiry of the 5-year tax exemption period in December 2004.

Impact of Revised International Accounting Standard

Revised International Accounting Standard 39 “Financial Instruments: Recognition and Measurement” was adopted for the current financial year. The Group’s consolidated income statement for the last corresponding year and the consolidated balance sheet as at 30th June, 2005 were restated to incorporate necessary adjustments made for certain assets and liabilities on the balance sheet at fair values. The revised accounting standard has no impact on the Group’s cash flow position while its financial impact on the Group for the year is insignificant.

Liquidity and Financial Resources

Resulting from stable cash flow generated from its assets, the Group’s gearing ratio (net debt to equity attributable to the equity holders of the Company) and total debt to total assets ratio were further improved to 18% (2005: 27%) and 33% (2005: 35%) respectively. The gearing structure is set out below:

	As at 30th June	
	2005 HK\$ million	2006 HK\$ million
Total debt	5,399	5,283
Net debt <i>(Note)</i>	2,602	1,875
Total assets	15,394	16,076
Equity attributable to the equity holders of the Company	9,535	10,300
Total debt/Total assets	35%	33%
Net debt/Equity attributable to the equity holders of the Company	27%	18%

Note: Net debt is defined as total debt less bank balances and cash together with pledged bank deposits and held-to-maturity debt securities.

As at 30th June, 2006, the bank and other borrowings of the jointly controlled entities proportionately shared by the Group amounted to HK\$4,642 million (2005: HK\$4,784 million) with the following profile:

- (a) 98 % (2005: 98%) was bank loans and 2% (2005: 2%) was other loans; and
- (b) 71% (2005: 72%) was denominated in United States dollars and 29% (2005: 28%) was denominated in Renminbi.

The net current assets of the Group increased by 23% from HK\$2,497 million as at 30th June, 2005 to HK\$3,065 million as at 30th June, 2006.

Warrants

The warrants of the Company carrying subscription rights in aggregate of HK\$365,890,598 were created and issued in registered form on 5th August, 2003 which conferred the right to registered holders to subscribe for shares of the Company at an initial subscription price of HK\$4.18 per share exercisable during the period from

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6th August, 2003 to 5th August, 2006 (the “Subscription Rights”). By the date of expiry, the Subscription Rights of HK\$357,499,863 (representing 98% of the aggregate Subscription Rights) were exercised by registered holders to convert into 85,526,283 shares of the Company.

Debt Maturity Profile

The maturity profile of bank and other borrowings of the jointly controlled entities proportionately shared by the Group as at 30th June, 2006 as compared to that at 30th June, 2005 is shown as follows:

	As at 30th June	
	2005	2006
Repayable within 1 year	4%	6%
Repayable between 1 to 5 years	36%	22%
Repayable beyond 5 years	60%	72%

The Group has no unconsolidated bank borrowings both at 30th June, 2006 and 2005. Bank borrowings of the jointly controlled entities carry floating interest rates.

The extension of the bank loan maturities for the Guangzhou E-S-W Ring Road Company Limited (“Ring Road JV”) and the GS Superhighway JV by approximately an average 3.5 years subsequent to the respective refinancing in June and August 2005

has further improved the Group’s liquidity position by reducing the proportion of bank and other borrowings repayable between 1 to 5 years from 36% to 22%. Furthermore, in October 2005, the Group successfully completed a 5-year unsecured syndicated bank revolving credit and term loan facility of HK\$3.6 billion. All these have further strengthened the Group’s funding capabilities.



Interest Rate and Exchange Rate Exposures

There have been no significant changes in the Group’s policy in terms of interest rate and exchange rate exposures. Neither the Group nor the jointly controlled entities have any financial derivative instruments to hedge the interest rate or foreign currency exchange rate exposures as Hong Kong dollars are pegged to United States dollars. In addition, the reform of Renminbi exchange rate regime, with an initial appreciation of approximately 2% in July 2005, benefited the Group as a whole given the revenue from business operations of the Group and its jointly controlled entities is mainly denominated in Renminbi.

Treasury Policies

The Group continues to adopt conservative treasury policies in financial and funding management. Its liquidity and financial resources are reviewed on a regular basis to minimise the cost of funding and enhance the return on financial assets. Cash is generally placed in short-term deposits denominated in United States dollars and Hong Kong dollars.

Charges on Assets

As at 30th June, 2006, certain assets of the jointly controlled entities of the Group were pledged to banks with a total carrying amount of approximately HK\$7,560 million (30th June, 2005: HK\$7,519 million) to secure general banking facilities granted to the jointly controlled entities. The carrying amounts of these assets are analysed as follows:

	As at 30th June	
	2005 HK\$ million	2006 HK\$ million
Toll expressways	6,989	6,942
Prepaid lease payments	84	84
Bank deposits	334	358
Other assets	112	176
	7,519	7,560

The toll collection right of GS Superhighway JV was pledged to banks to secure its general banking facilities. In addition, 90% and 65% of the toll collection rights of Ring Road JV and Guangdong Guangzhou-Zhuhai West Superhighway Company Limited (“West Route JV”) respectively were pledged to banks for securing general banking facilities granted to the respective jointly controlled entities.

Capital Commitments

As at 30th June, 2006, the Group had agreed, subject to the approvals of the relevant authorities, to make capital contribution to West Route JV for development of the Phases II and III of the Western Delta Route amounting to approximately HK\$1,388 million (30th June, 2005: HK\$805 million for the Phase II of the Western Delta Route) which is expected to be contributed over the coming three calendar years. In addition, GS Superhighway JV, Ring Road JV and West Route JV had outstanding commitments in respect of acquisition of property and equipment contracted but not provided for amounting to approximately HK\$19 million (2005: HK\$4 million).

Contingent Liabilities

As at 30th June, 2006, there was no material contingent liability of the Group since 30th June, 2005.

Material Acquisition or Disposal

During the year ended 30th June 2006, there was no material acquisition or disposal of the Company’s subsidiaries or associated companies.