

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:

Financial Year	Minimum Estimated Net Revenue in the Ordinance (HK\$m)	Actual Net Revenue/(Deficit) (HK\$m)	Surplus/(Shortfall) (HK\$m)
Y/E Jul-09	1,876	788	(1,088)
Y/E Jul-08	1,623	760	(863)
Y/E Jul-07	1,549	658	(891)
Y/E Jul-06	1,455	567	(888)
Y/E Jul-05	1,190	492	(698)
Y/E Jul-04	880	400	(480)
Y/E Jul-03	794	325	(469)
Y/E Jul-02	713	299	(414)
Y/E Jul-01	506	172	(334)
Y/E Jul-00	253	59	(194)
Y/E Jul-99	201	(52)	(253)
Y/E Jul-98	154	(208)	(362)
Cumulative	11,194	4,260	(6,934)

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

- economic downturn;
- the development of rail and public transport system;
- large toll differential with other tunnels; and
- poor access roads such as the congestion at 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.

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Internal Rate of Return

Internal Rate of Return (IRR) of the Company up to July 2009 generated is negative 3.22%.

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 2009

Period/ Year ended	Shareholders' (Investment)/ Return \$'000	#Discount Factor	NPV of 1994 cash flow x discount factor \$'000
	a	b	axb
IRR = -3.22%			
0 (Jul-94)	(555,000)	1.0000	(555,000)
1 (Jul-95)	(515,200)	1.0333	(532,360)
2 (Jul-96)	(537,500)	1.0677	(573,902)
3 (Jul-97)	(592,300)	1.1033	(653,477)
4 (Jul-98)	-	1.1400	-
5 (Jul-99)	(138,000)	1.1780	(162,565)
6 (Jul-00)	(172,000)	1.2172	(209,366)
7 (Jul-01)	(160,000)	1.2578	(201,246)
8 (Jul-02)	(250,000)	1.2997	(324,920)
9 (Jul-03)	(190,000)	1.3430	(255,164)
10 (Jul-04)	-	1.3877	-
11 (Jul-05)	130,000	1.4339	186,410
12 (Jul-06)	110,000	1.4817	162,985
13 (Jul-07)	1,770,000	1.5310	2,709,925
14 (Jul-08)	-	1.5820	-
15 (Jul-09)	250,000	1.6347	408,680
Total	(850,000)		(0)

$$\# \text{ Discount factor for period } 0 = 1$$

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

Risk Management

It is the Company policy to manage the interest rate risk. During the year, two new forward start interest rate swap contracts in the sum of HK\$400 million were entered into while hedging contracts in the sum of HK\$300 million was expired. Given the outstanding hedging contract of HK\$1,200 million as at 31 July 2009, hedged loan represented 59% of the bank loan outstanding on the balance sheet date. At the end of July 2009 and after taking into account further HK\$400 million forward start interest rate swap, there were HK\$1,600 million hedging contracts outstanding at the fixed rate between 2.00% and 4.715%.

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

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Profit and Loss Account

Profit and Loss Account for the Year Ended 31 July Yearly

	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000
Toll income	859,324	852,650	774,195	715,620	665,717
Other income	52,264	34,792	36,425	50,904	38,992
Revenue	911,588	887,442	810,620	766,524	704,709
Operating and administrative expenses	(341,273)	(348,078)	(327,824)	(261,845)	(255,918)
Operating profit	570,315	539,364	482,796	504,679	448,791
Finance costs					
- Interest on bank loans	(77,045)	(114,627)	(131,107)	(113,712)	(114,704)
- Interest on shareholders' loans	(9,010)	(11,168)	(20,296)	(28,426)	(29,251)
	(86,055)	(125,795)	(151,403)	(142,138)	(143,955)
Profit before taxation	484,260	413,569	331,393	362,541	304,836
Deferred tax provision	(80,361)	(61,204)* ¹	(58,637)	(63,458)	(53,625)
Profit after taxation	403,899	352,365	272,756	299,083	251,211
Retained Profits / (Accumulated losses) brought forward	962,156	609,791	337,035	37,952	(213,259)
Retained Profits carried forward	1,366,055	962,156	609,791	337,035	37,952

Operating and Administrative Expenses for the Year Ended 31 July Yearly

	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000
Staff costs	51,462	52,112	50,670	48,288	46,411
Maintenance costs	7,924	9,658	7,996	8,598	8,513
Utility expenses	6,859	6,847	6,679	6,767	6,582
Rates	31,754	31,071	28,858	26,450	24,318
Insurance	16,094	17,269	18,183	19,236	18,390
PR & promotion, professional fee, administrative expenses and others	8,107	7,611	7,526	7,143	7,744
Operating & Administrative Expenses before Amortization & Depreciation	122,200	124,568	119,912	116,482	111,958
Amortization & Depreciation * ²	219,073	223,510	207,912	145,363	143,960
Total	341,273	348,078	327,824	261,845	255,918

*1 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 for previous years upto July 2007 is included.

*2 The Company adopts HK (IFRIC Int 12) - Service Concession Arrangements as from 1 August 2008 road tunnel are recognised intangible operating rights. The Company charges out the cost of the road tunnel via amortization instead of depreciation. As the unit of usage method is adopted both before and after the effecting of this Interpretation 12, there is no profit and loss impact.

