



Guangdong Investment Limited  
粵海投資有限公司

**Interim Report 中期報告**  
**2002**

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**CORPORATE INFORMATION**

(as at 18 September 2002)

**Board of Directors**

WU Jiesi (*Honorary President*)  
LI Wenyue (*Chairman*)  
ZHANG Yaping (*Managing Director*)  
CHAN Cho Chak, John, GBS, JP \*  
Dr. The Honourable LI Kwok Po, David, GBS, JP \*  
CHENG Mo Chi, Moses, JP \*  
FUNG Daniel R., QC, SC \*  
YE Xuquan  
LI Wai Keung  
WANG Man Kwan, Paul  
ZHAI Zhiming  
GU Shunan  
WANG Xiaofeng

\* *Independent Non-Executive Director*

**Company Secretary**

HO LAM Lai Ping, Theresa

**Auditors**

Ernst & Young

**Principal Bankers**

ABN AMRO Bank N.V.  
Bank of China (Hong Kong) Limited  
Bayerische Hypo-Und Vereinsbank Aktiengesellschaft  
BNP Paribas  
Citibank, N.A.  
Guangdong Development Bank  
Hang Seng Bank Limited  
International Bank of Asia  
The Hongkong and Shanghai Banking Corporation Limited  
Mizuho Corporate Bank, Ltd  
Société Générale  
Standard Chartered Bank

**Registered Office**

27th-29th Floors  
Guangdong Investment Tower  
148 Connaught Road Central  
Hong Kong  
Telephone : (852) 2860 4368  
Facsimile : (852) 2528 4386  
Internet : <http://www.gdi.com.hk>

**Registrar for Ordinary Shares**

Tengis Limited  
4th Floor, Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

**Registrar for Preference Shares**

Guangdong Investment Limited  
27th-29th Floors  
Guangdong Investment Tower  
148 Connaught Road Central  
Hong Kong

**FINANCIAL HIGHLIGHTS**
**HALF YEAR UNAUDITED CONSOLIDATED RESULTS OF 30 JUNE 2002**

	<b>Increase (+)/Decrease (-) compared with the same period last year</b>	<b>For the six months ended 30 June 2002</b>
• Group Turnover	– HK\$ 351 million to	HK\$ 3,354 million
• Profit from Operating Activities (before finance costs and provisions)	– HK\$ 106 million to	HK\$ 1,148 million
• Finance Costs	– HK\$ 184 million to	HK\$ 636 million
• Provisions	+ HK\$ 82 million to	HK\$ 214 million
• Net Profit Attributable to Shareholders	+ HK\$ 114 million to	HK\$ 243 million

**KEY FINANCIAL INFORMATION (as at 30 JUNE 2002)**
**• Analysis of Gross Financial Borrowings (HK\$'million)**

<u>Loan maturity profile</u>		<u>Currency</u>		<u>Interest rate</u>	
Within 1 year	527	Hong Kong Dollar	11,540	Floating	5,068
In the 2nd year	904	US Dollar	5,856	Fixed	13,358
In the 3rd to 5th years	3,883	Euro	21		
Over 5 years	13,112	Renminbi	1,009		
	<u>18,426</u>		<u>18,426</u>		<u>18,426</u>

**• Sources of Financing (HK\$'million)**

	<u>Facilities</u>	
	<u>Available</u>	<u>Utilised</u>
Fixed rate notes	13,358	13,358
Bank and other borrowings	5,273	3,624
Floating rate notes/bonds	1,444	1,444
	<u>20,075</u>	<u>18,426</u>

(Note: Financing from the issue of the US\$125,000,000 3<sup>1</sup>/<sub>4</sub>% redeemable cumulative convertible preference shares, in which the outstanding balance of approximately US\$85,949,000 as at 30 June 2002, is not accounted for.)

**• Balance Sheet Ratios (%)**

	<b>As at 30 June 2002</b>	As at 31 December 2001
Gearing ratio	<b>2.05</b>	2.22
Liquidity ratio	<b>1.32</b>	1.44

Note: Gearing represents the ratio of financial indebtedness to net asset value.  
Liquidity represents the ratio of current assets to current liabilities.

## **INDEPENDENT AUDITORS' REVIEW REPORT**

**To the Board of Directors  
Guangdong Investment Limited**

### **Introduction**

We have been instructed by the Company to review the interim financial report set out on pages 4 to 38.

### **Directors' responsibilities**

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with SSAP 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

### **Review work performed**

We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

### **Review conclusion**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2002.

**UNAUDITED INTERIM FINANCIAL REPORT**
**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**
*For the six months ended 30 June 2002*

	Notes	For the six months ended 30 June	
		2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
TURNOVER	2	<b>3,354,131</b>	3,705,397
Cost of sales		<b>(1,917,846)</b>	(2,163,530)
Gross profit		<b>1,436,285</b>	1,541,867
Other revenue and gains	2	<b>50,914</b>	77,268
Selling and distribution costs		<b>(96,620)</b>	(130,227)
Administrative expenses		<b>(235,175)</b>	(257,086)
Staff compensation payments in respect of discontinuation of packaging materials manufacture and distribution operations	3(a)	<b>(552)</b>	–
Gain on discontinuation of curtain wall installation operations	3(c)	–	25,534
Other operating expenses, net		<b>(220,675)</b>	(135,426)
PROFIT FROM OPERATING ACTIVITIES	2, 4	<b>934,177</b>	1,121,930
Finance costs	5	<b>(636,323)</b>	(820,776)
Share of profit of a jointly-controlled entity		<b>297,854</b>	301,154
Share of profits less losses of associates		<b>25,990</b>	13,928
		<b>81,012</b>	83
PROFIT BEFORE TAX		<b>404,856</b>	315,165
Tax	6	<b>(70,215)</b>	(55,639)
PROFIT BEFORE MINORITY INTERESTS		<b>334,641</b>	259,526
Minority interests		<b>(91,620)</b>	(130,792)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<b>243,021</b>	128,734
EARNINGS PER SHARE	8		
– Basic		<b>HK¢3.92</b>	HK¢1.92
– Diluted		<b>HK¢3.90</b>	N/A



**CONDENSED CONSOLIDATED BALANCE SHEET**

30 June 2002

	<i>Notes</i>	<b>30 June 2002 HK\$'000 (Unaudited)</b>	31 December 2001 HK\$'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Fixed assets	9	<b>10,048,387</b>	10,364,378
Investment properties	10	<b>2,260,055</b>	2,332,118
Goodwill:			
Goodwill		<b>954</b>	1,073
Negative goodwill		<b>(116,284)</b>	(105,282)
Interest in a jointly-controlled entity		<b>996,634</b>	972,344
Interests in associates		<b>703,081</b>	641,163
Contractual joint venture		<b>191,901</b>	191,901
Other financial assets		<b>43,377</b>	50,245
Intangible assets		<b>13,877,707</b>	14,123,023
Other long term assets		<b>1,537,035</b>	1,428,877
		<b><u>29,542,847</u></b>	<u>29,999,840</u>
<b>CURRENT ASSETS</b>			
Properties under development	11	<b>144,873</b>	173,147
Due from a contractual joint venture		<b>53,697</b>	53,697
Loan receivables		<b>1,132</b>	1,424
Other financial assets		<b>17,509</b>	17,585
Due from a related company		<b>1,536</b>	1,601
Due from minority shareholders of subsidiaries		<b>9,057</b>	15,493
Due from fellow subsidiaries	14	<b>671</b>	69,600
Due from immediate holding company	15	<b>343</b>	135
Inventories		<b>517,167</b>	515,373
Receivables, prepayments and deposits	12	<b>947,896</b>	925,890
Pledged bank deposits and balances	13	<b>49,849</b>	66,305
Cash and cash equivalents	13	<b>1,298,360</b>	1,538,442
		<b><u>3,042,090</u></b>	<u>3,378,692</u>

**CONDENSED CONSOLIDATED BALANCE SHEET** (continued)

30 June 2002

	<i>Notes</i>	<b>30 June 2002 HK\$'000 (Unaudited)</b>	31 December 2001 HK\$'000 (Audited)
<b>CURRENT LIABILITIES</b>			
Trade payables	16	<b>(352,865)</b>	(287,289)
Accruals and other liabilities		<b>(1,082,430)</b>	(1,036,953)
Tax payable		<b>(21,567)</b>	(28,628)
Due to minority shareholders of subsidiaries	17	<b>(295,666)</b>	(323,684)
Due to fellow subsidiaries	14	<b>(1,641)</b>	–
Due to immediate holding company	15	<b>(3,163)</b>	(64,069)
Bank and other interest-bearing borrowings	18	<b>(502,028)</b>	(604,112)
Provision for bank loans guaranteed		<b>(51,308)</b>	–
		<b><u>(2,310,668)</u></b>	<u>(2,344,735)</u>
<b>NET CURRENT ASSETS</b>		<b><u>731,422</u></b>	<u>1,033,957</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>30,274,269</b>	31,033,797
<b>NON-CURRENT LIABILITIES</b>			
Bank and other interest-bearing borrowings	18	<b>(17,559,522)</b>	(18,420,810)
Due to minority shareholders of subsidiaries	17	<b>(299,728)</b>	(265,044)
Provision for bank loans guaranteed		<b>(456,448)</b>	(558,869)
Deferred tax		<b>(2,285)</b>	(2,285)
		<b><u>(18,317,983)</u></b>	<u>(19,247,008)</u>
<b>MINORITY INTERESTS</b>		<b><u>(2,586,927)</u></b>	<u>(2,669,292)</u>
		<b><u>9,369,359</u></b>	<u>9,117,497</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	19	<b>2,573,307</b>	2,567,157
Reserves		<b>6,796,052</b>	6,550,340
		<b><u>9,369,359</u></b>	<u>9,117,497</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**
*For the six months ended 30 June 2002*

	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash generated from operations	1,630,635	1,119,381
Interest received	12,093	33,032
Interest paid	(657,962)	(803,356)
Interest element of finance lease rental payments	–	(69)
Dividends paid to minority shareholders	(149,176)	(74,454)
Dividends from associates	5,366	–
Profits tax paid	(64,275)	(100,292)
Net cash from operating activities	<u>776,681</u>	<u>174,242</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of fixed assets	(40,755)	(37,375)
Additions to other long term assets	(146,732)	(284,478)
(Increase)/decrease in non-pledged bank deposits with original maturity of more than three months when acquired	(2,197)	7,640
(Increase)/decrease in pledged bank deposits	16,456	(2,045)
Repayment of amount due from a fellow subsidiary	74,910	19,960
Return of capital from investment securities	6,868	–
Proceeds from sales of fixed assets	86,931	19,050
Proceeds from sales of other financial assets	–	2,298
Acquisitions of additional interests in subsidiaries	(7,357)	(34,134)
Proceeds from disposal of subsidiaries	–	218,576
Proceed from disposal of a deconsolidated subsidiary	850	–
Proceed from disposal of an associate	3,761	–
Net cash used in investing activities	<u>(7,265)</u>	<u>(90,508)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issue of ordinary shares	6,534	–
Shares issue expenses	–	(30)
New bank loans	328,508	678,883
Repayment of Notes Payable and GH Holdings Debts	(299,176)	(134,833)
Repayment of bonds	(59,472)	(76,722)
Repayment of floating rate notes	(34,968)	(57,409)
Repayment of bank loans	(811,258)	(792,599)
Repayment of provision for bank loans guaranteed	(51,113)	(58,100)
Repayment of transferable loan instruments	(37,785)	–
Repayment of loans from immediate holding company	(12,692)	–
Repayment to a loan from an associate	(37,690)	–
Capital element of finance lease rental payments	–	(16)
Net cash used in financing activities	<u>(1,009,112)</u>	<u>(440,826)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(239,696)</b>	<b>(357,092)</b>
Cash and cash equivalents at beginning of period	1,534,634	1,978,311
Effect of foreign exchange rate changes, net	(335)	(759)
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b><u>1,294,603</u></b>	<b><u>1,620,460</u></b>

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***30 June 2002***1. ACCOUNTING POLICIES**

These unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants. The accounting policies and basis of presentation used in the preparation of these interim financial statements are the same as those used in the audited financial statements for the year ended 31 December 2001, except the following new/revised SSAPs have been adopted for the first time in the preparation of the current period’s condensed consolidated financial statements:

- SSAP 1 (Revised): “Presentation of Financial Statements”
- SSAP 11 (Revised): “Foreign Currency Translation”
- SSAP 15 (Revised): “Cash Flow Statements”
- SSAP 33: “Discontinuing Operations”
- SSAP 34: “Employee Benefits”

A summary of their major effects is as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of this revised SSAP on the condensed consolidated financial statements is that the profit and loss account of subsidiaries, a jointly-controlled entity and associates operating in Mainland China and overseas are translated at an average rate for the interim period on consolidation, rather than translated at the applicable rates of exchange ruling at the balance sheet date as was previously required. The Group has adopted the transitional provision of this SSAP that where the calculation of a prior year adjustment is impractical, these changes in accounting policy are applied only to current and future financial statements. The effect on the results of the current period is not significant.

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The condensed consolidated cash flow statement for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 33 prescribes the basis for reporting information about discontinuing/discontinued operations. The impact of this SSAP is the inclusion of additional disclosures which are set out in note 3 to the condensed consolidated financial statements.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** (continued)**1. ACCOUNTING POLICIES** (continued)

SSAP 34 prescribes the accounting treatment and disclosures for employee benefits. This SSAP has had no major impact on these condensed consolidated financial statements.

