

HONG KONG LINK 2004 LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 MARCH 2010

HONG KONG LINK 2004 LIMITED

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31 March 2010.

Principal activities

The Company is a special purpose entity incorporated as a limited liability company under the laws of Hong Kong on 13 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.

In 2004, 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 year ended 31 March 2010 are set out in the statement of comprehensive income on page 5.

An interim dividend of HK\$146,873,513 per share was paid on 4 February 2010.

Share capital

Details of the movements in share capital of the Company are set out in note 13 to the financial statements.

Directors

The directors during the year and up to the date of this report are:

Mr. Chu King-man
Mr. Leung Cheuk-man
Mr. Ying Yiu-hong

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

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 year or at any time during the year.

At no time during the year 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.

HONG KONG LINK 2004 LIMITED

REPORT OF THE DIRECTORS (Continued)

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.

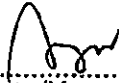
Upon the occurrence of certain events, the agreement provides that HSBC Trustee (Hong Kong) Limited (the "Trustee") may terminate the appointment of the Transaction Administrator. However, the Transaction Administrator's appointment cannot be terminated until a replacement has been appointed. These events 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 year, (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 financial statements 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
Tricor Strath Limited


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Director/Manager/Secretary

Secretary

Hong Kong, 27 September 2010

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

We have audited the financial statements of Hong Kong Link 2004 Limited (the "Company") set out on pages 5 to 28, which comprise the balance sheet as at 31 March 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

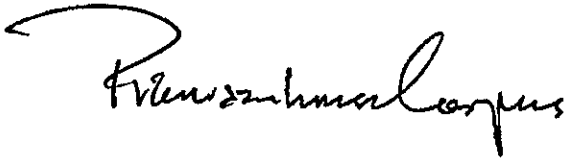
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2010 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.



PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 September 2010

HONG KONG LINK 2004 LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2010**


	Note	2010 HK\$	2009 HK\$
Interest income	5	49,617,077	132,991,457
Interest expense	6	(41,338,305)	(88,894,020)
Net interest income		<u>8,278,772</u>	<u>44,097,437</u>
Changes in fair value of a derivative financial instrument - interest rate swap		<u>1,736,885</u>	<u>4,548,954</u>
Operating income		10,015,657	48,646,391
Operating expenses		<u>(1,176,085)</u>	<u>(1,325,687)</u>
Profit before income tax	7	8,839,572	47,320,704
Income tax expense	8	<u>-</u>	<u>-</u>
Profit for the year		8,839,572	47,320,704
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u><u>8,839,572</u></u>	<u><u>47,320,704</u></u>

The notes on pages 9 to 28 are an integral part of these financial statements.

HONG KONG LINK 2004 LIMITED

BALANCE SHEET
AS AT 31 MARCH 2010

	Note	2010 HK\$	2009 HK\$
ASSETS			
Non-current assets			
Held-to-maturity securities	10	-	1,924,101,347
Current assets			
Interest receivable		1,929,120	17,294,480
Prepayments		8,237	10,502
Bank balances and cash		873,805,454	1,260,498,697
		875,742,811	1,277,803,679
Total assets		875,742,811	3,201,905,026
LIABILITIES			
Non-current liabilities			
Amount payable to HKSAR Government	14	-	1,240,180,274
Debt securities issued	11	786,290,154	1,736,079,523
		786,290,154	2,976,259,797
Current liabilities			
Interest payable		4,817,097	10,333,688
Accrued expenses		986,906	776,707
Amount payable to HKSAR Government	14,17(b)	20,000,000	7,073,400
Derivative financial instrument - interest rate swap	16	-	5,778,839
		25,804,003	23,962,634
Total liabilities		812,094,157	3,000,222,431
EQUITY			
Capital and reserves attributable to the Company's equity holder			
Share capital	13	1	1
Retained earnings		63,648,653	201,682,594
Total equity		63,648,654	201,682,595
Total equity and liabilities		875,742,811	3,201,905,026


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Director


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Director

The notes on pages 9 to 28 are an integral part of these financial statements.

