

HONG KONG LINK 2004 LIMITED
DIRECTORS' REPORT AND ACCOUNTS
FOR THE PERIOD FROM 13TH APRIL 2004
(DATE OF INCORPORATION)
TO 31ST MARCH 2005

HONG KONG LINK 2004 LIMITED

REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the period from 13th April 2004 (date of incorporation) to 31st March 2005.

Principal activities

The Company is a special purpose company incorporated as a limited liability company under the laws of Hong Kong on 13th April 2004 and is wholly owned by The Financial Secretary Incorporated on behalf of The Government of the Hong Kong Special Administrative Region ("HKSAR Government").

The principal activities of the Company are to acquire by purchase or otherwise one or more notes, bonds or other financial instruments issued by the HKSAR Government including the benefit of other arrangements entered into in connection therewith and borrowing and raising money in Hong Kong dollars or in any other currency or currencies.

During the period, the Company issued Retail Bonds to retail investors in Hong Kong and Notes to institutional investors and applied the proceeds of the issue of the Retail Bonds and the Notes to subscribe for a Toll Revenue Bond issued by the HKSAR Government.

Results and appropriations

The results of the Company for the period from 13th April 2004 (date of incorporation) to 31st March 2005 are set out in the profit and loss account on page 4.

The directors do not recommend the payment of a dividend.

Share capital

Details of the movements in share capital of the Company are set out in note 10 to the accounts.

Directors

The directors during the period were:

Mr. Lai Nin, Alan	(appointed on 15th April 2004)
Mr. Martin Mckenzie Glass	(appointed on 15th April 2004)
Ms. Choi Suk-han, Annie	(appointed on 15th April 2004)

There being no provision in the Company's Articles of Association for retirement by rotation, all directors continue in office.

HONG KONG LINK 2004 LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

Directors' interests

No contracts of significance in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

At no time during the period was the Company a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Management contracts

The Company has an agreement with The Hongkong and Shanghai Banking Corporation Limited (the "Transaction Administrator") under which the Transaction Administrator provides certain cash management and other reporting and administrative services with respect to the amounts standing to the credit of the transaction accounts and the payment of amounts due to be paid by (a) the HKSAR Government to the Company under the Toll Revenue Bond and (b) the Company to, among others, the Retail Bondholders and the Noteholders. In return, the Transaction Administrator is paid an annual administration fee of HK\$132,000.

Upon the occurrence of certain events, the agreement provides that HSBC Trustee (Hong Kong) Limited (the "Trustee") may terminate the appointment of the Transaction Administrator. However, the Transaction Administrator's appointment cannot be terminated until a replacement has been appointed. These events include (i) any failure by the Transaction Administrator to make any payment due and payable by it on the due date, (ii) failure to perform its other obligations for more than the relevant grace period, (iii) an Insolvency Event in respect of the Transaction Administrator and certain other events as more particularly set out in the agreement. The Transaction Administrator has the right to resign upon giving not less than two months prior written notice but, again, no such resignation is effective until a replacement has been appointed.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

By order of the Board

For and on behalf of
STRATH NOMINEES LIMITED


.....
Director/Manager/Secretary

Secretary

Hong Kong, 30th September 2005

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
HONG KONG LINK 2004 LIMITED**
(incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 4 to 15 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

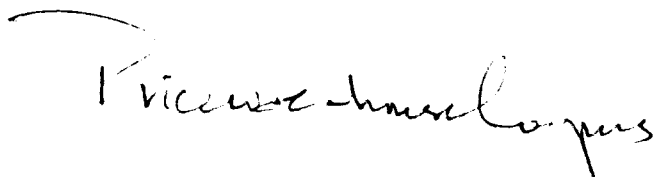
Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view of the state of the Company's affairs as at 31st March 2005 and of its loss and cash flows for the period then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.



PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30th September 2005

HONG KONG LINK 2004 LIMITED


PROFIT AND LOSS ACCOUNT
FOR THE PERIOD FROM 13TH APRIL 2004 (DATE OF INCORPORATION)
TO 31ST MARCH 2005

	Note	For the period from 13th April 2004 (date of incorporation) to 31st March 2005 HK\$
Interest income	3	132,987,505
Interest expense	4	(140,958,270)
Net interest expense		<u>(7,970,765)</u>
Operating expenses		(549,161)
Loss before taxation	5	<u>(8,519,926)</u>
Taxation	6	-
Loss after taxation		<u><u>(8,519,926)</u></u>

HONG KONG LINK 2004 LIMITED

BALANCE SHEET
AS AT 31ST MARCH 2005

	Note	2005 HK\$
Non-current assets		
Held-to-maturity securities	8	5,566,790,862
Prepayments		180,800
		<u>5,566,971,662</u>
Current assets		
Interest receivable		31,634,246
Prepayments		94,789
Bank balances and cash		860,609,946
		<u>892,338,981</u>
Current liabilities		
Interest payable		24,022,972
Accrued expenses		171,004
Amount payable to HKSAR Government	11	10,000,000
Debt securities issued	9	450,000,000
		<u>484,193,976</u>
Net current assets		<u>408,145,005</u>
Total assets less current liabilities		<u><u>5,975,116,667</u></u>
Financed by:		
Share capital	10	1
Accumulated loss		<u>(8,519,926)</u>
Shareholder' fund		<u>(8,519,925)</u>
Non-current liabilities		
Amount payable to HKSAR Government	11	850,629,512
Debt securities issued	9	5,133,007,080
		<u>5,983,636,592</u>
		<u><u>5,975,116,667</u></u>



Director



Director

HONG KONG LINK 2004 LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD FROM 13TH APRIL 2004 (DATE OF INCORPORATION)
TO 31ST MARCH 2005**

	Note	Share capital HK\$	Accumulated loss HK\$	Total HK\$
At 13th April 2004 (date of incorporation)		-	-	-
Issue of ordinary share	10	1	-	1
Loss for the period		-	(8,519,926)	(8,519,926)
At 31st March 2005		<u>1</u>	<u>(8,519,926)</u>	<u>(8,519,925)</u>

HONG KONG LINK 2004 LIMITED

NOTES TO THE ACCOUNTS

1 Principal activities

The Company is a special purpose company incorporated as a limited liability company under the laws of Hong Kong on 13th April 2004 and is wholly owned by The Financial Secretary Incorporated on behalf of The Government of the Hong Kong Special Administrative Region ("HKSAR Government").

The principal activities of the Company are to acquire by purchase or otherwise one or more notes, bonds or other financial instruments issued by the HKSAR Government including the benefit of other arrangements entered into in connection therewith and borrowing and raising money in Hong Kong dollars or in any other currency or currencies.

During the period, the Company issued Retail Bonds to retail investors in Hong Kong and Notes to institutional investors and applied the proceeds of the issue of the Retail Bonds and the Notes to subscribe for a Toll Revenue Bond issued by the HKSAR Government.

2 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention.

HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005.

The Company has not early adopted these new HKFRSs in the accounts for the period ended 31st March 2005. The Company has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

HONG KONG LINK 2004 LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(b) Investment in securities

Held-to-maturity securities

Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the profit and loss account. Provision is made when there is a diminution in value other than temporary.

The carrying amounts of individual held-to-maturity securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised in the profit and loss account as an expense immediately.

(c) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with original maturity of three months or less from the date of investment and bank overdrafts.

(d) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(e) Revenue recognition

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(f) Off-balance sheet financial instruments

Off-balance sheet financial instruments include interest rate swap transactions undertaken by the Company in the interest rate markets. The interest rate swap contracts are solely entered into as hedges against interest rate risk on the assets and liabilities.

The net interest payable or receivable arising from the interest rate swap contracts is recorded on an accrual basis and charged against interest income and interest expenses of the underlying assets and liabilities.

