



Financial Information and Analysis

Net Revenue

"Net Revenue" in any year means the gross revenues (from whatever sources including, without limitation, any compensation payable to the Franchisee after the Operating Date by the Government under the Project Agreement or the Ordinance and any amounts payable after the Operating Date to the Franchisee in respect of any breach of contract by any third party, but excluding Interest Income and any revenue of other receipt of a capital nature which is received in respect of any act, event, omission or circumstance which occurred during the Construction Period) of the Franchisee for that year, calculated on an accruals basis in accordance with the Franchisee's normal accounting principles, less certain deductible Interest Expense (no interest is deducted with effect from second bank refinancing on 28 February 2007) and Operating Costs for that year, adjusted (if appropriate).

The Company's actual revenues are far below the Minimum Estimated Net Revenue stipulated in the WHC Ordinance (Chapter 436) and are summarised below:

HK\$m	Y/E Jul-08	Y/E Jul-07	Y/E Jul-06	Y/E Jul-05	Y/E Jul-04	Y/E Jul-03	Y/E Jul-02	Y/E Jul-01	Y/E Jul-00	Y/E Jul-99	Y/E Jul-98	Cumulative
Minimum Estimated Net Revenue in the Ordinance	1,623	1,549	1,455	1,190	880	794	713	506	253	201	154	9,318
Actual Net Revenue/(Deficit)	760	658	567	492	400	325	299	172	59	(52)	(208)	3,472
Shortfall	863	891	888	698	480	469	414	334	194	253	362	5,846

The main reason for the shortfall in Net Revenue is that actual traffic volume has been much less than the forecast due to:

- the development of rail and public transport system;
- large toll differential with other tunnels; and
- poor access roads such as the congestion of ingress and egress (Central and Tsim Sha Tsui).

Under the WHC Ordinance, the Company is entitled to request the Government to gazette a toll increase should the actual Net Revenue generated be less than the Minimum Estimated Net Revenue.

If the actual Net Revenue earned is greater than the Upper Estimated Net Revenue but less than the Maximum Estimated Net Revenue, the Company is entitled to the Upper Estimated Net Revenue plus 50% of the excess and the balance, another 50% excess will go to Toll Stability Fund.

If the actual Net Revenue earned is greater than the Maximum Estimated Net Revenue, the Company is entitled to the Upper Estimated Net Revenue plus 50% of the excess between Upper Estimated Net Revenue and Maximum Estimated Net Revenue and all surplus will go to Toll Stability Fund.

Internal Rate of Return

Internal Rate of Return (IRR) of the Company up to July 2008 generated is negative 4.52%.

Remarks: IRR is a calculation of equity return and to compare against the opportunity cost of capital. The IRR is the discount rate at which these cash flows would have a zero NPV.

$$\text{Thus NPV} = \frac{\text{Cash flow for period zero}}{1} + \frac{\text{Cash flow for period one}}{1+\text{IRR}} + \frac{\text{Cash flow for period two}}{(1+\text{IRR})^2} + \frac{\text{Cash flow for period ...}}{(1+\text{IRR})^{\dots}} + \frac{\text{Cash flow for period n}}{(1+\text{IRR})^n} = \text{Zero}$$

WHC's IRR upto Jul 2008

Period/ Year ended	Shareholders' (Investment)/ Return \$'000	#Discount Factor	NPV of 1994 cash flow x discount factor \$'000
	a	b	axb
IRR = -4.52%			
0 (Jul-94)	(555,000)	1.0000	(555,000)
1 (Jul-95)	(515,200)	1.0473	(539,583)
2 (Jul-96)	(537,500)	1.0969	(589,581)
3 (Jul-97)	(592,300)	1.1488	(680,439)
4 (Jul-98)	-	1.2032	-
5 (Jul-99)	(138,000)	1.2601	(173,897)
6 (Jul-00)	(172,000)	1.3198	(226,999)
7 (Jul-01)	(160,000)	1.3822	(221,156)
8 (Jul-02)	(250,000)	1.4476	(361,910)
9 (Jul-03)	(190,000)	1.5162	(288,069)
10 (Jul-04)	-	1.5879	-
11 (Jul-05)	130,000	1.6631	216,198
12 (Jul-06)	110,000	1.7418	191,595
13 (Jul-07)	1,770,000	1.8242	3,228,842
14 (Jul-08)	-	1.9105	-
Total	(1,100,000)		(0)