**2. SEGMENT INFORMATION**

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are organised and managed separately, according to the nature of products and services provided, with each segment representing a strategic business unit which offers different products and serves different markets:

- i. The property investment segment mainly invests in carpark spaces and residential and commercial properties in Hong Kong, Mainland China and Thailand which are held for rental income purposes, it also performs property management services, which provide management and security services to the carpark spaces, residential and commercial properties;
- ii. The property development segment engages in residential, shopping arcades and hotel development property projects in Mainland China and Hong Kong;
- iii. The infrastructure segment invests in toll roads and toll bridges in Mainland China;
- iv. The water supply segment operates a water supply project in Mainland China supplying natural water to Hong Kong, Dongguan and Shenzhen;
- v. The power supply segment operates coal-fire power plants supplying electricity in Guangdong Province;
- vi. The hotel operations segment operates the Group's hotels in Hong Kong and Mainland China;
- vii. The tours and tour transportation services segment organises tours in Hong Kong and Mainland China and provides transportation services in Hong Kong and between Hong Kong and Guangdong Province;
- viii. The beer manufacturing, distribution and sales segment produces beer in Shenzhen and distributes and sells it in both Mainland China and Hong Kong;
- ix. The malting manufacturing, distribution and sales segment produces malts for use in the brewing production in Mainland China;
- x. The leather processing segment processes raw leather to finished leather for use in the leatherware products production industry;
- xi. The department stores segment operates department stores in Mainland China;

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** (continued)**2. SEGMENT INFORMATION** (continued)

- xii. The merchandise trading segment purchases commodities and then sells to customers;
- xiii. The leatherware products manufacturing, distribution and sales segment produced leatherware products in Mainland China and sold them mainly in Hong Kong. This segment was discontinued following the disposal of its entire 60% interest in Alpha Universal Limited (“Alpha Universal”) by Guangdong Tannery Limited (“GD Tannery”), a 71.56% owned subsidiary of the Company subsequent to the balance sheet date as set out in note 3(b) to the condensed consolidated financial statements;
- xiv. The packaging materials manufacturing, distribution and sales segment produced and distributed packaging materials in Mainland China. This segment had been discontinued after Xuzhou Gangwei Colour Package Co., Ltd (“Xuzhou Gangwei”), a 71.56% indirectly owned subsidiary of the Company, leased all its production plant and machinery to a third party in the current interim period as set out in note 3(a) to the condensed consolidated financial statements;
- xv. The curtain wall installation segment designed, supplied and installed curtain walls and aluminum windows in Hong Kong and Mainland China. This segment was discontinued following the Group’s disposal of its entire 56.17% equity interest in Guangdong Building Industries Limited (“GD Building”) in the last interim period as set out in note 3(c) to the condensed consolidated financial statements; and
- xvi. Corporate and other segment mainly engages in providing corporate services to other segments.

In determining the Group’s geographical segments, revenues and results are attributed to the segments based on the location of the customers.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 2. SEGMENT INFORMATION (continued)

## (a) Business segments

The following tables present revenue, profit/(loss) for the Group's business segments.

	Property investment		Property development		Infrastructure		Water supply		Power supply		Hotel operations		Sub-total	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000												
	(Unaudited)	(Unaudited)												
Segment revenue:														
Sales to external customers	149,965	150,520	15,179	266,660	4,274	3,811	1,427,804	1,431,635	269,087	204,072	98,872	132,352	1,965,181	2,189,050
Inter-segment sales	40,427	26,490	-	-	-	-	-	-	-	-	1,707	9,310	42,134	35,800
Other revenue from inter-segment (Note)	-	475	-	-	-	-	-	-	-	-	-	-	-	475
Other revenue from external sources (Note)	2,256	1,492	3,408	4,252	45	114	-	-	194	398	1,883	900	7,786	7,156
Exchange gains/(losses), net	(321)	(675)	-	456	-	-	-	528	(24)	(1)	333	(457)	(12)	(149)
Total	192,327	178,302	18,587	271,368	4,319	3,925	1,427,804	1,432,163	269,257	204,469	102,795	142,105	2,015,089	2,232,332
Segment results	75,195	111,906	(27,050)	(5,051)	616	(1,149)	824,062	809,076	71,386	60,875	30,950	19,321	975,159	994,978
Share of profits less losses of:														
A jointly-controlled entity	-	-	-	-	25,990	13,928	-	-	-	-	-	-	25,990	13,928
Associates	-	-	9,077	2	35,027	-	-	-	37,144	(2,225)	-	-	81,248	(2,223)
Additional segment information:														
Impairment of fixed assets (Note 9)														
Land and buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Production facilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Impairment of properties under development	-	-	28,400	32,580	-	-	-	-	-	-	-	-	28,400	32,580
Unallocated amounts														

Note: Excluding exchange gains/(losses), net

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 2. SEGMENT INFORMATION (continued)

## (a) Business segments (continued)

	Tours and tour transportation services		Beer manufacturing, distribution and sales		Malting manufacturing, distribution and sales		Leather processing		Department stores		Merchandise trading		Sub-total	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue:														
Sales to external customers	87,594	171,460	276,433	249,748	336,584	350,260	199,240	211,615	369,290	358,655	89,838	125,922	1,358,979	1,467,660
Inter-segment sales	2,025	-	-	-	23,234	27,607	-	-	-	-	-	-	25,259	27,607
Other revenue from inter-segment (Note)	-	-	-	467	-	-	-	-	-	-	-	-	-	467
Other revenue from external sources (Note)	442	1,056	18,543	22,103	406	116	548	428	3,745	2,081	47	163	23,731	25,947
Exchange gains/(losses), net	25	(119)	(25)	(285)	(105)	(685)	(9)	556	-	-	(28)	(177)	(142)	(710)
Total	90,086	172,397	294,951	272,033	360,119	377,298	199,779	212,599	373,035	360,736	89,857	125,908	1,407,827	1,520,971
Segment results	(54,837)	(1,783)	57,639	22,224	20,898	20,595	(22,760)	11,487	14,454	25,465	(28,677)	6,379	(13,283)	84,367
Share of profits less losses of:														
A jointly-controlled entity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Associates	896	1,064	(2,998)	(2,925)	-	-	-	-	1,866	4,233	-	(66)	(236)	2,306
Additional segment information:														
Impairment of fixed assets (Note 9)														
Land and buildings	49,000	15,118	-	-	-	-	-	-	-	-	-	-	49,000	15,118
Production facilities	-	-	-	-	2,289	-	1,403	-	-	-	-	-	3,692	-
Impairment of properties under development	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unallocated amounts														

Note: Excluding exchange gains/(losses), net

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 2. SEGMENT INFORMATION (continued)

## (a) Business segments (continued)

	Leatherware products manufacturing, distribution and sales (discontinuing)		Packaging materials manufacturing, distribution and sales (discontinued)		Curtain wall installation (discontinued)		Corporate and other		Eliminations		Consolidated	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue:												
Sales to external customers	16,766	15,205	8,324	11,113	-	6,986	4,881	15,383	-	-	3,354,131	3,705,397
Inter-segment sales	-	-	-	-	-	-	-	-	(67,393)	(63,407)	-	-
Other revenue from inter-segment (Note)	-	-	-	-	-	-	4,396	2,612	(4,396)	(3,554)	-	-
Other revenue from external sources (Note)	579	169	8	1	-	109	1,414	589	-	-	33,518	33,971
Exchange gains/(losses), net	(42)	(139)	-	-	-	-	(2,495)	5,604	-	-	(2,691)	4,606
Total	17,303	15,235	8,332	11,114	-	7,095	8,196	24,188	(71,789)	(66,961)	3,384,958	3,743,974
Segment results	(144)	(1,221)	(89)	(539)	-	(4,968)	(43,378)	(25,956)	227	14,071	918,492	1,060,732
Interest and unallocated gains											17,396	64,225
Unallocated expenses											(1,711)	(3,027)
Profit from operating activities											934,177	1,121,930
Finance costs											(636,323)	(820,776)
Share of profits less losses of:												
A jointly-controlled entity	-	-	-	-	-	-	-	-	-	-	25,990	13,928
Associates	-	-	-	-	-	-	-	-	-	-	81,012	83
Profit before tax											404,856	315,165
Tax											(70,215)	(55,639)
Profit before minority interests											334,641	259,526
Minority interests											(91,620)	(130,792)
Net profit from ordinary activities attributable to shareholders											243,021	128,734
Additional segment information:												
Impairment of fixed assets (Note 9)												
Land and buildings	-	-	-	-	-	-	-	-	-	-	49,000	15,118
Production facilities	-	-	-	-	-	-	-	-	-	-	3,692	-
Impairment of properties under development	-	-	-	-	-	-	-	-	-	-	28,400	32,580
Unallocated amounts											-	342
											81,092	48,040

Note: Excluding exchange gains/(losses), net

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 2. SEGMENT INFORMATION (continued)

## (b) Geographical segments

The following table presents revenue, profit/(loss) for the Group's geographical segments.

	Hong Kong		Mainland China		Other		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue:								
Sales to external customers	185,888	288,808	3,157,407	3,400,844	10,836	15,745	3,354,131	3,705,397
Other revenue from external sources <i>(Note)</i>	2,069	3,663	29,765	30,305	1,684	3	33,518	33,971
Exchange gains/(losses), net	(103)	(60)	(93)	(994)	(2,495)	5,660	(2,691)	4,606
Revenue from external customers	<u>187,854</u>	<u>292,411</u>	<u>3,187,079</u>	<u>3,430,155</u>	<u>10,025</u>	<u>21,408</u>	<u>3,384,958</u>	<u>3,743,974</u>
Segment results	<u>(145,521)</u>	<u>4,546</u>	<u>1,077,028</u>	<u>1,076,541</u>	<u>(13,015)</u>	<u>(20,355)</u>	<u>918,492</u>	<u>1,060,732</u>

*Note:* Excluding exchange gains/(losses), net

## 3. DISCONTINUATION OF OPERATIONS

## (a) Discontinued operation of Xuzhou Gangwei

In June 2002, Xuzhou Gangwei negotiated with its staff for the compensation payments in respect of the decision of the board of directors of Xuzhou Gangwei to discontinue its packaging materials manufacture and distribution operations and to lease all its plant and machinery to an independent third party. Xuzhou Gangwei commenced to lease its plant and machinery on 30 June 2002 and the discontinuation of packaging materials manufacture and distribution operations was then completed.

In connection with the decision to discontinue the packaging materials manufacture and distribution business, the Group incurred compensation payments to staff of HK\$552,000.

## (b) Disposal of GD Tannery's entire 60% interest in Alpha Universal

On 28 June 2002, GD Tannery entered into a conditional sale and purchase agreement with an independent third party for the disposal of its entire 60% interest in Alpha Universal and its subsidiaries (the "Alpha Universal Group") at HK\$6,596,000 (net of expenses). The Alpha Universal Group used to operate the Group's leatherware products manufacture and distribution business.

On 15 July 2002, GD Tannery's disposal of its entire 60% interest in the Alpha Universal Group was completed and did not result in any significant impact on the financial results of the Group. Upon the completion of this transaction, Alpha Universal ceased to be a subsidiary of the Company and the Group's leatherware products manufacture and distribution business was then discontinued.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 3. DISCONTINUATION OF OPERATIONS (continued)

## (c) Disposal of the Group's entire 57.16% interest in GD Building

On 10 February 2001, the Company entered into a conditional sale and purchase agreement (the "Building Agreement") with Hi Sun Limited, an independent third party, for the disposal of the Company's entire 57.16% equity interest in GD Building, which used to operate the Group's curtain wall installation business, for a cash consideration of HK\$31,483,000. Pursuant to the Building Agreement, the Group agreed to waive the net amounts due from the GD Building group which was HK\$358,000,000 (including certain bank loans of the GD Building group of HK\$185,000,000 taken up by the Company by means of the issuance of notes payable to the relevant bank creditors) as at 3 March 2001 and to assume a contingent liability of the GD Building group of HK\$19,819,000 as at 22 December 2000 as further disclosed in note 22(a) to the condensed consolidated financial statements.

On 3 March 2001, the Building Agreement was completed. GD Building ceased to be a subsidiary of the Company and the Group's curtain wall installation operations were then discontinued.

The carrying amounts of the total assets and liabilities relating to the discontinuing/discontinued operations as at 30 June 2002 are as follows. Comparative information for packaging materials manufacture and distribution business; leatherware products manufacture and distribution business and curtain wall installation business in 2001 is included in accordance with SSAP 33 "Discontinuing Operations".

	Packaging materials manufacture and distribution		Leatherware products manufacture and distribution		Curtain wall installation	
	30 June 2002 HK\$'000 (Unaudited)	31 December 2001 HK\$'000 (Audited)	30 June 2002 HK\$'000 (Unaudited)	31 December 2001 HK\$'000 (Audited)	30 June 2002 HK\$'000 (Unaudited)	31 December 2001 HK\$'000 (Audited)
Total assets	15,477	12,721	15,534	22,811	-	-
Total liabilities	(6,687)	(3,996)	(5,257)	(12,382)	-	-
Net assets	<u>8,790</u>	<u>8,725</u>	<u>10,277</u>	<u>10,429</u>	<u>-</u>	<u>-</u>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 3. DISCONTINUATION OF OPERATIONS (continued)

The turnover, other revenue, expenses and results from the ordinary operations of packaging materials manufacture and distribution business; leatherware products manufacture and distribution business and curtain wall installation business for the six months ended 30 June 2002 and 2001 are as follows:

	Packaging materials manufacture and distribution For the six months ended 30 June		Leatherware products manufacture and distribution For the six months ended 30 June		Curtain wall installation For the six months ended 30 June	
	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
TURNOVER	<b>8,324</b>	11,113	<b>16,766</b>	15,205	–	6,986
Cost of sales	<b>(6,089)</b>	(9,877)	<b>(5,615)</b>	(4,707)	–	(6,705)
Gross profit	<b>2,235</b>	1,236	<b>11,151</b>	10,498	–	281
Other revenue and gains	<b>165</b>	100	<b>601</b>	536	–	675
Selling and distribution costs	<b>(840)</b>	(1,023)	<b>(6,845)</b>	(6,349)	–	–
Administrative expenses	<b>(760)</b>	(754)	<b>(5,069)</b>	(5,540)	–	(5,322)
Other operating income/ (expenses), net	<b>(732)</b>	–	<b>41</b>	–	–	–
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	<b>68</b>	(441)	<b>(121)</b>	(855)	–	(4,366)
Finance costs	–	–	<b>(32)</b>	(379)	–	(68)
PROFIT/(LOSS) BEFORE TAX	<b>68</b>	(441)	<b>(153)</b>	(1,234)	–	(4,434)
Tax	–	–	–	–	–	–
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<b>68</b>	(441)	<b>(153)</b>	(1,234)	–	(4,434)

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** (continued)**3. DISCONTINUATION OF OPERATIONS** (continued)

The net cash flows attributable to the packaging materials manufacture and distribution business; leatherware products manufacture and distribution business and curtain wall installation business for the six months ended 30 June 2002 and 2001 are as follows:

	<b>Packaging materials manufacture and distribution</b>		<b>Leatherware products manufacture and distribution</b>		<b>Curtain wall installation</b>	
	<b>For the six months ended 30 June</b>		<b>For the six months ended 30 June</b>		<b>For the six months ended 30 June</b>	
	<b>2002</b>	2001	<b>2002</b>	2001	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)	<b>(Unaudited)</b>	(Unaudited)	<b>(Unaudited)</b>	(Unaudited)
Operating	<b>(287)</b>	(1,210)	<b>(608)</b>	(313)	-	(1,237)
Investing	<b>154</b>	12	<b>(317)</b>	(189)	-	-
Financing	-	-	-	-	-	-
Net cash outflows	<b>(133)</b>	(1,198)	<b>(925)</b>	(502)	-	(1,237)

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	For the six months ended 30 June	
	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
Cost of inventories sold	1,074,713	1,241,600
Depreciation	207,736	230,560
Amortisation of deferred expenses*	3,136	6,379
Amortisation of reusable packaging materials*	3,201	5,159
Amortisation of the operating right*	244,616	244,862
Amortisation of trademarks*	700	700
Amortisation of prepaid rental*	55,048	–
(Gain)/Loss included in other operating expenses, net:		
Amortisation of goodwill	119	–
Revaluation deficit on investment properties (see Note 10)	73,213	15,000
Impairment of investment securities	–	342
Unrealised holding loss of other investments	76	3,267
Provision against properties held for sale	–	46,736
Impairment of properties under development (see Note 11)	28,400	32,580
Provision against inventories	10,571	427
Provision for doubtful debts	48,655	18,801
Impairment of fixed assets (see Note 9)	52,692	15,118
Loss on disposal of a subsidiary	–	4,628
Loss on disposal of certain interest in a subsidiary	–	2,972
Loss on disposal of fixed assets	8,555	–
Loss on disposal of an associate	2,366	–
Write-back of provision against an amount due from a fellow subsidiary	(2,619)	–
Gain on disposal of a deconsolidated subsidiary	(850)	–
and after crediting:		
Interest income	12,093	40,336
Royalty income from trademarks	500	500
Negative goodwill recognised*	5,359	9,557

\* These amortisation and the negative goodwill recognised for the period are included in "Cost of sales" and "Other revenue and gains" on the face of the condensed consolidated profit and loss account, respectively.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 5. FINANCE COSTS

	For the six months ended 30 June	
	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
Interest on bank loans, overdrafts and other borrowings repayable:		
Within five years	83,849	228,695
Over five years	562,951	563,366
Interest on provision for bank loans guaranteed	11,162	28,646
Interest on finance lease	–	69
	<u>657,962</u>	<u>820,776</u>
Less: Interest included in prepaid construction cost	(22,736)	–
	<u>635,226</u>	<u>820,776</u>
Amortisation of swap cost in respect of the Swap Agreement	1,097	–
	<u>636,323</u>	<u>820,776</u>

## 6. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on assessable profits of subsidiaries of the Company in Mainland China and overseas have been calculated at the rate of tax applicable to those subsidiaries based on existing legislation, interpretations, and practices in respect thereof.

	For the six months ended 30 June	
	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
Company and subsidiaries:		
Hong Kong	3,046	1,860
Mainland China	54,999	52,573
Under/(over) provision in prior periods	(831)	409
	<u>57,214</u>	<u>54,842</u>
Share of tax attributable to:		
Jointly-controlled entity	441	446
Associates	12,560	351
	<u>70,215</u>	<u>55,639</u>
Tax charge for the period	<u>70,215</u>	<u>55,639</u>

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** (continued)**7. DIVIDEND**

The board of directors does not recommend the payment of any interim dividend in respect of the ordinary shares of the Company (the “Ordinary Shares”) for the six months ended 30 June 2002 (2001: Nil).

As at 30 June 2002, the accumulated (but undeclared) fixed dividends on the Company’s 3¼% redeemable cumulative convertible preference shares (the “Preference Shares”) amounted to HK\$81,342,000 (as at 31 December 2001: HK\$70,448,000). Such accumulated dividends, in respect of the period starting from 7 October 1998, do not accrue interest.

**8. EARNINGS PER SHARE**

The calculation of the basic and diluted earnings per share for the six months ended 30 June 2002, together with the comparative amounts for the same period in 2001, is based on the following data:

	<b>For the six months ended 30 June</b>	
	<b>2002</b>	2001
	<b>HK\$’000</b>	HK\$’000
	<b>(Unaudited)</b>	(Unaudited)
Earnings:		
Net profit attributable to shareholders	<b>243,021</b>	128,734
Less: Provision for preference share redemption premium	<b>(26,524)</b>	(24,661)
Preference Share dividend	<b>(10,894)</b>	(10,500)
	<u>205,603</u>	<u>93,573</u>
Earnings for the purpose of basic and diluted earnings per share		
	<u><b>205,603</b></u>	<u>93,573</u>
Number of shares:		
Weighted average number of Ordinary Shares in issue	<b>5,136,914,717</b>	4,867,775,865
Effect of Additional Shares to be issued arising from the Acquisition from the date when all necessary conditions have been satisfied	<b>104,450,000</b>	–
	<u>5,241,364,717</u>	<u>4,867,775,865</u>
For the purpose of basic earnings per share		
	<u><b>5,241,364,717</b></u>	<u>4,867,775,865</u>
Weighted average number of Ordinary Shares in issue	<b>5,136,914,717</b>	
Assumed issued at no consideration on deemed exercise of all share options outstanding during the period	<b>2,940,286</b>	
Effect of Additional Shares to be issued arising from the Acquisition from the beginning of period	<b>132,000,000</b>	
	<u>5,271,855,003</u>	
For the purpose of diluted earnings per share		N/A

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** (continued)**8. EARNINGS PER SHARE** (continued)

As part of the consideration for the acquisition of an 81% interest in GH Water Supply (Holdings) Limited (“GH Holdings”) in 2000 (the “Acquisition”), the Company is committed to issue 66 million Ordinary Shares (the “Additional Shares”) for each year of the five years commencing from 22 December 2000 (the “Earnout Period”) to GDH Limited subject to the performance of 廣東粵港供水有限公司 (Guangdong Yue Gang Water Supply Company Limited) (“WaterCo”), a subsidiary of GH Holdings, meeting the milestones as set out in an earnout agreement between the Company and GDH Limited dated 22 December 2000 (the “Earnout Agreement”). Further details of this obligation are set out in the shareholders’ circular of the Company in respect of the Acquisition dated 15 September 2000 (the “Acquisition Circular”).

WaterCo had already attained the performance milestones under the Earnout Agreement for the first, second and third years of the Earnout Period in September 2001, March 2002 and September 2002, respectively. Accordingly, the Company had an obligation to issue a total of 198 million Additional Shares to GDH Limited in accordance with the Earnout Agreement upon the later of 21 December 2003 and the completion of the renovation project comprising the fourth expansion of the Dongshen Water Supply Project (the “Phase IV Renovation Project”) which is expected to be in mid-2004. Further details of which are set out in note 21(e) to the condensed consolidated financial statements.

The effect of the 132 million Additional Shares for the first and second years of the Earnout Period have been incorporated in the computation of the basic and diluted earnings per shares for the current period. However, the further 66 million Additional Shares for the third year of the Earnout Period have not been taken into account in the computation of the basic and diluted earnings per share for the current period because the relevant performance milestones were only met subsequent to the balance sheet date in September 2002.

In the current period, the effect of the Company arising from the exercise of the Preference Shares was anti-dilutive.

No diluted earnings per share is presented for the six months ended 30 June 2001 as: (i) there was no dilutive effect arising from the contingent issuance of the Additional Shares and exercise of share options of the Company; and (ii) the effect of the Company arising from the exercise of convertible bonds and the Preference Shares was anti-dilutive.

**9. FIXED ASSETS**

The impairment losses of fixed assets arose from the decrease in value in use of certain land and buildings of Guangdong (H.K.) Tours Company Limited of HK\$49,000,000; and reduction in usage of certain production facilities of the Group’s malting plant of HK\$2,289,000 and tannery plant of HK\$1,403,000. The impairment losses for land and buildings were determined based on the professional valuation whereas the production facilities were considered as having zero recoverable value.

**10. INVESTMENT PROPERTIES**

Based on advice from independent professional valuers on the existing use of the investment properties of the Group as at 30 June 2002, a revaluation deficit of approximately HK\$73,213,000 arose and this has been charged to the condensed consolidated profit and loss account.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** (continued)**11. PROPERTIES UNDER DEVELOPMENT**

The impairment losses of properties under development of HK\$28,400,000 arose from subsequent sales of certain properties under developments in Hong Kong and the Group's recent discussion with a potential buyer in connection with the disposal of certain properties under development in Mainland China. The impairment losses were determined based on the directors' estimates of the market values of these properties under development with reference to subsequent selling price and recent discussion with the potential buyer.

**12. RECEIVABLES, PREPAYMENTS AND DEPOSITS**

Included in the receivables, prepayments and deposits are trade receivables of HK\$689,336,000 (as at 31 December 2001: HK\$541,560,000) from the Group's customers.

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable ranging from 30 days to 180 days of issue. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management.

An aged analysis of the Group's trade receivables at the balance sheet date based on payment due date is as follows:

	<b>As at 30 June 2002 HK\$'000 (Unaudited)</b>	As at 31 December 2001 HK\$'000 (Audited)
Within 3 months	<b>720,662</b>	540,609
More than 3 months and less than 6 months	<b>9,848</b>	6,496
More than 6 months and less than 1 year	<b>18,500</b>	16,432
More than 1 year	<b>218,697</b>	283,228
	<b>967,707</b>	846,765
<i>Less: Provision for doubtful debts</i>	<b>(278,371)</b>	(305,205)
	<b>689,336</b>	541,560

In addition, to accord with the presentation adopted in the current period, the portion of prepaid rental, for leasing certain fixed assets and land used for the existing exposed water channels and canals of the Group, to be amortised in the next twelve months as at 31 December 2001 amounting to HK\$110,097,000 has been reclassified to receivables, prepayments and deposits from other long term assets because, in the opinion of the directors, such presentation better reflects the underlying nature of the balance.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 13. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS AND BALANCES

	As at 30 June 2002 HK\$'000 (Unaudited)	As at 31 December 2001 HK\$'000 (Audited)
Cash and bank balances	1,162,902	1,258,150
Time deposits	185,307	346,597
	<u>1,348,209</u>	<u>1,604,747</u>
<i>Less:</i> Pledged bank balances and time deposits for trade facilities	(19,575)	(19,873)
Pledged bank balances and time deposits for bank loans repayable within one year from the balance sheet date	(28,795)	(42,401)
Pledged bank balances for securing mortgage loans of certain purchasers of the Group's properties held for sale	(1,479)	(4,031)
	<u>(49,849)</u>	<u>(66,305)</u>
Cash and cash equivalents	<u>1,298,360</u>	<u>1,538,442</u>

As at 30 June 2002, the Company and certain of its subsidiaries held cash and bank balances of HK\$177 million (as at 31 December 2001: HK\$309 million) which were subject to certain arrangements as set out in their respective debt restructuring documents. Pursuant to their respective debt restructuring documents, prior to, amongst other things, their prepayment of debts, the Company and these subsidiaries are required to reserve cash and bank balances up to a maximum of HK\$275 million (as at 31 December 2001: HK\$365 million) in aggregate which is applied to be used as working capital for their operations.

In addition to the above-mentioned amount of HK\$275 million (as at 31 December 2001: HK\$365 million), the GH Holdings Group are also required to reserve certain cash and bank balances for, amongst other things, payment of interest, repayment of debts and distribution to shareholders of GH Holdings pursuant to an agreement dated 22 December 2000 entered into between the GH Holdings Group and other parties. As at 30 June 2002, cash retained for such purpose amounted to HK\$3,944,000 (as at 31 December 2001: HK\$130,766,000).

## 14. DUE FROM/TO FELLOW SUBSIDIARIES

As at 30 June 2002, included in the amounts due from fellow subsidiaries is an unsecured loan to Guangdong Finance Limited ("GD Finance") of HK\$42,175,000 (as at 31 December 2001: HK\$67,965,000), with a provision of HK\$42,175,000 (as at 31 December 2001: HK\$48,156,000), which bears interest at rates ranging from London Inter-Bank Offer Rate ("LIBOR") plus 1.8% per annum to Hong Kong Inter-Bank Offer Rate ("HIBOR") plus 1.8% per annum and is repayable in accordance with the terms set out in the bank debt restructuring agreement of GD Finance. The remaining balances with fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** (continued)**15. DUE FROM/TO IMMEDIATE HOLDING COMPANY**

The amount due from immediate holding company, GDH Limited, is unsecured, interest-free and has no fixed terms of repayment.

The amounts due to immediate holding company are analysed as follows:

	<b>As at 30 June 2002 HK\$'000 (Unaudited)</b>	As at 31 December 2001 HK\$'000 (Audited)
Non interest-bearing portion	<b>3,163</b>	64,069
Interest-bearing portion (included in Note 18)	<b>100,549</b>	113,241
	<b>103,712</b>	177,310

The non interest-bearing portion of amounts due to immediate holding company is unsecured, interest-free and has no fixed terms of repayment.

The interest-bearing portion of amounts due to immediate holding company is unsecured and bears interest at 4% per annum up to September 2002. Thereafter, the applicable interest rate will be the average of bank lending rate and deposit rate in Mainland China.

**16. TRADE PAYABLES**

An aged analysis of the Group's trade payable at the balance sheet date based on payment due date is as follows:

	<b>As at 30 June 2002 HK\$'000 (Unaudited)</b>	As at 31 December 2001 HK\$'000 (Audited)
Within 3 months	<b>272,885</b>	225,692
More than 3 months and less than 6 months	<b>4,375</b>	6,178
More than 6 months and less than 1 year	<b>22,099</b>	1,648
More than 1 year	<b>53,506</b>	53,771
	<b>352,865</b>	287,289

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 17. DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

The amounts due to minority shareholders of subsidiaries at the balance sheet date are unsecured and are analysed as follows:

	<b>As at 30 June 2002 HK\$'000 (Unaudited)</b>	As at 31 December 2001 HK\$'000 (Audited)
Interest-bearing borrowings (included in Note 18):		
Current portion	962	–
Non-current portion	<u>41,486</u>	<u>42,448</u>
	<u>42,448</u>	<u>42,448</u>
Non interest-bearing borrowings:		
Current portion	295,666	323,684
Non-current portion	<u>299,728</u>	<u>265,044</u>
	<u>595,394</u>	<u>588,728</u>
	<u>637,842</u>	<u>631,176</u>

The interest-bearing portion of amounts due to minority shareholders of subsidiaries are unsecured and bear interest at 2% above LIBOR per annum.