HONG KONG LINK 2004 LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2010**

	Share capital HK\$	Retained earnings HK\$	Total HK\$
As at 1 April 2008	1	154,361,890	154,361,891
Total comprehensive income for the year	-	47,320,704	47,320,704
As at 31 March 2009	1	201,682,594	201,682,595
Total comprehensive income for the year	-	8,839,572	8,839,572
Transaction with the owner - Interim dividend (Note 12)	-	(146,873,513)	(146,873,513)
As at 31 March 2010	1	63,648,653	63,648,654

The notes on pages 9 to 28 are an integral part of these financial statements.

HONG KONG LINK 2004 LIMITED

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2010**

	Note	2010 HK\$	2009 HK\$
Net cash generated from operating activities	15	8,608,384	50,815,037
Investing activities			
Proceeds from redemption of held-to-maturity securities		1,932,459,723	705,159,784
Swap interest paid, net		(2,282,193)	(7,201,896)
Net cash generated from investing activities		1,930,177,530	697,957,888
Net cash inflow before financing activities		1,938,785,914	748,772,925
Financing activities			
(Decrease)/increase in amount payable to HKSAR Government		(1,221,207,485)	381,005,341
Repayment of debt securities issued		(953,356,205)	(729,290,100)
Settlement of interest rate swap contract		(4,041,954)	-
Dividend paid		(146,873,513)	-
Net cash used in financing activities		(2,325,479,157)	(348,284,759)
(Decrease)/increase in cash and cash equivalents		(386,693,243)	400,488,166
Cash and cash equivalents at beginning of year		1,260,498,697	860,010,531
Cash and cash equivalents at end of year		873,805,454	1,260,498,697
Analysis of balances of cash and cash equivalents			
Bank balances and cash		873,805,454	1,260,498,697

The notes on pages 9 to 28 are an integral part of these financial statements.

HONG KONG LINK 2004 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 General Information

Hong Kong Link 2004 Limited (the "Company") is a special purpose entity incorporated as a limited liability company under the laws of Hong Kong on 13 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 registered office of the Company is 5/F., Main Wing, Central Government Offices, Central, Hong Kong.

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.

In 2004, 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 ("TRB") issued by the HKSAR Government.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs which is a collective term including all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instrument - interest rate swap.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

HONG KONG LINK 2004 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) Standards, amendments and interpretations effective for the year ended 31 March 2010

- HKAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheet at the end of the current period and comparative period. Since the change in accounting policy only impacts presentation aspects, there is no impact on retained earnings.
- Amendment to HKFRS 7, 'Financial instruments: disclosures'. The amendment increases the disclosure requirements about fair value measurement and amends the disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosures about financial instruments and requires some specific quantitative disclosures for those instruments classified in the lowest level in the hierarchy. The adoption of the amendment results in additional disclosure but it does not have any impact on the balance sheet or the comprehensive income of the Company for the year.

(b) Interpretations effective for the year ended 31 March 2010 but not relevant:

- HKFRS 2 (amendment), 'Share-based payment'
- HKFRS 8, 'Operating Segments'
- HKAS 23 (amendment), 'Borrowing Costs'
- HKAS 32 and HKAS 1 (Amendments), 'Puttable Financial Instruments and Obligations Arising on Liquidation'
- HKAS 39 (amendment), 'Eligible hedged items'
- HK(IFRIC) - Int 9 (amendment), 'Reassessment of embedded derivatives'
- HKAS 39 (amendment), 'Financial instruments: Recognition and measurement'
- HK(IFRIC) - Int 13, 'Customer loyalty programmes'
- HK(IFRIC) - Int 15, 'Agreements for the construction of real estate'
- HK(IFRIC) - Int 16, 'Hedges of a net investment in a foreign operation'
- HK(IFRIC) - Int 17, 'Distribution of non-cash assets to owners'