HONG KONG LINK 2004 LIMITED

NOTES TO THE ACCOUNTS

3 Interest income

	For the period from 13th April 2004 (date of incorporation) to 31st March 2005 HK\$
Interest income on held-to-maturity securities (Note 14 (a))	127,019,093
Bank interest income	5,968,412
	<u>132,987,505</u>

4 Interest expense

	For the period from 13th April 2004 (date of incorporation) to 31st March 2005 HK\$
Interest expense on debt securities issued	114,386,127
Swap interest expense, net	26,572,143
	<u>140,958,270</u>

5 Loss before taxation

Loss before taxation is stated after charging the following:

	For the period from 13th April 2004 (date of incorporation) to 31st March 2005 HK\$
Auditors' remuneration	70,000

HONG KONG LINK 2004 LIMITED

NOTES TO THE ACCOUNTS

6 Taxation

No provision for Hong Kong profits tax has been made in the accounts as the Company has no assessable profit for the period.

Reconciliation between taxation charge and accounting loss at Hong Kong profits tax rates is as follows:

	For the period from 13th April 2004 (date of incorporation) to 31st March 2005 HK\$
Loss before taxation	(8,519,926)
Calculated at a taxation rate of 17.5%	(1,490,987)
Income not subject to taxation	(23,272,813)
Expenses not deductible for taxation purposes	20,113,675
Unrecognised tax losses	4,650,125
Taxation charge	-

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Company has unrecognised tax losses of HK\$26,572,143 to carry forward against future taxable income. These tax losses do not expire under the current tax legislation.

7 Directors' emoluments

None of the directors received or will receive any fees or emoluments in respect of their services to the Company during the period.

8 Held-to-maturity securities

	2005 HK\$
Unlisted debt securities, Toll Revenue Bond due 2016 issued by HKSAR Government, at amortised cost	5,566,790,862

HONG KONG LINK 2004 LIMITED

NOTES TO THE ACCOUNTS

9 Debt securities issued

	2005 HK\$
Current:	
Class A1 1.19% Notes due 2005	450,000,000
Non-current:	
Tranche A 2.75% Secured Retail Bonds due 2007	873,040,995
Tranche B 3.60% Secured Retail Bonds due 2009	786,225,820
Tranche C 4.28% Secured Retail Bonds due 2011	772,102,447
Class A2 Floating Rate Notes due 2016	2,701,637,818
	<u>5,583,007,080</u>

Under the Deed of Charge, the Company secures its obligations under the Notes and the Retail Bonds by creating a Security in favour of the Trustee, who holds the benefit of the Security on trust for the Beneficiaries (including the Trustee as trustee for the Noteholders and the Retail Bondholders and certain other creditors of the Company). The Security includes:

- an assignment by way of security of all the Company's right, title, benefit and interest in, to and under the Toll Revenue Bond, the transaction documents to which the Company is a party, the Company's beneficial interest in the transaction bank accounts and any amounts standing to the credit of these bank accounts from time to time;
- a first fixed charge over one of the transaction bank accounts and any amounts standing to the credit of this bank account from time to time; and
- a floating charge over the whole of the Company's assets and undertaking and all of its property assets and rights, other than those which have otherwise been effectively secured or are excluded under the Deed of Charge.

10 Share capital

	2005 HK\$
Authorised:	
10,000 ordinary shares of HK\$1 each	10,000
Issued and fully paid:	
1 ordinary share of HK\$1 each	<u>1</u>

HONG KONG LINK 2004 LIMITED

NOTES TO THE ACCOUNTS

11 Amount payable to HKSAR Government

Included in the above balance are the Net Toll Revenues and reserve fund received from the HKSAR Government during the period, netted off by the interest payments and principal repayments under the Toll Revenue Bond and the payment to the HKSAR Government, subject to a maximum of HK\$10,000,000 annually, in respect of Tsing Ma Control Area maintenance costs. The balance is unsecured and non-interest bearing.