## 18. BANK AND OTHER INTEREST-BEARING BORROWINGS

	As at 30 June 2002			As at 31 December 2001		
	Current liabilities HK\$'000 (Unaudited)	Non-current liabilities HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)	Current liabilities HK\$'000 (Audited)	Non-current liabilities HK\$'000 (Audited)	Total HK\$'000 (Audited)
Bank loans and overdrafts	329,724	2,786,663	3,116,387	540,812	3,058,193	3,599,005
Bonds	59,690	531,017	590,707	–	650,179	650,179
Floating rate notes	35,100	312,251	347,351	–	382,349	382,349
Notes Payable and						
GH Holdings Debts	13,226	13,475,564	13,488,790	–	13,786,870	13,786,870
Transferable loan instruments	37,926	337,392	375,318	–	413,140	413,140
Due to immediate holding company (Note 15)	25,400	75,149	100,549	25,610	87,631	113,241
Due to minority shareholders of subsidiaries (Note 17)	962	41,486	42,448	–	42,448	42,448
Due to an associate	–	–	–	37,690	–	37,690
	<u>502,028</u>	<u>17,559,522</u>	<u>18,061,550</u>	<u>604,112</u>	<u>18,420,810</u>	<u>19,024,922</u>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 19. SHARE CAPITAL

	As at 30 June 2002 HK\$'000 (Unaudited)	As at 31 December 2001 HK\$'000 (Audited)
Authorised:		
8,000,000,000 Ordinary Shares of HK\$0.50 each	4,000,000	4,000,000
200,000 3 <sup>1</sup> / <sub>4</sub> % Preference Shares of US\$1.00 each	1,549	1,549
	<u>4,001,549</u>	<u>4,001,549</u>
Issued and fully paid:		
5,145,282,672 Ordinary Shares (2001: 5,132,982,672 Ordinary Shares) of HK\$0.50 each	2,572,641	2,566,491
85,949 3 <sup>1</sup> / <sub>4</sub> % Preference Shares (2001: 85,949 Preference Shares) of US\$1.00 each	666	666
	<u>2,573,307</u>	<u>2,567,157</u>

During the period, a total of 12,300,000 Ordinary Shares were issued to certain option holders at HK\$0.5312 per share for a total cash consideration of HK\$6,533,760.

**Share options**

Movements in share options to subscribe for the Ordinary Shares in the Company during the period are as follows:

	Number of share options to subscribe for one Ordinary Share at an exercise price* of							Total
	HK\$4.536	HK\$2.892	HK\$3.024	HK\$0.5312	HK\$0.74	HK\$0.814	HK\$0.816	
Balance at 1 January 2002	1,490,000	6,005,000	5,350,000	167,000,000	19,500,000	-	-	199,345,000
Options granted during the period	-	-	-	-	-	60,300,000	31,393,939	91,693,939
Options exercised during the period	-	-	-	(12,300,000)	-	-	-	(12,300,000)
Options cancelled during the period	(1,490,000)	(45,000)	(1,350,000)	-	(1,000,000)	-	-	(3,885,000)
Balance at 30 June 2002	<u>-</u>	<u>5,960,000</u>	<u>4,000,000</u>	<u>154,700,000</u>	<u>18,500,000</u>	<u>60,300,000</u>	<u>31,393,939</u>	<u>274,853,939</u>

\* Subject to adjustment

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** (continued)**19. SHARE CAPITAL** (continued)**Share options** (continued)

The options outstanding at 30 June 2002 expire at various dates up to the close of business on 7 November 2007, or if that day is not a business day, the expiry date will be the close of the business day preceding 7 November 2007. Assuming that there has been no adjustment to the exercise prices of these options, the exercise in full of the outstanding options at the then respective exercise price would result in the issue of additional 274,853,939 Ordinary Shares and cash proceeds before the related issue expenses of approximately HK\$199,901,000.

**American depositary receipt**

Citibank, N.A. established an American depositary receipt (“ADR”) Programme for the Ordinary Shares and the registration statement for the ADR programme was declared effective by the U.S. Securities and Exchange Commission on 5 August 1994. A maximum of 16,000,000 American depositary shares, representing 160,000,000 Ordinary Shares, may be traded over-the-counter in the U.S. under the ADR programme. No new shares were issued or are expected to be issued as a result of the ADR programme.

The ADR programme was established to enable the investor base of the Company to be enlarged. The Company has appointed Citibank N.A. as the depositary bank for the ADR programme.

**20. NOTES TO CONDENSED CONSOLIDATED CASH FLOW STATEMENT****(a) Acquisitions of subsidiaries**

During the period, the Company under the terms of the shareholders’ agreement of GH Holdings had exercised its first right of refusal in respect of certain shares of GH Holdings which certain existing holders wished to transfer. During the period, the Company further acquired 0.40% interest in GH Holdings at a total consideration of HK\$7,357,000. As a result of these acquisitions, the Group increased its holdings in GH Holdings to 81.83% and recognised a negative goodwill of HK\$16,361,000.

For the six months ended 30 June 2001, the Company acquired additional interests in certain subsidiaries at a total consideration of HK\$34,134,000 and recognised negative goodwill of HK\$105,646,000.

**(b) Disposal of subsidiaries and associates**

In addition to GD Tannery’s disposal of its entire 60% interest in Alpha Universal as detailed in note 3(b) to the condensed consolidated financial statements, the Group also had the following disposals during the period:

On 28 December 2001, the Company entered into a conditional agreement with another shareholder of Zhongshan Investment Limited (“ZSI”) for the disposal of the Company’s entire 38.4% interest in ZSI at RMB4 million. This transaction was completed in February 2002 and resulted in a loss of HK\$2,366,000 to the Group in the current period.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** (continued)**20. NOTES TO CONDENSED CONSOLIDATED CASH FLOW STATEMENT** (continued)**(b) Disposal of subsidiaries and associates** (continued)

On 27 July 2001, the Company entered into a conditional agreement with the Chinese joint venture partner for the disposal of the Company's entire 56.01% interest in 廣州市南方大廈有限公司 (Guangzhou Nanfang Dasha Co., Ltd.) ("Nanfang Dasha") at a consideration of HK\$850,000. This transaction was completed in April 2002. Nanfang Dasha, which was a subsidiary of the Company, was deconsolidated from the Group's financial statements in prior years. The disposal has resulted in a profit of HK\$850,000 to the Group in the current period as full provision had previously been made by the Company in the prior years against its entire interest in Nanfang Dasha as part of the process of the Company to disengage from its non-core businesses.

For the six months ended 30 June 2001, in addition to the Group's disposal of its entire interest in GD Building (as detailed in note 3(c) to the condensed consolidated financial statements), the Group also disposed its entire 70% interest in Guangdong Group (Shenzhen) Ltd. to GDH Limited at a cash consideration of HK\$206,000,000 and a loss of HK\$4,628,000 was recognised on disposal of this subsidiary.

**(c) Cash and cash equivalents**

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Cash and cash equivalents in the balance sheet	<b>1,298,360</b>	1,660,996
Non-pledged bank deposits with original maturity		
of more than three months when acquired	<b>(3,649)</b>	(39,093)
Bank overdrafts with original maturity		
of less than three months when advanced	<b>(108)</b>	(1,443)
	<u><b>1,294,603</b></u>	<u>1,620,460</u>
Cash and cash equivalents in the cash flow statement, at 30 June	<b>1,294,603</b>	1,620,460

**(d) Major non-cash transactions**

(i) During the period, Guangdong Power Investment Limited ("GDPI"), a 49% owned associate of the Company, capitalised its shareholders' loans of totalling HK\$226,732,000 as an increase in capital in proportion to the equity interest held by the shareholders of GDPI. Accordingly, the Group recorded a reduction of amounts due from associates of HK\$111,088,000 by an increase in the same amount in the share of net assets of associates to reflect an increase in the Group's interest in the capital of GDPI as a result of its capitalisation of shareholders' loans.

(ii) In the prior period, the Group settled a debt of HK\$12,293,000 by a transfer of certain equity interests of the Group in a subsidiary to the creditor and a loss of HK\$2,972,000 was recognised as a result of this transaction.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 21. COMMITMENTS

- (a) The Group leases certain of their office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to four years.

As at 30 June 2002, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	<b>As at 30 June 2002 HK\$'000 (Unaudited)</b>	As at 31 December 2001 HK\$'000 (Audited)
Within one year	<b>8,599</b>	8,582
In the second to fifth years, inclusive	<b>2,994</b>	2,627
	<b>11,593</b>	11,209
(b) Capital commitments in respect of properties, plant and equipment:		
Contracted for	<b>15,023</b>	23,504
Authorised, but not contracted for	<b>6,444</b>	942
	<b>21,467</b>	24,446
(c) Other capital commitments:		
Contracted for	–	32,420
(d) In accordance with the “Engineering, Procurement and Construction Contract” entered into between WaterCo and Guangdong Province Water Supply Project Administration General Bureau (the “Project Bureau”) on 15 December 2000, the Project Bureau was appointed to be in charge of the organisation and implementation of the engineering, procurement and construction of the “Phase IV Renovation Project” and is responsible for funding any overrun cost in the event that the ultimate cost of the Phase IV Renovation Project exceeds the projected total cost of RMB4.7 billion.		

The cost of RMB4.7 billion will be financed by a non interest-bearing loan facility of RMB2.53 billion, which originates from a loan facility granted by the Hong Kong SAR Government to the Guangdong Provincial Government for the Phase IV Renovation Project, and an interest-bearing loan facility of RMB2.17 billion from a group of PRC banks at a rate of 5.589% per annum. An aggregate amount of RMB1,000 million (as at 31 December 2001: RMB810 million) has been drawn from these banks as at 30 June 2002.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** (continued)**21. COMMITMENTS** (continued)

- (e) Pursuant to the Earnout Agreement, the Company is committed to issue 198 million Additional Shares to GDH Limited on whichever is the later date of 21 December 2003 and the date of completion of the Phase IV Renovation Project. The completion of the Phase IV Renovation Project is scheduled in the mid-2004.

Further issuance of the remaining 132 million Additional Shares is contingent on the fulfillment of certain future performance of WaterCo in accordance with the Earnout Agreement.

As pointed out in the Acquisition Circular, following negotiation with GDH Limited, the Company's board of directors (the "Board") had determined to designate the issue price of each of the Additional Share which might be issued to be HK\$1.20 and the same as the issue price for each of the 2.3 billion Ordinary Shares (the "Consideration Shares") issued to GDH Limited upon the completion of the Acquisition. The issue price of HK\$1.20 as aforesaid (the "Circular Price") which was determined by reference to, in particular, the value of the Dongshen Water Supply Project was considered by both the independent financial adviser advising on the Acquisition and the Board (including the Independent Non-Executive Directors) to be fair and reasonable and approved by the shareholders of the Company in general meeting on 18 October 2000. Further details of the determination of the Circular Price and the valuation of Dongshen Water Supply Project are set out in the Acquisition Circular.

As a result of the SSAP 30 becoming effective and applicable to the financial statements with financial year commencing from 1 January 2001, the Group and the Company are required to record each of the Additional Shares as to be issued at the prevailing market price of HK\$0.92 per Ordinary Share on the date of completion of the Acquisition (the "Market Price") instead of the Circular Price which also was the price adopted for the recording of the issue of all the Consideration Shares in prior years. Accordingly, an amount of HK\$182,160,000 (as at 31 December 2001: HK\$121,440,000) (being the value of the aforesaid 198 million (as at 31 December 2001: 132 million) Additional Shares to be issued at the Market Price) was credited to the Group's and the Company's reserves as "Ordinary Shares To Be Issued" to reflect the respective obligation of the Group and the Company in respect of those 198 million Additional Shares to be issued by a reduction of the Group's capital reserve on the acquisition of GH Holdings and an increase in the Company's investment cost in GH Holdings both of the same amount as certain contingencies that would affect the amount of the Group's and the Company's purchase consideration for GH Holdings have become probable. All the rights and obligations under the Earnout Agreement remain unchanged. The compliance of the Company with all the obligations under the Earnout Agreement to be observed and performed on its part also remains unaffected.

- (f) Pursuant to WaterCo's articles of association, the minority shareholder (also the Company's ultimate holding company, 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) ("Yue Gang Investment"), which directly holds 1% interest in WaterCo) is not entitled to any distributed profits of WaterCo for the first fifteen years of operations and 100% of the distributed profits for that period shall be made to GH Holdings. Starting from the sixteenth year of operations, 1.01% of the distributed profits of WaterCo for the first fifteen years of operations plus simple interest of 8% per annum on the unpaid amount of the distributed profits (collectively referred to as the "Deferred Dividend") shall be made to Yue Gang Investment. Once Yue Gang Investment has received the Deferred Dividend in full, all of the WaterCo's distributable profits are to be distributed to GH Holdings and Yue Gang Investment according to their respective equity interests in WaterCo during the remaining operating period.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** (continued)**21. COMMITMENTS** (continued)

- (g) The Company entered into a conditional sale and purchase agreement on 13 February 2001 for the Company's disposal of its entire 95% equity interest in and its shareholders' loans to Zhongshan Power (Hong Kong) Limited ("ZPHK"). The consideration, including compensation for the discontinuation of certain guaranteed profits, is US\$16.76 million. The directors believe that there will be a gain on disposal of this investment. In addition, as a condition precedent to the completion of the sale, 中山火力發電廠 (Zhongshan Power Plant), the contractual joint venture held by ZPHK, is required to fully repay all its indebtedness to Yue Sheng Finance Limited ("Yue Sheng"), a wholly-owned subsidiary of the Company, together with interest. Up to the date of this report, this transaction has not yet been completed.
- (h) A preliminary agreement has been entered into between the Group and an independent third party on 20 March 2001 for the disposal of the Group's 70% interest in Guang Dong Nanhua Cement Limited held by Guangdong Construction Materials (International) Limited ("GCM") for a total consideration of RMB30 million. GCM, which was a wholly-owned subsidiary of the Company, was deconsolidated from the Group's financial statements in prior years. When completed, the disposal would result in an increase of the net worth of the Group as full provision had previously been made by the Company in the prior years against its entire interests in the GCM group as part of the process for the Company to disengage from non-core businesses. Up to the date of this report, this transaction has not yet been completed.
- (i) As at 30 June 2002, certain subsidiaries of the Group have commitments to make an annual fee payments to their joint venture partners in Mainland China over the respective joint venture period. An aggregate amount of HK\$808,000 (as at 31 December 2001: HK\$808,000) will be paid in the following year.