HONG KONG LINK 2004 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

- (c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

The following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 April 2010 or later periods, but the Company has not early adopted them:

- HKAS 24 (Revised), 'Related party disclosures'. The amendment introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government-related entities and the government. Those disclosures are replaced with a requirement to disclose 1) the name of the government and the nature of their relationship; and 2) the nature and amount of any individually-significant transactions; and 3) the extent of any collectively-significant transactions qualitatively or quantitatively. It also clarifies and simplifies the definition of a related party.
- HKAS 39, 'Financial instruments: Recognition and measurement – Eligible hedged items'. It provides guidance for two situations. On the designation of a one-sided risk in a hedged item, HKAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations. This will not give rise to any changes to the Company's financial statements.
- There are a number of minor amendments to HKFRS 1 and HKAS 27, 'Cost of an investment in a subsidiary, jointly-controlled entity or associate', HKFRS 3 (Revised), 'Business Combination', HKFRS 9, 'Financial Instruments Part 1: Classification and Measurement', HKAS 27 (Revised), 'Consolidated and Separate Financial Statements', HKAS 32 (Amendment), 'Classification of Rights Issues', HK(IFRIC) – Int 9 (Revised), 'Reassessment of embedded derivatives', HK(IFRIC) – Int 18, 'Transfers of assets from customers' and HK(IFRIC) – Int 19, 'Extinguishing Financial Liabilities with Equity Instruments' which are not addressed above. These amendments are unlikely to have an impact on the Company's financial statements and have therefore not been analysed in detail.

HONG KONG LINK 2004 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.2 Financial assets

The Company classifies its financial assets as held-to-maturity securities. Financial assets classified as held-to-maturity are those traded with fixed or determinable payments and fixed maturities that the Company's management has both the positive intention and the ability to hold to maturity. Held-to-maturity securities are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method less allowances for impairment losses. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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. Impairment allowances are made when carrying amounts are not expected to be recovered and are recognised in the statement of comprehensive income as an expense immediately. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.3 Cash and cash equivalents

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

2.4 Current and Deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

HONG KONG LINK 2004 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.4 Current and Deferred income tax (Continued)

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Income tax payable on profits is recognised as an expense in the year in which profits arise. The tax effects of income tax losses available for carry-forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

2.5 Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.6 Derivative financial instrument

Derivative financial instrument represents an interest rate swap transaction undertaken by the Company in the interest rate markets. The interest rate swap contract is solely entered into as hedges against interest rate risk on the assets and liabilities. The derivative is initially recognised at fair value on the date on which the derivative contract is entered into and is subsequently remeasured at its fair value. The derivative is carried as asset when fair value is positive and as liability when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

HONG KONG LINK 2004 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

2.7 Financial liabilities - debt securities issued

Financial liabilities are classified as other financial liabilities in accordance with HKAS 39 and are classified at inception, recognised initially at fair value and subsequently carried at amortised cost. Any difference between proceeds net of transaction costs at inception and the redemption value is recognised in the statement of comprehensive income over the period of the other financial liabilities using the effective interest method.

2.8 Turnover

Turnover represents the interest income from held-to-maturity securities.

2.9 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

2.10 Dividend distribution

Dividend distribution to the Company's shareholder is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 Financial risk management

3.1 Strategy in using financial instruments

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.

By their nature, the Company's activities are principally related to the use of financial instruments including cash, bond securities, debt securities and derivatives. The Company hedges a major proportion of its existing interest rate risk of the floating-rate note issuance by the form of an interest rate swap.

HONG KONG LINK 2004 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management

3.2 Credit risk

The Company's principal financial assets are its held-to-maturity securities - TRB and bank balances. The Company's credit risk is primarily attributable to the TRB, which is the risk that the Issuer will be unable to pay amounts in full when due. Following the early redemption of the TRB in current year, the Company has no exposure to the credit risk attributable to the TRB. For the Company's balances with bank, since they are placed with bank with very high credit ratings, the credit risk is considered to be low. The minimum credit risk exposure that the Company bears is the carrying amount of the assets in the balance sheet.