Discount factor for period 0 = 1

Discount factor for period n = $\frac{1}{(1+\text{IRR})^n}$

Risk Management

It is the Company policy to manage the interest rate risk. During the year, new hedging contracts (excluding forward starting interest rate swap and swaptions) in the sum of HK\$300 million were entered into while hedging contracts in the sum of HK\$800 million were expired. Given the outstanding hedging contracts of HK\$1,100 million as at 31 July 2008, hedged loan represented 44% of the bank loan outstanding on the balance sheet date. At the end of July 2008 and after taking into account further HK\$400 million forward start interest rate swap and swaptions, there were HK\$1,500 million hedging contracts outstanding at the fixed rate between 3.50% and 4.715%.

To protect the Company's asset and operation, appropriate insurance coverage has been arranged.

Profit and Loss Account

Profit and Loss Account for the Year Ended 31st July Yearly

	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000
Toll income	852,650	774,195	715,620	665,717	613,403
Other income	34,792	36,425	50,904	38,992	22,863
Revenue	887,442	810,620	766,524	704,709	636,266
Operating and administrative expenses	(348,078)	(327,824)	(261,845)	(255,918)	(257,277)
Operating profit	539,364	482,796	504,679	448,791	378,989
Finance costs					
- Interest on bank loans	(114,627)	(131,107)	(113,712)	(114,704)	(124,980)
- Interest on shareholders' loans	(11,168)	(20,296)	(28,426)	(29,251)	(30,238)
	(125,795)	(151,403)	(142,138)	(143,955)	(155,218)
Profit before taxation	413,569	331,393	362,541	304,836	223,771
Deferred tax provision	*(61,204)	(58,637)	(63,458)	(53,625)	(39,833)
Profit after taxation	352,365	272,756	299,083	251,211	183,938
Retained profits/ (Accumulated losses) brought forward	609,791	337,035	37,952	(213,259)	(397,197)
Retained profits/ (Accumulated losses) carried forward	962,156	609,791	337,035	37,952	(213,259)

Operating and Administrative Expenses for the Year Ended 31st July Yearly

	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000
Staff costs	52,112	50,670	48,288	46,411	46,538
Maintenance costs	9,658	7,996	8,598	8,513	10,319
Utility expenses	6,847	6,679	6,767	6,582	6,673
Rates	31,071	28,858	26,450	24,318	23,082
Insurance	17,269	18,183	19,236	18,390	17,565
PR & promotion, professional fee, administrative expenses and others	7,611	7,526	7,143	7,744	6,524
Operating & administrative expenses before depreciation	124,568	119,912	116,482	111,958	110,701
Depreciation	223,510	207,912	145,363	143,960	146,576
Total	348,078	327,824	261,845	255,918	257,277

* Hong Kong Profits tax has been provided at the rate of 16.5% for 2008 (17.5% for 2007), and HK\$7.6 million decreased in deferred tax liability upto July 2007 is included.

Balance Sheet

Balance Sheet as at 31st July Yearly

	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000
Non-current assets					
Fixed assets	5,178,655	5,399,565	5,606,227	5,750,394	5,935,070
Deferred taxation assets	-	-	-	-	43,153
Derivative financial instruments ^{#2}	933	5,465	21,386	-	-
	5,179,588	5,405,030	5,627,613	5,750,394	5,978,223
Current assets					
Inventories	1,449	1,469	1,519	1,296	1,291
Accounts receivable and prepayments	53,929	47,655	39,071	36,909	32,234
Derivative financial instruments ^{#2}	-	3,816	12	-	-
Cash and bank balances	15,969	12,794	6,378	7,433	7,287
	71,347	65,734	46,980	45,638	40,812
Current liabilities					
Trade and other payables	93,672	95,699	86,521	105,300	149,379
Current portion of long-term bank loans ^{#1}	396,178	395,903	263,110	234,566	210,907
Derivative financial instruments ^{#2}	1,962	-	1,319	-	-
	491,812	491,602	350,950	339,866	360,286
Net current liabilities	(420,465)	(425,868)	(303,970)	(294,228)	(319,474)
	4,759,123	4,979,162	5,323,643	5,456,166	5,658,749
Financed by:					
Share capital	400,000	400,000	400,000	400,000	400,000
Retained Profits/(Accumulated losses) brought forward	609,791	337,035	37,952	(213,259)	(397,197)
Profit after taxation	352,365	272,756	299,083	251,211	183,938
Retained Profits/(Accumulated losses) carried forward	962,156	609,791	337,035	37,952	(213,259)
Hedging reserve ^{#2}	(11,227)	7,443	16,565	-	-
Shareholders' equity	1,350,929	1,017,234	753,600	437,952	186,741
Shareholders' loan	1,124,954	1,113,786	2,863,490	2,945,064	3,045,813
Shareholders' funds	2,475,883	2,131,020	3,617,090	3,383,016	3,232,554
Long-term bank loans ^{#1}	2,079,271	2,713,737	1,629,109	2,062,678	2,426,195
Deferred taxation liabilities	191,553	134,147	77,444	10,472	-
Derivative financial instruments ^{#2}	12,416	258	-	-	-
	4,759,123	4,979,162	5,323,643	5,456,166	5,658,749