**22. CONTINGENT LIABILITIES**

	<b>As at 30 June 2002 HK\$'000 (Unaudited)</b>	As at 31 December 2001 HK\$'000 (Audited)
(a) Guarantees:		
Guarantees given to banks in respect of performance bonds issued for Full Arts Metal Works Limited, a wholly-owned subsidiary of GD Building ( <i>Note 3(c)</i> )	<b>19,819</b>	19,819
Guarantees given for banking facilities granted to a fellow subsidiary	<b>3,165</b>	8,791
Guarantees given in respect of mortgage loans made by banks to the Group's purchasers of properties	<b>3,367</b>	34,499
Guarantees given in respect of mortgage loans made by banks to an associate's purchasers of properties	<b>644</b>	1,012
	<b>26,995</b>	64,121

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** (continued)**22. CONTINGENT LIABILITIES** (continued)

- (b) In March 2001, Yue Sheng commenced legal proceedings in Mainland China to recover two outstanding loans in the total sum of HK\$40,000,000 together with interest from the two Chinese parties who were the guarantors for those loans. The case has already been heard. However, up to the date of this report, the judgement of the court was still pending.

After trying without success to dispute the jurisdiction of the Chinese Court in the aforesaid proceedings, the two guarantors together with the borrower of those two loans commenced legal proceedings in Hong Kong against Yue Sheng and a former subsidiary of the Group in July 2001 seeking, inter alia, a declaration that they were under no legal obligation to repay the two loans and compensation. Yue Sheng has been applying to stay or alternatively to strike out the action and will undertake further interlocutory appeal thereon.

Based on legal advice, the directors are of the view that the claim brought against Yue Sheng is without merit and no provision for the claims of the guarantors and the borrower was considered necessary as at 30 June 2002.

- (c) In January 2002, two subsidiaries indirectly held by the Company, namely Guangdong Enterprises (North America) Fur Holdings Limited (“GDNA”) and Harbour Hill International Limited (“Harbour Hill”), commenced an action in the Southern District of New York against a company called Hennessy International Group, Inc. (“HIGI”) and its owners/controllers. HIGI is one-third held by GDNA and is an associate of the Group. GDNA and Harbour Hill are attempting to recover approximately US\$2.25 million in financing that GDNA and Harbour Hill provided to HIGI. Defendants have counterclaimed for US\$2 million, claiming that GDNA and Harbour Hill wrongly terminated HIGI’s financing. Since the balance sheet date, the parties have reached a settlement whereby GDNA and Harbour Hill not only were exempted from all liabilities, they also secured certain partial recovery.

The directors, based on the settlement reached, considered that no provision would be necessary at the balance sheet date.

- (d) Two separate legal proceedings have been commenced against Guangdong (H.K.) Tours Company Limited (“GD Tours”), a wholly-owned subsidiary of the Company, claiming for damages in respect of traffic accidents in Mainland China involving members of tour groups organised by GD Tours. Both proceedings have reached the stage of discovery.

Also, subsequent to the balance sheet date, GD Tours received certain claims in respect of another traffic accident in Mainland China involving members of a tour group organised by GD Tours. However, up to the date of this report, no legal proceedings have been commenced in respect of those claims.

Based on legal advice, the directors are of the opinion that it is premature to estimate the outcome and hence, no provision has been made in the condensed consolidated financial statements on account of the claims.

In any event, according to legal advice, GD Tours is not at fault. It has therefore denied liability and will further continue to vigorously contest all such claims.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** (continued)**22. CONTINGENT LIABILITIES** (continued)

- (e) Following the change in senior management of GD Tannery in June 2002, it was discovered that certain former executives (the “Former Executives”) of Nanhai Tannery & Leather Products Co., Ltd. (“Nanhai Tannery”) (one of whom was also a former director of GD Tannery) had been involved in certain irregularities. Nanhai Tannery is a wholly-owned subsidiary of GD Tannery and is a sino-foreign cooperative joint venture company established in Nanhai, the People’s Republic of China (the “PRC”).

Upon discovery of the irregularities, an internal audit team of the Company and its immediate holding company, working with the new management of GD Tannery, conducted a preliminary investigation of the irregularities. The investigation revealed that the Former Executives had apparently been operating a business in parallel to the operations of Nanhai Tannery (the “Parallel Operation”) for their own personal gain for a number of years.

The incident has been reported by GD Tannery to the relevant PRC authorities who have detained the Former Executives in the Nanhai Municipality and seized the relevant documents related to the Parallel Operation for investigations. GD Tannery has also instructed its auditors and the PRC lawyers to carry out special investigations with a view to ascertain the effects of the Parallel Operation on the business of Nanhai Tannery and to advise management of GD Tannery’s possible recourses against the Former Executives.

Based on the findings of the auditors and advice of the PRC lawyers, the directors of GD Tannery are of the opinion that the Parallel Operation should not be incorporated in the financial statements of GD Tannery, and hence, the Group. However, the Parallel Operation appeared to have involved various irregularities in their transactions under the applicable PRC law and regulations.

As the investigations of the PRC authorities are still ongoing, it is not possible to ascertain with certainty the consequential actions that may be taken by the PRC authorities for the aforesaid irregularities and the existence or otherwise of any penalties and claims. As of the date of this report, no provision has been made in the financial statements for such contingencies.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** (continued)

**23. RELATED PARTY TRANSACTIONS**

In addition to the transactions set out elsewhere in this condensed consolidated financial statements, the Group had the following related party transactions during the period:

	<i>Notes</i>	<b>For the six months ended 30 June</b>	
		<b>2002 HK\$'000 (Unaudited)</b>	<b>2001 HK\$'000 (Unaudited)</b>
Sale of electricity to a minority shareholder of a subsidiary	(i)	<b>(269,087)</b>	(204,072)
Rental income from GDH Limited and certain of its subsidiaries	(ii)	<b>(3,695)</b>	(3,764)
Interest income from a fellow subsidiary, GD Finance	(iii)	<b>(1,004)</b>	(4,076)
General computer and SAP financial system maintenance service fees from GDH Limited and certain of its subsidiaries	(iv)	<b>(1,280)</b>	–
Interest expense to:			
– Minority shareholders of subsidiaries	(v)	<b>849</b>	2,146
– GDH Limited and certain of its subsidiaries	(vi)	<b>71,678</b>	65,295
Annual fees to minority shareholders of subsidiaries	(vii)	<b>404</b>	5,252
Repairs and maintenance service fees paid to a fellow subsidiary	(viii)	<b>459</b>	–
Property management service fees paid to a fellow subsidiary	(ix)	<b>1,888</b>	–
Construction costs for engineering facilities paid to a fellow subsidiary	(x)	<b>1,643</b>	–

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** (continued)**23. RELATED PARTY TRANSACTIONS** (continued)*Notes:*

- (i) Under an operating agreement between the subsidiary and its minority shareholder dated 23 April 1994, the minority shareholder agreed to purchase all the electricity generated by the subsidiary. The sale of electricity was made at the price stipulated by the relevant government authority in Mainland China. The amount due from the minority shareholder of this subsidiary was HK\$145,265,000 as at 30 June 2002 (as at 31 December 2001: HK\$123,025,000).
- (ii) The rental income arose from the letting of certain of the Group's office premises to GDH Limited and certain of its subsidiaries in accordance with their respective tenancy agreements. As at the balance sheet date, the Group's balances with GDH Limited are set out in note 15 to the condensed consolidated financial statements whereas the Group did not have any balance with these fellow subsidiaries except those disclosed in note 14 to the condensed consolidated financial statements.
- (iii) GD Finance was a wholly-owned subsidiary of the Company before the Company transferred its entire interest in GD Finance to GDH Limited as part of the consideration for the Acquisition. As at 30 June 2002, GD Finance was a wholly-owned subsidiary of GDH Limited and a fellow subsidiary of the Company. The interest income arose from the Company's loan to GD Finance prior to the Acquisition. Further details of which, including the terms of the loan, are set out in note 14 to the condensed consolidated financial statements. In addition, prior to the Acquisition, the Company had, jointly and severally with Guangdong Enterprise (Holdings) Ltd., a previous major shareholder of the Company, guaranteed certain bank loans to GD Finance at nil consideration. As at 30 June 2002, the outstanding amounts of these bank loans so guaranteed were HK\$499,000 and US\$348,000 (as at 31 December 2001: HK\$1,358,000 and US\$953,000).
- (iv) The Company provided certain general computer and SAP financial system maintenance services to GDH Limited and certain of its subsidiaries during the period in accordance with the respective agreements between the Company and GDH Limited and these fellow subsidiaries. The Group's balances with GDH Limited as at the balance sheet date are set out in note 15 to the condensed consolidated financial statements. The Group did not have any balance with these fellow subsidiaries except for those disclosed in note 14 to the condensed consolidated financial statements.
- (v) The interest expense arose from funds advanced by minority shareholders of the Company's subsidiaries, details of which, including the terms, are disclosed in note 17 to the condensed consolidated financial statements.
- (vi) The interest expense arose from (a) loans advanced by GDH Limited to the Group which amounted to HK\$100,549,000 (as at 31 December 2001: HK\$113,241,000) as at 30 June 2002, further details of which are set out in note 15 to the condensed consolidated financial statements; and (b) certain bank indebtedness and GH Holdings Debts of the Group amounting to HK\$2,068,500,000 (as at 31 December 2001: HK\$1,882,247,000) as at 30 June 2002 held by GDH Limited and certain of its subsidiaries.
- (vii) The annual fees paid by the Group are in accordance with the respective Sino-foreign co-operative joint venture agreements.
- (viii) The service fees arose from the repairs and maintenance works rendered by a fellow subsidiary of the Company on certain of WaterCo's plant and machinery. Such services were rendered in accordance with contracts entered into as required under existing construction arrangements between WaterCo and the fellow subsidiary. At the balance sheet date, the Group did not have any balance with the fellow subsidiary.
- (ix) The management fees arose from the property management services rendered by a fellow subsidiary of the Company to WaterCo under the contracts entered into in accordance with the terms of an agreement made between WaterCo and the fellow subsidiary. At the balance sheet date, the Group did not have any balance with the fellow subsidiary.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** (continued)**23. RELATED PARTY TRANSACTIONS** (continued)

*Notes:* (continued)

- (x) The construction costs arose from the construction of certain engineering facilities for WaterCo by a fellow subsidiary of the Company in accordance with the contracts entered into pursuant to an existing agreement between WaterCo and the fellow subsidiary. At the balance sheet date, the Group did not have any balance with the fellow subsidiary.
- (xi) As at 30 June 2002, the Group had a bank loan of HK\$25,500,000 which is secured by certain amount of debt securities held by GDH Limited at nil consideration.
- (xii) The cash distribution made by GD Holdings during the period out of its capital contribution reserve, amounting to HK\$10,764,480 (six months ended 30 June 2001: Nil) was paid or payable to GDH Limited and certain of its subsidiaries as shareholders of GH Holdings. The distribution is in accordance with their respective interests in GH Holdings.
- (xiii) On 3 June 2002, the Company engaged AMRI Financial Group Limited (“AMRI”) for the provision of consultancy services in a project at an aggregate consideration of the grant of 31,393,939 share options of the Company. According to the service contract, additional fees may be paid where the outcome of the project exceeds an agreed target. A director of the immediate holding company of the Company is also a director and shareholder of AMRI.

Each share option granted to AMRI is exercisable to subscribe for an Ordinary Share at an exercise price of HK\$0.816 commencing from the date of successful completion of the project to 3 June 2007. As at the date of this report, the project has not yet been completed and none of the share options are exercisable. Further details of the share options are also set out in note 19 to the condensed consolidated financial statements.

**24. POST BALANCE SHEET EVENTS**

Subsequent to the balance sheet date, the Group had the following significant post balance sheet events:

- (a) The board of directors of the Company resolved to (a) propose to amend (the “Proposed Amendments”) the terms of the US\$125,000,000 Preference Shares in the capital of the Company with a par value of US\$1.00 each and a paid-up value of US\$1,000 each on 5 August 2002. The Proposed Amendments are to provide for a put and a call option between the preference shareholders and GDH Limited, the immediate controlling shareholder of the Company, at a price equal to 135% of their paid-up value. The proposal is intended to make it easier for the Company to enact a subsequent agreed redemption or variation of the terms of such shares; and (b) propose additional amendment on 16 August 2002 (the “Proposed Additional Amendment”) which is conditional on the Proposed Amendments being approved by the preference shareholders and ordinary shareholders in the Company and is to amend the terms of such Preference Shares such that for the year from 8 April 2003 to 7 April 2004, they will carry a reduced dividend of 6.60% per annum, on their redemption amount. The Proposed Additional Amendment is intended to reduce the amount of dividends (declared and/or undeclared) of such Preference Shares by approximately US\$3.6 million for the year from 8 April 2003 to 7 April 2004.

The special resolution to approve every alteration or abrogation of the special rights which is or may be effected by the passing of the special resolutions set out in the notice convening the extraordinary general meeting of the Company, was duly passed at the class meeting of the preference shareholders of the Company held on 16 September 2002.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** (continued)**24. POST BALANCE SHEET EVENTS** (continued)

(a) (continued)

The special resolutions to approve the Proposed Amendments and the Proposed Additional Amendments were passed by the preference shareholders and ordinary shareholders of the Company at an extraordinary general meeting of the Company held on 16 September 2002.