3.3 Currency risk

The Company is not exposed to significant effects of fluctuations in the prevailing foreign currency exchange rate on its financial position and cash flow as assets and liabilities are mainly denominated in Hong Kong dollars or currency which has an exchange rate which is linked to Hong Kong dollars.

3.4 Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

Following the early redemption of the floating rate note issued and the termination of the interest rate swap in current year, the only financial assets that is subject to cash flow interest rate risk is the bank account balances.

The tables in pages 16 to 17 summarise the Company's exposure to interest rate risks. Included in the tables are the Company's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

HONG KONG LINK 2004 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.4 Cash flow and fair value interest rate risk (Continued)

	Up to 1 month HK\$	Over 1 month to 3 months HK\$	Over 1 year to 5 years HK\$	Non-Interest bearing HK\$	Total HK\$
As at 31 March 2010					
<u>Assets</u>					
Non-current assets	-	-	-	-	-
Held-to-maturity securities	-	-	-	-	-
Current assets	-	-	-	1,929,120	1,929,120
Interest receivable	-	-	-	8,237	8,237
Prepayments	-	-	-	-	-
Tax prepayment	-	-	-	-	-
Bank balances and cash	574,431,042	299,374,412	-	-	873,805,454
Total assets	574,431,042	299,374,412	-	1,937,357	875,742,811
<u>Liabilities</u>					
Non-current liabilities	-	-	-	-	-
Amount payable to HKSAR Government	-	-	786,290,154	-	786,290,154
Debt securities issued	-	-	-	-	-
Current liabilities	-	-	-	4,817,097	4,817,097
Interest payable	-	-	-	986,906	986,906
Accrued expenses	-	-	-	20,000,000	20,000,000
Amount payable to HKSAR Government	-	-	-	-	-
Derivative financial instrument - interest rate swap	-	-	-	-	-
Total liabilities	-	-	786,290,154	25,804,003	812,094,157

HONG KONG LINK 2004 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.4 Cash flow and fair value interest rate risk (Continued)

As at 31 March 2009

Assets

Non-current assets								
Held-to-maturity securities	-	1,924,101,347	-	-	-	-	-	1,924,101,347
Current assets								
Interest receivable	-	-	-	-	-	-	17,294,480	17,294,480
Prepayments	-	-	-	-	-	-	10,502	10,502
Tax prepayment								
Bank balances and cash	537,918,803	722,579,894	-	-	-	-	-	1,260,498,697
Total assets	537,918,803	2,646,681,241					17,304,982	3,201,905,026

Liabilities

Non-current liabilities								
Amount payable to HKSAR Government	-	-	-	-	-	-	1,240,180,274	1,240,180,274
Debt securities issued	-	952,977,411	783,102,112	-	-	-	-	1,736,079,523
Current liabilities								
Interest payable	-	-	-	-	-	-	10,333,688	10,333,688
Accrued expenses	-	-	-	-	-	-	776,707	776,707
Amount payable to HKSAR Government	-	-	-	-	-	-	7,073,400	7,073,400
Derivative financial instrument - interest rate swap	-	5,778,839	-	-	-	-	-	5,778,839
Total liabilities		958,756,250	783,102,112				1,258,364,069	3,000,222,431

HONG KONG LINK 2004 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.4 Cash flow and fair value interest rate risk (Continued)

The Company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration the renewal of existing interest position. Based on these scenarios, the Company calculates the impact on profit and loss of a defined interest rate shift.