To the extent available at the earlier of the date on which all of the HKSAR Government's obligation under the Toll Revenue Bond have been discharged in full or the Toll Revenue Bond Payment Date falling in May 2016, the balance is entitled by the HKSAR Government and the Company is obliged to return to the HKSAR Government.

12 Reconciliation of loss before taxation to net cash inflow from operating activities

	For the period from 13th April 2004 (date of incorporation) to 31st March 2005 HK\$
Loss before taxation	(8,519,926)
Amortisation of bond subscription discount	(3,548,434)
Amortisation of bond issuance discount	8,653,262
Bank interest income	(5,968,411)
Swap interest expense, net	26,572,143
	<hr/>
Operating profit before working capital changes	17,188,634
Increase in prepayments	(275,589)
Increase in interest receivable on held-to-maturity securities	(25,865,142)
Increase in accrued expenses	171,004
Increase in interest payable on debt securities issued	19,494,684
Increase in amount payable to HKSAR Government	10,000,000
	<hr/>
Net cash inflow generated from operations	20,713,591
Bank interest received	199,308
	<hr/>
Net cash inflow from operating activities	<u>20,912,899</u>

13 Exposures in off-balance sheet derivatives

Interest rate swap contracts are entered into for hedging the interest rate risk of the assets and liabilities. The following notional amounts of the derivative exposures indicate the volume of transactions outstanding at the balance sheet date but they do not represent the amounts at risk:

	2005 HK\$
Interest rate swap contracts	<u>1,405,000,000</u>

HONG KONG LINK 2004 LIMITED

NOTES TO THE ACCOUNTS

14 Related party transactions

Parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial or operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

The Company is owned by The Financial Secretary Incorporated on behalf of HKSAR Government. During the period, the Company undertook the following transactions with related parties in the normal course of its business:

	For the period from 13th April 2004 (date of incorporation) to 31st March 2005 HK\$
Interest income on held-to-maturity securities (Note (a))	127,019,093

- (a) Under the Toll Revenue Bond Subscription Agreement, the HKSAR Government pays the Company amounts equal to the Net Toll Revenues derived from the Tolled Facilities (comprising the Cross-Harbour Tunnel, the Shing Mun Tunnels, the Tseung Kwan O Tunnel, the Aberdeen Tunnel, the Lion Rock Tunnel, and the Lantau Link) received each month by the HKSAR Government; and if any Direct Payment Event occurs and certain other conditions are also met, a Direct Payment (the "Toll Revenue Amounts"). There are three kinds of Direct Payment Events: business or cash flow interruptions ("Business Interruption Events"), toll adjustments ("Toll Adjustment Events") or changes to the servicing requirements on the operators of the Tolled Facilities ("Operator Events"), as detailed in the Toll Revenue Bond Subscription Agreement.

The Toll Revenue Amounts are used to make the interest payments and principal repayments under the Toll Revenue Bond. Pursuant to, and in accordance with, the terms and conditions of the Toll Revenue Bond, the HKSAR Government pays interest, with interest rate calculated at the weighted-average interest rate of the Retail Bonds and the Notes (taking into account the effect, if any, of the swap agreement between the Company and the hedge provider), plus a margin; and to repay principal on the Toll Revenue Bond in amounts and on dates which correspond to the amounts and dates of interest payments and principal repayments under the Retail Bonds and the Notes. The Company in turn uses the interest and principal it receives on the Toll Revenue Bond to make payments of interest and repayments of principal on the Retail Bonds and the Notes.

- (b) Certain fees and expenses for the creation and issue of the Notes and the Retail Bonds and the preparation of the related documents and stamp duties; and other fees, costs and expenses in connection with the incorporation of the Company were borne by the HKSAR Government.

HONG KONG LINK 2004 LIMITED

NOTES TO THE ACCOUNTS

15 Approval of accounts

The accounts were approved by the board of directors on 30th September 2005.