Further details regarding the Proposed Amendments and Proposed Additional Amendments are also set out in the Company's announcements dated 7 August 2002 and 19 August 2002 and in the Company's circular dated 23 August 2002.

- (b) On 15 July 2002, the Group entered into a conditional sale and purchase agreement with another shareholder of New World-Guangdong Highway Investments Co., Limited ("NWGH"), an 50% owned associate of the Group, for the disposal of the Group's entire equity interest in NWGH at a consideration of HK\$36,775,000. NWGH holds 37% interest in a contractual joint venture company which is established and operates a toll road in Mainland China. NWGH has also contracted to dispose its 12% interest in the joint venture company. The legal transfer of the Group's interest in NWGH to the purchaser will be conditional, amongst other things, upon NWGH's successful disposal of its 12% interest in the joint venture company that has recently been completed. Accordingly, this transaction will be completed soon and the Group's disposal of NWGH would result in a gain of approximately HK\$36 million to the Group.
- (c) On 9 August 2002, the Group entered into a sale and purchase agreement to dispose of its entire interest in Central China (Asia) Investment Limited, a wholly-owned subsidiary of the Company which holds the Group's entire interest in Shandong Huazhong Amber Brewery Co., Ltd., an associate of the Group, to an independent third party for a total consideration of HK\$40 million. The disposal has not been completed up to the date of this report and there is no material gain or loss on the disposal for the Group.
- (d) On 13 June 2002, the Group entered into certain sale and purchase agreements with independent third parties for the disposals of certain properties under developments in Hong Kong at a total consideration of HK\$13.6 million. The disposals were completed on 5 July 2002 and there is no material gain or loss on this disposal as a provision of HK\$10,400,000 has been made at the balance sheet date.
- (e) On 8 August 2002, the Company disposed of certain other investments to independent third parties at a total consideration of HK\$17 million and there is no material gain or loss on this disposals.

**25. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS**

These condensed interim consolidated financial statements were approved and authorised for issue by the board of directors on 18 September 2002.

## **BUSINESS REVIEW, DISCUSSION AND ANALYSIS, PROSPECT AND OTHER INFORMATION**

### **Review of Group Results**

The Group's unaudited net profit attributable to shareholders for the six months ended 30 June 2002 was HK\$243,021,000 (2001: HK\$128,734,000), representing an increase of HK\$114,287,000 over the corresponding period last year. The current period's profit has already taken into account the provisions of HK\$213,607,000 which were mainly in respect of impairment of properties under development in Mainland China and Hong Kong (HK\$28,400,000), impairment of fixed assets (HK\$52,692,000), provisions for doubtful debts (HK\$48,655,000), provisions against inventories (HK\$10,571,000) and revaluation deficit on investment properties (HK\$73,213,000).

There was a reduction in the Group's turnover and profit from operating activities (before finance costs and provisions) by HK\$351 million and HK\$106 million, respectively. The reduction was mainly as a result of the disposal of certain hotel properties and subsidiaries in second half of last year, which constituted a respective decline in the Group's turnover and operating profit (before finance costs and provisions) by HK\$283 million and HK\$64 million for the six months ended 30 June 2002, compared to the same period last year. Moreover, because of the fierce competition faced by the "Hong Kong Tour" business and tannery business, there was a further decrease in the Group's turnover and operating profit (before finance costs and provisions), respectively, by HK\$134 million and HK\$54 million for the first six months of 2002, as compared to the same period last year.

During the period, the Group continued to take steps implementing its corporate reengineering with focuses on its key businesses. Every effort has been made by the Group and its members to control cost, maximise revenue and achieve reforms in marketing and assets utilisation and thereby to improve the profitability, competitiveness and overall quality of the Group's businesses.

Following a successful year in 2001 in carrying through the Group's comprehensive restructuring, comprising business restructuring, financial restructuring and management restructuring, the management has continued to execute a business strategy focusing on its core businesses of utilities and infrastructure and evaluate opportunities to dispose of its non-core assets.

For the first six months of 2002, many of the Group's businesses have recorded satisfactory results. These include utilities (the Water Project), infrastructure (the "2 Roads and 2 Bridges" projects which are currently held by the Group's 51% owned jointly-controlled entity), properties (Teem Plaza in Guangzhou and Riverside Garden in Panyu) and hotels (the Guangdong Hotel in Shenzhen, 珠海粤海酒店 (Yue Hai Hotel, Zhuhai) in Zhuhai, and the Guangdong Hotel and Wharney Hotel in Hong Kong).

The Group's brewery business, despite keen competition in Guangdong Province, achieved an outstanding result over the corresponding period last year through better business opportunities arising from the 2002 FIFA World Cup, an improved distribution network, effective cost controls and interest savings, recording an attributable profit to the Group for the period of HK\$31,385,000 (2001: HK\$7,260,000), which was encouraging.

Because of the substantial provision for inventories and doubtful debts, tannery business for the period resulted in an increase in attributable loss to the Group, compared to the corresponding period last year, by HK\$23,560,000. Affected by the cut-throat price war of "Hong Kong Tour", being the major income source of the Group's tour business, revenue during the period dropped substantially. The tour and travel business, for the first six months of 2002, recorded an increase in attributable loss to the Group by HK\$45,786,000.

**BUSINESS REVIEW, DISCUSSION AND ANALYSIS, PROSPECT AND OTHER INFORMATION**

(continued)

A summary of the performance of the Group's major businesses during the period under review is as follows:

**Utilities**

Profit contribution from the Water Project remained significant to the Group. Rainy climate in southern part of the Guangzhou Province led to a decrease in the sales volume of water for the first six months of 2002 in Shenzhen and Hong Kong. However, effective cost and management controls together with the implementation of an improved water tariff collection system in the Dongguan area have brought about an increase in the operating profit before finance costs of the Water Project (2002: HK\$831,805,000; 2001: HK\$816,760,000).

For Shaoguan Power Plant D, dry weather in northern part of the Guangzhou Province resulted in less reliance on hydro-electricity and higher demand for the thermal electricity in the first half of 2002. This therefore led to an increase in the sales of electricity by 31.9% to a total of HK\$269,087,000. During the period, sales of electricity amounted to 680 million kwh, compared to 526 million kwh in the corresponding period last year.

The associate of Shaoguan Power Plant D, namely 廣東省韶關粵江發電有限責任公司 (Guangdong Shaoguan Yue Jiang Power Supply Limited), continued to generate satisfactory operating result during the period, making an attributable profit of HK\$9,470,000 to the Group. Electricity sold in the first six months of 2002 was 799 million kwh, compared to 71.3 million kwh in the same period last year.

Sales of electricity by the Group's power plant in Meixian, an investment of an associate, amounted to 855 million kwh, compared to 724 million kwh in the corresponding period last year, which continued to provide a stable income to the Group.

**Infrastructure**

In the first six months of 2002, an after-tax profit of HK\$50,097,000 (2001: HK\$25,487,000) was generated from the "2 Roads and 2 Bridges" projects, namely Qinglian Highway, Guangzhou-Shantou Highway (Huizhou Section), Shantou Haiwan Bridge and Humen Bridge. The increase in profit was mainly due to large savings in interest expense resulting from the refinancing of the then syndicated bank loan successfully arranged during 2001.

Qinglian Highway, which links Qingyuan and Lianzhou in Guangdong Province, recorded a slight decrease of 2.7% in the traffic flow, resulting in a decrease in revenue to HK\$132,070,000 during the period under review (2001: HK\$143,000,000). Average daily traffic for the period was 32,301 vehicle trips as compared to 33,204 vehicle trips in the same period last year. The Company's effective interest in this project is 7.2%.

Guangzhou-Shantou Highway (Huizhou Section) recorded an increase of 3.7% in the traffic flow, resulting in an increase in revenue to HK\$58,447,000 during the period (2001: HK\$58,100,000). The average daily traffic in 2002 was 23,163 vehicle trips as compared to 22,342 vehicle trips in the same period last year. The Company's effective interest in this project is 26.0%.

Shantou Haiwan Bridge had a slight increase in traffic flow. Average daily traffic during the period was 12,641 vehicle trips while in the same period last year it was 11,348 vehicle trips. Revenue for the period was HK\$56,854,000 (2001: HK\$53,000,000). The Company's effective interest in this project is 15.3%.

**BUSINESS REVIEW, DISCUSSION AND ANALYSIS, PROSPECT AND OTHER INFORMATION**

(continued)

**Infrastructure** (continued)

Humen Bridge recorded a 15% growth in the traffic flow. Average daily traffic for the period was 29,026 vehicle trips while in the same period last year it was 25,234 vehicle trips. Revenue reached HK\$247,342,000 (2001: HK\$212,000,000). The Company's effective interest in the project is 15.3%.

The performance of the two Pak Kong Bridges in Qingyuan remained stable, generating a steady cash return to the Group.

For the Yingkeng Highway, an increase in traffic flow by 7% led to an increase of 10% in revenue, as compared to the corresponding period last year. The Company currently holds an indirect interest of 70% in the project

**Property***Mainland China*

Teem Plaza in Guangzhou continued to enjoy high occupancy rates and high rental income. In particular, rental income in the first six months of 2002 increased by HK\$14,190,000 to HK\$130,519,000 (2001: HK\$116,329,000).

The Group currently holds 24.8% interest in the Riverside Garden project in Panyu, Guangzhou. The project contributed, in the first six months of 2002, an attributable profit of HK\$6,081,000 to the Group.

Following the sales of most of the residential and shop units in the Suzhou GD Plaza project in 2001, the Group during the period generated little amount of revenue from the project. The Group however expects to complete the sale of its remaining units as well as the hotel commercial project under development in the second half of 2002.

*Hong Kong*

Average occupancy rate of Guangdong Investment Tower (the "GDI Tower") has dropped to 83%, compared to 100% in the same period last year. In addition, the current depressed state of the local commercial rental market brought a slight reduction in the average rentals in respect of lease renewals and new leases. Rental for the GDI Tower for the first six months of 2002 amounted to HK\$13,628,000 (2001: HK\$13,745,000).

Guangdong Parking Limited's interest in the car park located in North Point showed a small operating profit after finance costs (before the property revaluation deficit) of HK\$226,000 for the period (2001: an operating loss after finance costs of HK\$1,621,000). The improvement in operating result was mainly because of the reduction of interest cost.

**BUSINESS REVIEW, DISCUSSION AND ANALYSIS, PROSPECT AND OTHER INFORMATION**

(continued)

**Hotels***Mainland China*

Most of the hotels in Mainland China have recovered from the depressed conditions prevailing in the second half of 2001. The average occupancy rate of 珠海粤海酒店 (Yue Hai Hotel, Zhuhai) has increased from 69% in last period to 83.9% in current period. However, the average occupancy rate of Guangdong Hotel Shenzhen has decreased to 82.2% (2001:95%), mainly due to the renovation work being carried out in the hotel during the period under review.

*Hong Kong*

The entry to World Trade Organisation by China helped to bring a positive impact to the Mainland China economy. This in turn caused the number of Mainland China visitors to Hong Kong to continue to grow steadily.

Despite the keen competition in the Hong Kong hotel market, the average occupancy rate of both the Wharney Hotel and Guangdong Hotel remained high at 92.0% and 88.3% respectively, compared to 87% and 82% in the same period last year.

Cost controls and effective utilisation of available resources have improved the hotel group business (before the hotel property revaluation deficit) in the first six months of 2002, and thereby increasing the attributable profit to the Group from HK\$10,819,000 to HK\$28,658,000.

**Other Business***Brewery*

Though the beer market in South China continued to be very competitive, the consolidated turnover and sales volume for the six-month period ended 30 June 2002 of Guangdong Brewery Holdings Limited ("GD Brewery"), respectively, recorded at HK\$276,433,000 and 95,000 tonnes, representing a respective increase of 8.9% and 31.9% over the same period last year. As a result of better business opportunities arising from the 2002 FIFA World Cup, an improved distribution network, effective cost controls, interest savings and credit control, GD Brewery was able to increase its attributable profit to the Group, for the current period, from HK\$7,260,000 to HK\$31,385,000.

*Tannery*

The attributable loss for the period of Guangdong Tannery Limited to the Group increased by HK\$23,560,000, as compared to the same period last year. Provisions for inventories and doubtful debts, respectively, of HK\$11,057,000 and HK\$32,574,000 were recorded.

Sales for the period decreased by 13.66% compared with 2001 while the gross profit margin dropped from 12.54% in 2001 to 8.7% in 2002.

*Malting*

The Group's malting business during the period achieved a production of 74,716 tonnes (2001: 89,996 tonnes) and 59,200 tonnes (2001: 66,000 tonnes), respectively, for its Guangzhou plant and Ningbo plant. The respective turnover for Guangzhou plant and Ningbo plant amounted to HK\$207,479,000 (2001: HK\$221,112,000) and HK\$162,847,000 (2001: HK\$156,178,000) in the first six months of 2002.

Reduction in the turnover for the malting plants reflected the continuous fierce market competition leading to a drop in unit selling price and production volume, by an average of 2.8% and 13.5% respectively.

## **BUSINESS REVIEW, DISCUSSION AND ANALYSIS, PROSPECT AND OTHER INFORMATION**

(continued)

### **Other Business** (continued)

#### *Tours/Travel*

The Group's tours/travel business showed a substantial decline in the first half of 2002, with an attributable loss to the Group amounted to HK\$54,168,000 (2001: HK\$8,382,000). The decline was mainly as a result of the sharp price reduction in "Hong Kong Tour" business.

### **Liquidity, Gearing and Financial Resources**

As at 30 June 2002, cash and bank balances of the Group fell by HK\$257 million to HK\$1,348 million (as at 31 December 2001: HK\$1,605 million), balances of which are mostly denominated in Hong Kong dollars (HK\$98 million) and Renminbi (HK\$1,106 million). This is mainly due to the repayment and prepayment of bank borrowings under debt restructuring agreements during the period. As at 30 June 2002, the Group had financial borrowings amounting to HK\$18,426 million (as at 31 December 2001: HK\$19,390 million). Of the Group's total financial borrowings, HK\$527 million was repayable within one year while the remaining balances of HK\$4,787 million and HK\$ 13,112 million would be repayable before or in 2005, and after 2005, respectively.