The Company's principal interest bearing assets and liabilities, TRB, bank balances, interest rate swap and floating rate note, are denominated in HK dollars and subject to interest rate risk. Fixed bank deposits of HK\$299,374,412 (2009: HK\$722,579,894) and debt securities of HK\$786,290,154 (2009: HK\$1,582,723,318) at fixed interest rate and carried at amortised cost are not subject to interest rate risk. At 31 March 2010, if interest rates on HK dollars had been 100 basis points (2009: 100 basis points) higher/lower with all other variables held constant, the Company's profit before taxation for the year would have been increased/decreased by approximately HK\$5.7m (2009: increased/decreased by approximately HK\$18m).

3.5 Other price risk

The Company does not hold any asset at fair value that is subject to significant price risk.

3.6 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with financial liabilities when they fall due and to replace funds when they are withdrawn.

The Company's liquidity risk primarily arises from the Retail Bonds and Notes issued. The gross proceeds of the issue of the Retail Bonds and Notes were used by the Company to subscribe for the TRB issued by the HKSAR Government. The TRB was issued at the same time as the Retail Bonds and the Notes. Pursuant to, and in accordance with, the terms and conditions of the TRB, the HKSAR Government promised to pay interest and repay principal on the TRB in amounts and on dates which correspond to the amounts and dates of interest payments and principal repayments under the Retail Bonds and Notes. As a result, the Company would be able to meet its obligation over its debt securities issued and manage its primary liquidity risk.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash outflows.

HONG KONG LINK 2004 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.6 Liquidity risk (Continued)

	Repayable on demand HK\$	Up to 1 month HK\$	1 month to 3 months HK\$	3 months to 1 year HK\$	1 year to 5 years HK\$	Total HK\$
As at 31 March 2010						
<i>Financial liabilities</i>						
Amount payable to HKSAR Government	-	-	-	-	-	-
Debt securities issued and interest payable	-	-	8,429,841	25,382,159	798,337,205	832,149,205
Accrued expenses	-	986,906	-	-	-	986,906
Derivative financial instrument- gross settled interest rate swap - pay leg only	-	-	-	-	-	-
Amount payable to HKSAR Government	18,972,789	-	1,027,211	-	-	20,000,000
Total financial liabilities undiscounted cash outflow (contractual maturity dates)	18,972,789	986,906	9,457,052	25,382,159	798,337,205	853,136,111
As at 31 March 2009						
<i>Financial liabilities</i>						
Amount payable to HKSAR Government	-	-	-	-	1,240,180,274	1,240,180,274
Debt securities issued and interest payable	-	-	969,329,960	25,382,159	832,149,205	1,826,861,324
Accrued expenses	-	776,707	-	-	-	776,707
Derivative financial instrument- gross settled interest rate swap - pay leg only	-	-	-	-	-	-
Amount payable to HKSAR Government	-	-	3,118,469	-	-	3,118,469
	-	-	7,073,400	-	-	7,073,400
Total financial liabilities undiscounted cash outflow (contractual maturity dates)	-	776,707	979,521,829	25,382,159	2,072,329,479	3,078,010,174

HONG KONG LINK 2004 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.7 Fair values of financial assets and liabilities

(a) Bank balances and cash

All the bank deposits have maturity less than 3 months. The estimated fair value of the fixed-rate deposit, which is less than 3 months, is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity. Therefore, the fair value of the deposits is approximately equal to its carrying value.

(b) Debt securities

Debt securities include the Retail Bonds. The fair values of Retail Bonds are obtained from quoted market prices in active markets. The carrying values of the debt securities approximate their fair values.

4 Critical accounting estimates and assumptions

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company is subject to income taxes in Hong Kong. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

HONG KONG LINK 2004 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5 Interest income

	2010 HK\$	2009 HK\$
Interest income on held-to-maturity securities (Note 17 (a))	41,709,770	110,943,658
Bank interest income	7,907,307	22,047,799
	<u>49,617,077</u>	<u>132,991,457</u>

6 Interest expense

	2010 HK\$	2009 HK\$
Interest expense on debt securities issued	40,393,949	81,434,856
Swap interest expense, net	944,356	7,459,164
	<u>41,338,305</u>	<u>88,894,020</u>

7 Profit before income tax

Profit before income tax is stated after charging the following:

	2010 HK\$	2009 HK\$
Auditor's remuneration	168,000	168,000
Transaction administration fee	132,000	132,000
	<u>168,000</u>	<u>132,000</u>

HONG KONG LINK 2004 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

8 Income tax expense

(a) Current income tax

No provision for Hong Kong profits tax is required for the year ended 31 March 2010 (2009: HK\$Nil) as the Company has no assessable profit.