#1 Deferred expenditure consists mainly of the Front End Fee and Arrangement Fee for 1st refinancing in 8/2002 & 2nd refinancing in 2/2007. For the avoidance of doubt, the unamortized deferred expenditure due to 1st refinancing has been written off upon 2nd refinancing. According to HKAS 32 & 39, the deferred expenditure are treated as transaction costs and should be net off the fair value of bank loans and the comparative amounts have been reclassified.

The breakdown are shown below:

	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000
Long-term bank loans					
Secured bank loans	2,088,000	2,726,000	1,639,610	2,081,390	2,449,000
Less: Unamortized deferred expenditure	(8,729)	(12,263)	(10,501)	(18,712)	(22,805)
	2,079,271	2,713,737	1,629,109	2,062,678	2,426,195
Current portion of long-term bank loans					
Secured bank loans	400,000	400,000	268,856	238,659	215,000
Less: Unamortized deferred expenditure	(3,822)	(4,097)	(5,746)	(4,093)	(4,093)
	396,178	395,903	263,110	234,566	210,907
Total deferred expenditure	(12,551)	(16,360)	(16,247)	(22,805)	(26,898)

#2 According to HKAS 32 & 39, all outstanding interest rate swap contracts entered into by the Company are classified as cash flow hedge and stated at fair value. HK\$3 million liabilities on derivative financial instruments are debited to open hedging reserve as at 1 August 2005, HK\$3.6 million credited to derivative financial instruments and HK\$0.6 million debited to deferred taxation whereas the comparative amounts as at 31 July 2005 have not been restated.

Cash Flow Statement

Cash Flow Statement for the Year Ended 31st July Yearly

	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000
Net cash surplus from operating activities	643,804	578,773	523,083	476,388	409,876
Cash flow from investing activities					
Net payment of tunnel costs and fixed assets	(2,629)	(1,791)	(2,555)	(2,291)	(1,855)
Net cash used in investing activities	(2,629)	(1,791)	(2,555)	(2,291)	(1,855)
Cash flow from financing activities					
Repayment of shareholders loan	-	(1,770,000)	(110,000)	(130,000)	-
New secured bank loans drawn down	-	3,345,000	-	-	-
Transaction costs for new bank loans	-	(18,100)	-	-	-
Net repayment of secured bank loans	(638,000)	(2,127,466)	(411,583)	(343,951)	(405,000)
Net cash outflow from financing	(638,000)	(570,566)	(521,583)	(473,951)	(405,000)
Net increase/(decrease) in cash and bank balances	3,175	6,416	(1,055)	146	3,021
Cash and bank balances at beginning of year	12,794	6,378	7,433	7,287	4,266
Cash and bank balances at end of year	15,969	12,794	6,378	7,433	7,287

Cash Flow Since Construction

	From Construction to 31/7/2008 HK\$'000
Inflow	
Fund from Shareholders	3,110,000
Bank Loans	4,776,500
Revenue	7,086,820
	<u>14,973,320</u>
Outflow	
Capital Expenditure	6,735,191
Operating Expenses (excl. depreciation)	1,161,896
Finance Charge on Bank loan	2,756,122
Bank Loan Repayments	2,288,500
Loan Repayment to Shareholders	2,010,000
Working Capitals	5,642
	<u>14,957,351</u>
Net Cash Balance as at 31/7/2008	<u>15,969</u>