As at 30 June 2002, the Group's total available credit facilities amounted to HK\$20,075 million, of which HK\$18,426 million have been utilised (as at 31 December 2001: HK\$21,033 million and HK\$19,390 million, respectively). The unutilised banking facilities amounting to HK\$1,649 million (as at 31 December 2001: HK\$1,643 million).

The gearing for the Group as at 30 June 2002 was 2.05 times (as at 31 December 2001: 2.22 times). The improvement came about mainly as a result of the reduction in the level of the Group's financial borrowings due to early prepayments in the first six months of 2002, and an increase in net asset value of the Group.

The existing cash resources and available credit facilities of the Group, together with cash flows generated from its operations, is sufficient to meet the Group's payment obligation and business requirement.

### **Pledge of Assets**

At 30 June 2002, certain of the Group's fixed assets, investment properties and bank deposits, with a total net book value of HK\$1,553,165,000 (as at 31 December 2001: HK\$1,560,761,000) were pledged to secure general banking facilities granted to the Group.

In addition to the above, a property under development in Mainland China held under a long term lease with a carrying amount of HK\$64,000,000 as at 30 June 2002 (as at 31 December 2001: HK\$64,000,000) was held by the court in Mainland China as security for the steps taken by the Group to freeze the assets of the defendants in certain PRC legal proceedings.

### **Capital Expenditure**

The Group's total capital expenditure for fixed assets were HK\$41 million in the first half of 2002, which related principally to the upgrading of certain facilities of the Water Project and the additions of plant and machinery for the power plant and the tannery business.

**BUSINESS REVIEW, DISCUSSION AND ANALYSIS, PROSPECT AND OTHER INFORMATION**

(continued)

**Exposure to Fluctuations in Exchange Rates and Related Hedges**

As at 30 June 2002, total foreign currency borrowings amounted to HK\$6,886 million, of which HK\$1,009 million was Renminbi (as at 31 December 2001: HK\$7,522 million, of which HK\$951 million was Renminbi).

Certain of the Group's foreign currency borrowings which are denominated in United States dollars and Euro (and which amounted to HK\$3,112 million as at 30 June 2002) are hedged by currency swap agreements.

**Contingent Liabilities – Litigation**

- Two separate legal proceedings have been commenced against Guangdong (H.K.) Tours Company Limited (“GD Tours”), a wholly-owned subsidiary of the Company, claiming for damages in respect of traffic accidents in Mainland China involving members of tour groups organised by GD Tours. Both proceedings have reached the stage of discovery.

Also, subsequent to the balance sheet date, GD Tours received certain claims in respect of another traffic accident in Mainland China involving members of a tour group organised by GD Tours. However, up to the date of this report, no legal proceedings have been commenced in respect of those claims.

Based on legal advice, the directors are of the opinion that it is premature to estimate the outcome and hence, no provision has been made in the financial statements on account of the claims.

In any event, according to legal advice, GD Tours is not at fault. It has therefore denied liability and will further continue to vigorously contest all such claims.

- In March 2001, Yue Sheng Finance Limited (“Yue Sheng”), a wholly-owned subsidiary of the Company, commenced legal proceedings in Mainland China to recover two outstanding loans in the total sum of HK\$40,000,000 together with interest from the two Chinese parties who were the guarantors for those loans. The case has already been heard. However, up to the date of this report, the judgment of the court was still pending.

After trying without success to dispute the jurisdiction of the Chinese Court in the aforesaid proceedings, the two guarantors together with the borrower of those two loans commenced legal proceedings in Hong Kong against Yue Sheng and a former subsidiary of the Group in July 2001 seeking, inter alia, a declaration that they were under no legal obligation to repay the two loans and compensation. Yue Sheng has been applying to stay or alternatively to strike out the action and will undertake further interlocutory appeal thereon.

Based on legal advice, the directors are of the view that the claim brought against Yue Sheng is without merit and no provision for the claims of the guarantors and the borrower was considered necessary as at 30 June 2002.

**BUSINESS REVIEW, DISCUSSION AND ANALYSIS, PROSPECT AND OTHER INFORMATION**

(continued)

**Contingent Liabilities – Litigation** (continued)

- In January 2002, two subsidiaries indirectly held by the Company, namely Guangdong Enterprises (North America) Fur Holdings Limited (“GDNA”) and Harbour Hill International Limited (“Harbour Hill”), commenced an action in the Southern District of New York against a company called Hennessy International Group, Inc. (“HIGI”) and its owners/controllers. HIGI is one-third held by GDNA and is an associate of the Group. GDNA and Harbour Hill are attempting to recover approximately US\$2.25 million in financing that GDNA and Harbour Hill provided to HIGI. Defendants have counterclaimed for US\$2 million, claiming that GDNA and Harbour Hill wrongly terminated HIGI’s financing. Since the balance sheet date, the parties have reached a settlement whereby GDNA and Harbour Hill not only were exempted from all liabilities, they also secured certain partial recovery.

The Directors, based on the settlement reached, consider that no provision would be necessary as at the balance sheet date.

- Following the change in senior management of GD Tannery in June 2002, it was discovered that certain former executives (the “Former Executives”) of Nanhai Tannery & Leather Products Co. Ltd. (“Nanhai Tannery”) (one of whom was also a former director of GD Tannery) had been involved in certain irregularities. Nanhai Tannery is a wholly-owned subsidiary of GD Tannery and is a sino-foreign cooperative joint venture company established in Nanhai, the People’s Republic of China (the “PRC”).

Upon discovery of the irregularities, an internal audit team of the Company and its immediate holding company, working with the new management of GD Tannery, conducted a preliminary investigation of the irregularities. The investigation revealed that the Former Executives had apparently been operating a business in parallel to the operations of Nanhai Tannery (the “Parallel Operation”) for their own personal gain for a number of years.

The incident has been reported by GD Tannery to the relevant PRC authorities who have detained the Former Executives in the Nanhai Municipality and seized the relevant documents related to the Parallel Operation for investigations. GD Tannery has also instructed its auditors and the PRC lawyers to carry out special investigations with a view to ascertain the effects of the Parallel Operation on the business of Nanhai Tannery and to advise management of GD Tannery possible recourses against the Former Executives.

Based on the findings of the auditors and the advice of the PRC lawyers, the directors of GD Tannery are of the opinion that the Parallel Operation should not be incorporated in the financial statements of GD Tannery, and hence, the Group. However, the Parallel Operation appeared to have involved various irregularities in their transactions under the applicable PRC laws and regulations.

As the investigations of the PRC authorities are still ongoing, it is not possible to ascertain with certainty the consequential actions that may be taken by the PRC authorities for the aforesaid irregularities and the existence or otherwise of any penalties and claims. As of the date of this report, no provision has been made in the financial statements for such contingencies.

**BUSINESS REVIEW, DISCUSSION AND ANALYSIS, PROSPECT AND OTHER INFORMATION**

(continued)

**Number and Remuneration of Employees**

As at 30 June 2002, the Group had a total of 6,340 employees. Among the employees, 5,687 were employed by subsidiaries in Mainland China and 653 were employed by the head office and subsidiaries in Hong Kong. Out of the total number, 1,231 were managerial employees of the head office and its subsidiaries. Total remuneration paid for the period under review was approximately HK\$145,000,000.

The Group advocates the corporate culture which seeks to excel in terms of financial performance and economic benefit. Performance of staff is reviewed at least annually. Employees' compensation and reward policies are performance driven. People are the Company's key assets and key to success. The Group encourages employees to participate in external training programmes to develop themselves on a continuous basis. For existing employees' career development, the Group provides opportunities through on-the-job training by regular job rotation. The Group continues to control operating costs even more effectively by streamlining organization structure and staffing level and to strengthen the competitive edge of the Group as a whole in the market by enhancing the appraisal, supervision and guidance of management staff, especially those in key positions, and to encourage and stimulate their initiatives and motivation.

The Company has adopted a new share option scheme in May 2002. The purpose of the new share option scheme is to provide incentives to the participants to contribute to the Group and to enable the Group to recruit and retain good quality employees to serve the Group on a long-term basis.

**Prospect**

Going forward, the Group will continue to proceed with its business and asset restructurings, to take effective measures to maximize the operating efficiency and profit potentials of its businesses, to further improve its management, to optimise its debt structure and to help subsidiaries to secure favorable terms in financing and refinancing.

Following on the series of repayments or prepayments of certain bank debts since the completion of the Group's debt restructuring on 22 December 2000, the Group will continue to further reduce its debt level and improve its gearing ratio with a view to accomplish the refinancing of all of the Group's remaining restructured bank debts well before the scheme period for the debt restructuring coming to an end in June 2005 as originally scheduled.

Though recovery of the economy in the United States and Hong Kong is slow, the business environment in Mainland China is likely to remain favorable in the second half of the year. However, even then the Group is still faced with challenges and opportunities in every segment of its core businesses. In response to these new challenges, the Group will strive to control operating costs and to improve the quality of its management.

The Company recognises its obligation to justify the trust the shareholders have placed on it. The Company takes its long term responsibilities to its shareholders and creditors seriously and values and counts on their continued support for the Company as the Company continues to press ahead with its transformation.

**SHARE OPTION SCHEME**

I. The following share options were outstanding under the share option scheme of the Company during the period:

Name or category of participant	Number of share options				At 30 June 2002	Date of grant of share options *	Exercise period of share options #	Exercise price of share options ** HK\$	Price of
	At 1 January 2002	Granted during the period	Cancelled during the period	Exercised during the period					Company's shares***
									At date of grant of options HK\$
<b>Directors</b>									
WU Jiesi	12,000,000	-	-	-	12,000,000	01.11.2001	02.05.2002 to 01.05.2007	0.74	0.74
	-	9,000,000	-	-	9,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
LI Wenyue	12,000,000	-	-	-	12,000,000	10.08.2001	11.02.2002 to 10.02.2007	0.5312	0.67
	-	9,000,000	-	-	9,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
ZHANG Yaping	12,000,000	-	-	-	12,000,000	10.08.2001	11.02.2002 to 10.02.2007	0.5312	0.67
	-	9,000,000	-	-	9,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
CHAN Cho Chak, John	1,000,000	-	-	-	1,000,000	01.11.2001	02.05.2002 to 01.05.2007	0.74	0.74
	-	1,000,000	-	-	1,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
LI Kwok Po, David	1,000,000	-	-	-	1,000,000	01.11.2001	02.05.2002 to 01.05.2007	0.74	0.74
	-	1,000,000	-	-	1,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
CHENG Mo Chi, Moses	1,000,000	-	-	-	1,000,000	01.11.2001	02.05.2002 to 01.05.2007	0.74	0.74
	-	1,000,000	-	-	1,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
FUNG Daniel R.	1,000,000	-	-	-	1,000,000	01.11.2001	02.05.2002 to 01.05.2007	0.74	0.74
	-	1,000,000	-	-	1,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
YE Xuquan	12,000,000	-	-	-	12,000,000	10.08.2001	11.02.2002 to 10.02.2007	0.5312	0.67
	-	9,000,000	-	-	9,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
LI Wai Keung	1,500,000	-	-	-	1,500,000	01.11.2001	02.05.2002 to 01.05.2007	0.74	0.74
	-	1,500,000	-	-	1,500,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
WANG Man Kwan, Paul	1,500,000	-	-	-	1,500,000	10.08.2001	11.02.2002 to 10.02.2007	0.5312	0.67
	-	1,500,000	-	-	1,500,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
ZHAI Zhiming	-	1,000,000	-	-	1,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
GU Shunan	1,000,000	-	-	-	1,000,000	01.11.2001	02.05.2002 to 01.05.2007	0.74	0.74
	-	1,000,000	-	-	1,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
WANG Xiaofeng	-	1,000,000	-	-	1,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
	<u>56,000,000</u>	<u>46,000,000</u>	<u>-</u>	<u>-</u>	<u>102,000,000</u>				

**SHARE OPTION SCHEME** (continued)

**I.** (continued)

Name or category of participant	Number of share options					Date of grant of share options *	Exercise period of share options #	Exercise price of share options **	Price of Company's shares***
	At 1 January 2002	Granted during the period	Cancelled during the period	Exercised during the period	At 30 June 2002				
<b>Others</b>									
Employees	1,490,000	-	(1,490,000)	-	-	09.12.1996	10.06.1997 to 09.06.2002	4.536	5.90
	6,005,000	-	(45,000)	-	5,960,000	18.02.1998	19.08.1998 to 18.08.2003	2.892	3.70
	5,350,000	-	(1,350,000)	-	4,000,000	16.03.1998	17.09.1998 to 16.09.2003	3.024	3.75
	129,500,000	-	-	(12,300,000) <sup>Δ</sup>	117,200,000	10.08.2001	11.02.2002 to 10.02.2007	0.5312	0.67
	1,000,000	-	(1,000,000)	-	-	01.11.2001	02.05.2002 to 01.05.2007	0.74	0.74
	-	14,300,000	-	-	14,300,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
Consultant	-	31,393,939	-	-	31,393,939	03.06.2002	By 03.06.2007 ##	0.816	0.81
	<u>143,345,000</u>	<u>45,693,939</u>	<u>(3,885,000)</u>	<u>(12,300,000)</u>	<u>172,853,939</u>				
	<u>199,345,000</u>	<u>91,693,939</u>	<u>(3,885,000)</u>	<u>(12,300,000)</u>	<u>274,853,939</u>				

\* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

\*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

\*\*\* The price of the Company's shares disclosed as at the date of the grant of the share options is the closing price on The Stock Exchange of Hong Kong Limited on the trading day on which the options were granted.

# If that day is not a business day in Hong Kong, the option period shall end on the business day preceding that day.

## Being conditional upon successful completion of consultancy project.

Δ The weighted average closing price of the shares immediately before the date on which the share options were exercised: HK\$0.8195.