The taxation on the Company's profit before income tax differs from the theoretical amount that would arise using the Hong Kong taxation rate as follows:

	2010 HK\$	2009 HK\$
Profit before income tax	8,839,572	47,320,704
Calculated at a taxation rate of 16.5% (2009: 16.5%)	1,458,529	7,807,916
Income not subject to taxation	(8,186,818)	(21,943,590)
Expenses not deductible for taxation purposes	6,859,056	13,655,489
Utilisation of previously unrecognised tax losses	(130,767)	-
Tax losses for which no deferred income tax asset was recognised	-	480,185
Income tax expense	-	-

(b) Deferred income tax

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Company did not recognise deferred income tax assets of HK\$5,204,441 (2009: HK\$5,335,208) in respect of losses amounting to HK\$31,542,065 (2009: HK\$32,334,595) that can be carried forward against future taxable income. These tax losses do not expire under the current tax legislation.

9 Directors' emoluments

None of the directors received or will receive any fees or emoluments in respect of their services to the Company during the year (2009: HK\$Nil).

HONG KONG LINK 2004 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10 Held-to-maturity securities

	2010 HK\$	2009 HK\$
Unlisted debt securities, Toll Revenue Bond due 2016 issued by HKSAR Government, at amortised cost	-	1,924,101,347

The movement in held-to-maturity securities is summarised as follows:

	2010 HK\$	2009 HK\$
As at beginning of the year	1,924,101,347	2,621,509,206
Redemption by issuer	(1,932,459,723)	(705,159,784)
Amortisation	8,358,376	7,751,925
As at end of the year	-	1,924,101,347

There were no impairment on held-to-maturity securities as at 31 March 2010 and 31 March 2009.

The held-to-maturity securities are wholly redeemed in February 2010.

11 Debt securities issued

	2010 HK\$	2009 HK\$
Non-current:		
Tranche B 3.60% HKD Secured Retail Bonds due 2009 (note a)	-	799,621,206
Tranche C 4.28% HKD Secured Retail Bonds due 2011	786,290,154	783,102,112
Class A2 HKD Floating Rate Notes due 2016 (note b)	-	153,356,205
	<u>786,290,154</u>	<u>1,736,079,523</u>

HONG KONG LINK 2004 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11 Debt securities issued (Continued)

Note:

- (a) The Tranche B 3.6% HKD Secured Retail Bonds were wholly matured and repaid in May 2009.
- (b) The Class A2 Floating Rate Notes bear interest at the sum of HIBOR plus (a) until and including the Note Payment Date falling in May 2011 (the "Step-up Date"), 0.36% a year and (b) thereafter, 0.72% a year. The Notes were fully redeemed on 7 May 2009.

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 TRB, 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.

The movement in debt securities issued is summarised as follows:

	2010 HK\$	2009 HK\$
As at beginning of the year	1,736,079,523	2,458,704,453
Redemption or maturity	(953,356,205)	(729,290,100)
Amortisation	3,566,836	6,665,170
As at end of the year	<u>786,290,154</u>	<u>1,736,079,523</u>

The Company has not had any defaults of principal, interest or other breaches with respect to their liabilities for the year ended 31 March 2010 and 31 March 2009.