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Balance Sheet

Balance Sheet as at 31 July Yearly

	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000
Non-current assets					
Intangible Operating Rights #1	4,938,473	5,173,762 ^{#1}	5,395,592 ^{#1}	5,602,190 ^{#1}	5,745,975 ^{#1}
Plant and Equipment	4,735	4,893	3,973	4,037	4,419
Derivative financial instruments	1,926	933	5,465	21,386	-
	<u>4,945,134</u>	<u>5,179,588</u>	<u>5,405,030</u>	<u>5,627,613</u>	<u>5,750,394</u>
Current assets					
Inventories	1,592	1,449	1,469	1,519	1,296
Accounts receivable and prepayments	40,912	53,929	47,655	39,071	36,909
Derivative financial instruments	-	-	3,816	12	-
Cash and bank balances	7,844	15,969	12,794	6,378	7,433
	<u>50,348</u>	<u>71,347</u>	<u>65,734</u>	<u>46,980</u>	<u>45,638</u>
Current liabilities					
Trade and other payables	48,872	93,672	95,699	86,521	105,300
Current portion of long-term bank loans #2	396,862	396,178	395,903	263,110	234,566
Derivative financial instruments	10,097	1,962	-	1,319	-
	<u>455,831</u>	<u>491,812</u>	<u>491,602</u>	<u>350,950</u>	<u>339,866</u>
Net current liabilities	<u>(405,483)</u>	<u>(420,465)</u>	<u>(425,868)</u>	<u>(303,970)</u>	<u>(294,228)</u>
	<u>4,539,651</u>	<u>4,759,123</u>	<u>4,979,162</u>	<u>5,323,643</u>	<u>5,456,166</u>
Financed by:					
Share capital	400,000	400,000	400,000	400,000	400,000
Retained Profits/(Accumulated losses) brought forward	962,156	609,791	337,035	37,952	(213,259)
Profit after taxation	403,899	352,365	272,756	299,083	251,211
Retained Profits/(Accumulated losses) carried forward	1,366,055	962,156	609,791	337,035	37,952
Hedging reserve/(deficit)	(42,400)	(11,227)	7,443	16,565 ^{#3}	-
Shareholders' equity	1,723,655	1,350,929	1,017,234	753,600	437,952
Shareholders' loan	883,964	1,124,954	1,113,786	2,863,490	2,945,064
Shareholders' funds	2,607,619	2,475,883	2,131,020	3,617,090	3,383,016
Long-term bank loans #2	1,623,671	2,079,271	2,713,737	1,629,109	2,062,678
Deferred taxation liabilities	265,753	191,553	134,147	77,444	10,472
Derivative financial instruments	42,608	12,416	258	-	-
	<u>4,539,651</u>	<u>4,759,123</u>	<u>4,979,162</u>	<u>5,323,643</u>	<u>5,456,166</u>

#1 The Company adopts HK (IFRIC Int 12)-Service Concession Arrangements as from 1 August 2008 and recognised the road tunnel to intangible operating rights.

#2 Deferred expenditure consists mainly of the Front End Fee and Arrangement Fee for 1st refinancing in August 2002 & 2nd refinancing in February 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:

	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000
Long-term bank loans					
Secured bank loans	1,628,000	2,088,000	2,726,000	1,639,610	2,081,390
Less: Unamortized deferred expenditure	(4,329)	(8,729)	(12,263)	(10,501)	(18,712)
	<u>1,623,671</u>	<u>2,079,271</u>	<u>2,713,737</u>	<u>1,629,109</u>	<u>2,062,678</u>
Current portion of long-term bank loans					
Secured bank loans	400,000	400,000	400,000	268,856	238,659
Less: Unamortized deferred expenditure	(3,138)	(3,822)	(4,097)	(5,746)	(4,093)
	<u>396,862</u>	<u>396,178</u>	<u>395,903</u>	<u>263,110</u>	<u>234,566</u>
Total deferred expenditure	<u>(7,467)</u>	<u>(12,551)</u>	<u>(16,360)</u>	<u>(16,247)</u>	<u>(22,805)</u>

#3 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 opening 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.

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Cash Flow Statement

Cash Flow Statement for the Year Ended 31 July Yearly

	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000
Net cash surplus from operating activities	717,782	643,804	578,773	523,083	476,388
Cash flow from investing activities					
Net payment of tunnel costs and fixed assets	(15,907)	(2,629)	(1,791)	(2,555)	(2,291)
Net cash used in investing activities	(15,907)	(2,629)	(1,791)	(2,555)	(2,291)
Cash flow from financing activities					
Repayment of shareholders loan	(250,000)	-	(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	(460,000)	(638,000)	(2,127,466)	(411,583)	(343,951)
Net cash outflow from financing	(710,000)	(638,000)	(570,566)	(521,583)	(473,951)
Net increase/(decrease) in cash and bank balances	(8,125)	3,175	6,416	(1,055)	146
Cash and bank balances at beginning of year	15,969	12,794	6,378	7,433	7,287
Cash and bank balances at end of year	7,844	15,969	12,794	6,378	7,433

Cash Flow Since Construction

	From Construction to 31 July 2009 HK\$'000
Inflow	
Fund from Shareholders	3,110,000
Bank Loans	4,776,500
Revenue	7,998,408
	<u>15,884,908</u>
Outflow	
Capital Expenditure	6,751,098
Operating Expenses (excl. amortization & depreciation)	1,284,096
Finance Charge on Bank loan	2,833,167
Bank Loan Repayments	2,748,500
Loan Repayment to Shareholders	2,260,000
Working Capitals	203
	<u>15,877,064</u>
Net Cash Balance as at 31 July 2009	<u>7,844</u>