**SHARE OPTION SCHEME** (continued)**II. Share options granted during the six months ended 30 June 2002:**

1. Date of Grant	:	07/05/2002
Vesting Period	:	07/05/2002 – 07/11/2002
Exercise Period	:	08/11/2002 – 07/11/2007
Exercise Price	:	HK\$0.814

	<b>Number of Options At 07/05/02</b>	<b>Options Value At 07/05/02 (Note (2)) HK\$</b>	<b>Number of Options At 30/06/02 (Note (3)) HK\$</b>	<b>Options Value At 30/06/02</b>
Grantee:				
WU Jiesi	9,000,000	3,780,000	9,000,000	3,240,000
LI Wenyue	9,000,000	3,780,000	9,000,000	3,240,000
ZHANG Yaping	9,000,000	3,780,000	9,000,000	3,240,000
CHAN Cho Chak, John	1,000,000	420,000	1,000,000	360,000
LI Kwok Po, David	1,000,000	420,000	1,000,000	360,000
CHENG Mo Chi, Moses	1,000,000	420,000	1,000,000	360,000
FUNG Daniel R.	1,000,000	420,000	1,000,000	360,000
YE Xuquan	9,000,000	3,780,000	9,000,000	3,240,000
LI Wai Keung	1,500,000	630,000	1,500,000	540,000
WANG Man Kwan, Paul	1,500,000	630,000	1,500,000	540,000
ZHAI Zhiming	1,000,000	420,000	1,000,000	360,000
GU Shunan	1,000,000	420,000	1,000,000	360,000
WANG Xiaofeng	1,000,000	420,000	1,000,000	360,000
Aggregate total of employees	<u>14,300,000</u>	<u>6,006,000</u>	<u>14,300,000</u>	<u>5,148,000</u>
 Total	 <u>60,300,000</u>	 <u>25,326,000</u>	 <u>60,300,000</u>	 <u>21,708,000</u>

*Notes:*

- (1) The closing price of the shares of the Company immediately before the date on which the options were granted was HK\$0.81.
- (2) According to the Black-Scholes model<sup>1</sup>, the total value of the options was estimated at HK\$25,326,000 as at 7 May 2002 (when the options were granted) with the following variables and assumptions:

Risk Free Rate	:	4.82%, being the approximate yield of 5-year Exchange Fund Note traded on 07/05/2002
Expected Volatility	:	50.9%, being the annualized volatility of the closing price of the shares of the Company from 07/05/2001 – 07/05/2002
Expected Dividend Yield	:	Nil
Expected Life of the Options	:	5.5 years
Assumptions	:	There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares of the Company over the period of 07/05/2001 – 07/05/2002.

**SHARE OPTION SCHEME** (continued)**II. Share options granted during the six months ended 30 June 2002:** (continued)

Notes:

- (3) According to the Black-Scholes model<sup>1</sup>, the total value of the options was estimated at HK\$21,708,000 as at 30 June 2002 with the following variables and assumptions:

Risk Free Rate	:	4.39%, being the approximate yield of 5-year Exchange Fund Note traded on 28/06/2002
Expected Volatility	:	46.7%, being the annualized volatility of the closing price of the shares of the Company from 28/06/2001 – 28/06/2002
Expected Dividend Yield	:	Nil
Expected Life of the Options	:	5.36 years
Assumptions	:	There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares of the Company over the period of 28/06/2001 – 28/06/2002.

- (4) Options forfeited, if any, before expiry of the options will be treated as lapsed options which will be added back to the number of shares available to be issued under the relevant share option scheme.

<sup>1</sup> The Black-Scholes model (the “Model”) is developed to estimate the fair value of publicly traded options that have no vesting restriction and are fully transferable. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

2. Date of Grant	:	03/06/2002
Vesting Period	:	03/06/2002 – Date <sup>2</sup>
Exercise Period	:	Date <sup>2</sup> – 03/06/2007 (subject to certain conditions fulfilled by grantee)
Exercise Price	:	HK\$ 0.816

	<b>Number of Options At 03/06/02</b>	<b>Options Value At 03/06/02 (Note (2)) HK\$</b>	<b>Number of Options At 30/06/02</b>	<b>Options Value At 30/06/02 (Note (3)) HK\$</b>
Grantee:				
Consultant	<u>31,393,939</u>	<u>11,929,697</u>	<u>31,393,939</u>	<u>10,673,939</u>

**SHARE OPTION SCHEME** (continued)**II. Share options granted during the six months ended 30 June 2002:** (continued)*Notes:*

- (1) The closing price of the shares of the Company immediately before the date on which the options were granted was HK\$0.81.
- (2) According to the Black-Scholes model<sup>1</sup>, the total value of the options was estimated at HK\$11,929,697 as at 3 June 2002 (when the options were granted) with the following variables and assumptions:

Risk Free Rate	:	4.80%, being the approximate yield of 5-year Exchange Fund Note traded on 03/06/2002
Expected Volatility	:	47.5%, being the annualized volatility of the closing price of the shares of the Company from 03/06/2001 – 03/06/2002
Expected Dividend Yield	:	Nil
Expected Life of the Options	:	5 years
Assumptions	:	There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares of the Company over the period of 03/06/2001 – 03/06/2002.

- (3) According to the Black-Scholes model<sup>1</sup>, the total value of the options was estimated at HK\$10,673,939 as at 30 June 2002 with the following variables and assumptions:

Risk Free Rate	:	4.39%, being the approximate yield of 5-year Exchange Fund Note traded on 28/6/2002
Expected Volatility	:	46.7%, being the annualized volatility of the closing price of the shares of the Company from 28/6/2001 – 28/6/2002
Expected Dividend Yield	:	Nil
Expected Life of the Options	:	4.92 years
Assumptions	:	There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares of the Company over the period of 28/06/2001 – 28/06/2002.

- (4) Options forfeited, if any, before expiry of the options will be treated as lapsed options which will be added back to the number of shares available to be issued under the relevant share option scheme.

<sup>1</sup> The Black-Scholes model (the "Model") is developed to estimate the fair value of publicly traded options that have no vesting restriction and are fully transferable. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

<sup>2</sup> Successful completion of consultancy project.

**DIRECTORS' INTERESTS IN SECURITIES**

As at 30 June 2002, the interests of the Directors and their associates in the equity or debt securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules") were as follows:

**I. Shares***(i) The Company*

<b>Name of Director</b>	<b>Type of Interest</b>	<b>Number of Ordinary Shares Held</b>
GU Shunan	Personal	76,000

*(ii) Guangnan (Holdings) Limited*

<b>Name of Director</b>	<b>Type of Interest</b>	<b>Number of Ordinary Shares Held</b>
LI Kwok Po, David	Personal	150,000
YE Xuquan	Personal	55,000,000

**DIRECTORS' INTERESTS IN SECURITIES** (continued)

**II. Options**
*The Company*

Name of Director	Number of options held 1 January 2002	Options granted Jan - Jun 2002		Period during which option is exercisable *	Price per Ordinary Share payable on exercise of option HK\$	Number of options exercised Jan - Jun 2002	Number of options held 30 June 2002
		Date granted	Number granted				
WU Jiesi	12,000,000	-	-	02.05.2002 - 01.05.2007	0.74	-	12,000,000
	-	07.05.02	9,000,000	08.11.2002 - 07.11.2007	0.814	-	9,000,000
LI Wenyue	12,000,000	-	-	11.02.2002 - 10.02.2007	0.5312	-	12,000,000
	-	07.05.02	9,000,000	08.11.2002 - 07.11.2007	0.814	-	9,000,000
ZHANG Yaping	12,000,000	-	-	11.02.2002 - 10.02.2007	0.5312	-	12,000,000
	-	07.05.02	9,000,000	08.11.2002 - 07.11.2007	0.814	-	9,000,000
CHAN Cho Chak, John	1,000,000	-	-	02.05.2002 - 01.05.2007	0.74	-	1,000,000
	-	07.05.02	1,000,000	08.11.2002 - 07.11.2007	0.814	-	1,000,000
LI Kwok Po, David	1,000,000	-	-	02.05.2002 - 01.05.2007	0.74	-	1,000,000
	-	07.05.02	1,000,000	08.11.2002 - 07.11.2007	0.814	-	1,000,000

**DIRECTORS' INTERESTS IN SECURITIES** (continued)**II. Options** (continued)*The Company* (continued)

Name of Director	Number of options held 1 January 2002	Options granted Jan - Jun 2002		Period during which option is exercisable *	Price per Ordinary Share payable on exercise of option HK\$	Number of options exercised Jan - Jun 2002	Number of options held 30 June 2002
		Date granted	Number granted				
CHENG Mo Chi, Moses	1,000,000	-	-	02.05.2002 - 01.05.2007	0.74	-	1,000,000
	-	07.05.02	1,000,000	08.11.2002 - 07.11.2007	0.814	-	1,000,000
FUNG Daniel R.	1,000,000	-	-	02.05.2002 - 01.05.2007	0.74	-	1,000,000
	-	07.05.02	1,000,000	08.11.2002 - 07.11.2007	0.814	-	1,000,000
YE Xuquan	12,000,000	-	-	11.02.2002 - 10.02.2007	0.5312	-	12,000,000
	-	07.05.02	9,000,000	08.11.2002 - 07.11.2007	0.814	-	9,000,000
LI Wai Keung	1,500,000	-	-	02.05.2002 - 01.05.2007	0.74	-	1,500,000
	-	07.05.02	1,500,000	08.11.2002 - 07.11.2007	0.814	-	1,500,000
WANG Man Kwan, Paul	1,500,000	-	-	11.02.2002 - 10.02.2007	0.5312	-	1,500,000
	-	07.05.02	1,500,000	08.11.2002 - 07.11.2007	0.814	-	1,500,000
ZHAI Zhiming	-	07.05.02	1,000,000	08.11.2002 - 07.11.2007	0.814	-	1,000,000

**DIRECTORS' INTERESTS IN SECURITIES** (continued)**II. Options** (continued)*The Company* (continued)

Name of Director	Number of options held 1 January 2002	Options granted Jan - Jun 2002		Period during which option is exercisable *	Price per Ordinary Share payable on exercise of option HK\$	Number of options exercised Jan - Jun 2002	Number of options held 30 June 2002
		Date granted	Number granted				
GU Shunan	1,000,000	-	-	02.05.2002 - 01.05.2007	0.74	-	1,000,000
	-	07.05.02	1,000,000	08.11.2002 - 07.11.2007	0.814	-	1,000,000
WANG Xiaofeng	-	07.05.02	1,000,000	08.11.2002 - 07.11.2007	0.814	-	1,000,000

\* *If that day is not a business day in Hong Kong, the option period shall end on the business day preceding that day.*

No consideration has been paid by the Director for the options granted by the Company.

Save as disclosed above, as at 30 June 2002, none of the Directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Section 28 of the SDI Ordinance, including interests which they were deemed or taken to have under Section 31 or Part I of the Schedule to the SDI Ordinance, or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules.

Save as disclosed above, the Company or any of its associated corporations did not grant to any Director or chief executive of the Company, spouse or children under 18 years of age of any such Director or chief executive any right to subscribe for equity or debt securities of the Company or any of its associated corporations, or had there been any exercise of such right by such persons during the period under review.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2002, the following interest of 10% or more of the issued Ordinary Share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of Shareholder	Number of Ordinary Shares Held	Percentage Holding
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited)	2,977,810,099	57.87
GDH Limited	2,977,810,099	57.87
Guangdong Trust Ltd.	578,762,146	11.25

*Notes:*

1. The attributable interest which 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) has in the Company is held through its 100% direct interest in GDH Limited.
2. The interest in GDH Limited set out above includes attributable interest held through its wholly-owned subsidiary, Guangdong Trust Ltd.

## PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2002 save and except that:-

- (i) the Company has issued 12,300,000 new Ordinary Shares to certain option holders at HK\$0.5312 per share at a total cash consideration of HK\$6,533,760 pursuant to the Company's share option scheme during the period; and
- (ii) in accordance with the Earnout Agreement, the Company has agreed to allot and issue to GDH Limited, 66,000,000 Ordinary Shares, for each year of the Earnout Period (subject to adjustment, up to a total of 330,000,000 Ordinary Shares) upon the performance of WaterCo meeting the milestones as set out in the Earnout Agreement. As WaterCo has attained the performance milestones for the first, second and third years of the Earnout Period in September 2001, March 2002 and September 2002, respectively. Accordingly the Company has an obligation to issue a total of 198,000,000 Ordinary Shares to GDH Limited pursuant to the Earnout Agreement upon the later of 21 December 2003 and the completion of the Phase IV Renovation Project (expected to be completed in mid-2004). The issuance of any further Ordinary Shares remains contingent upon WaterCo meeting its performance milestones under the Earnout Agreement in subsequent years.

During the six months ended 30 June 2002, no Preference Shares were converted by way of redemption into Ordinary Shares of the Company.

## **CORPORATE GOVERNANCE**

### **Board**

The Board of Directors now comprises 13 Directors, and among them, four are Independent Non-Executive Directors the independent status of all of whom is strictly in compliance with the Listing Rules. There were three full Board meetings held during the period, and the average attendance rate of Directors stood at about 60%.

In accordance with the Articles of Association of the Company, the amendments of which has been effected since 31 May 2002, all the Directors are subject to retirement and re-election at the annual general meeting in their first year of appointment and the provision requiring one-third of them to retire by rotation and to offer themselves for re-election at each annual general meeting thereafter. Each of the Non-Executive Directors is appointed for a specific term.

### **Audit Committee**

The Company has established an Audit Committee in September 1998 comprising all of the Independent Non-Executive Directors of the Company in accordance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules (the "Code of Best Practice"). The principal duties of the Audit Committee include the review of the completeness, accuracy and fairness of the Company's financial reports and the effectiveness of the Company's internal control system.

During the period under review, one regular meeting of the Audit Committee has been held.

### **Internal Audit**

The Company has established an Audit Department responsible for the overall internal monitoring of the Group. The key functions of the Department include undertaking comprehensive audits, supervision and appraisal of the operational, financial and governance activities of each of the companies of the Group; commenting and making recommendation on such matters; and submitting regular reports to both the Chairman of the Board and the Audit Committee.

### **Supervision of Management and Operation**

The Group has continued to enforce a series of rules and regulations to monitor the management and operation of all the members of the Group. These include:

- (i) total prohibition on the use of off-balance-sheet accounts;
- (ii) strengthening of the board's supervision of management;
- (iii) maximization of the control and supervisory functions of the checks and balances and thereby, the mutual monitoring among the board chairman, general manager and the financial controller; and
- (iv) strict regulation of investments, loans and guarantees with outside parties.

### **Code of Best Practice**

None of the Directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the period under review, in compliance with the Code of Best Practice.