HONG KONG LINK 2004 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

12 Dividend

	2010 HK\$	2009 HK\$
Dividend recognised as distributions during the year:		
Interim dividend paid of HK\$146,873,513 (2009:Nil) per ordinary share	<u>146,873,513</u>	<u>-</u>

13 Share capital

	2010 HK\$	2009 HK\$
Authorised:		
10,000 ordinary shares of HK\$1 each	<u>10,000</u>	<u>10,000</u>
Issued and fully paid:		
1 ordinary share of HK\$1 each	<u>1</u>	<u>1</u>

14 Amount payable to HKSAR Government

Included in the balance are the Net Toll Revenues and reserve fund received from the HKSAR Government during the year, netted off by the interest payments and principal repayments under the TRB 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 (note 17(b)). The balance is unsecured, non-interest bearing and with no fixed term of repayment.

HONG KONG LINK 2004 LIMITED**NOTES TO THE FINANCIAL STATEMENTS****15 Reconciliation of profit before income tax to net cash inflow from operating activities**

	2010 HK\$	2009 HK\$
Profit before income tax	8,839,572	47,320,704
Bank interest income	(7,907,307)	(22,047,799)
Interest income on held-to-maturity securities	(41,709,770)	(110,943,658)
Interest expense on debt securities issued	40,393,949	81,434,856
Swap interest expenses, net	944,356	7,459,164
Change in fair value of derivative financial instrument	(1,736,885)	(4,548,954)
	<hr/>	<hr/>
Operating loss before working capital changes	(1,176,085)	(1,325,687)
Decrease in prepayments	2,265	53,848
Increase in accrued expenses	210,199	185,740
Decrease in amount payable to HKSAR Government	(6,046,189)	(2,926,600)
	<hr/>	<hr/>
Net cash used in operations	(7,009,810)	(4,012,699)
Income tax refund	-	4,955,238
Bank interest received	10,468,992	19,492,231
Interest income on held-to-maturity securities received	46,155,069	107,916,248
Interest expense on debt securities issued paid	(41,005,867)	(77,535,981)
	<hr/>	<hr/>
Net cash generated from operating activities	<u>8,608,384</u>	<u>50,815,037</u>

16 Derivative financial instrument

The Company uses an interest rate swap to manage its interest rate risk exposure.

Interest rate swap is a commitment to exchange one set of cash flows for another. The swap results in an economic exchange of interest rates. No exchange of principal takes place. The Company's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an on-going basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market.

The interest rate swap was terminated on 7 May 2009.

HONG KONG LINK 2004 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

16 Derivative financial instrument (Continued)

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Company's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair value of derivative financial instrument held is set out below.

	As at 31 March 2010		
	Contract/ notional amount HK\$	Fair values	
		Assets HK\$	Liabilities HK\$
Interest rate swap	-	-	-

	As at 31 March 2009		
	Contract/ notional amount HK\$	Fair values	
		Assets HK\$	Liabilities HK\$
Interest rate swap	365,000,000	-	5,778,839

HONG KONG LINK 2004 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17 Related party transactions

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or other entities.

The Company is owned by The Financial Secretary Incorporated on behalf of the HKSAR Government. Saved as disclosed in the above notes, during the year, the Company undertook the following transactions with related parties in the normal course of its business:

- (a) Under the TRB 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 TRB. Pursuant to, and in accordance with, the terms and conditions of the TRB, 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 TRB 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 TRB to make payments of interest and repayments of principal on the Retail Bonds and the Notes.

During the year, interest income of HK\$41,709,770 (2009: HK\$110,943,658) was earned from the TRB above.

- (b) On the TRB Payment Date falling in May of each year, the Company has to pay to the HKSAR Government of an amount equal to the lesser of the balance of the account on which HKSAR Government records its positive contributions to the maintenance of Tsing Ma Control Area and HK\$10,000,000. Amount of contributions of maintenance costs of Tsing Ma Control Area of HK\$1,027,211 is recorded as amounts payable to the HKSAR Government as at 31 March 2010 (2009: HK\$7,073,400).
- (c) There was no remuneration paid to the key management during the year.

18 Approval of financial statements

The financial statements were approved by the board of directors on 27 September 2010.

