



Guangdong Investment Limited
粵海投資有限公司

2003

Interim Report 中期報告

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CORPORATE INFORMATION

(as at 18 September 2003)

Board of Directors

WU Jiesi (*Honorary President*)
LI Wenyue (*Chairman*)
ZHANG Hui (*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
ZHANG Yaping
ZHAI Zhiming
WANG Man Kwan, Paul
GU Shunan
WANG Xiaofeng
YU Lai

* *Independent Non-Executive Director*

Company Secretary

HO LAM Lai Ping, Theresa

Auditors

Ernst & Young

Principal Bankers

Bank of China (Hong Kong) Limited
CITIC Industrial Bank, Guangzhou Branch
Goldman Sachs Capital Markets, L.P.
Guangdong Development Bank
Industrial and Commercial Bank of China (Asia) Limited
Industrial and Commercial Bank of China
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank

Registered Office

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

Registrar and Transfer Office for Ordinary Shares

Tengis Limited
G/F., Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Location of Register of Preference Shareholders and Register of Transfers for Preference Shares

28/F. and 29/F.
Guangdong Investment Tower
148 Connaught Road Central
Hong Kong

FINANCIAL HIGHLIGHTS

HALF YEAR FINANCIAL HIGHLIGHTS

	Increase (+)/Decrease (-) compared with the same period last year		For the six months ended 30 June 2003
• Group Turnover*			
Continuing operations	- HK\$ 178 million	to	HK\$ 2,161 million
Discontinued operations	- HK\$ 677 million	to	HK\$ 338 million
• Profit from Operating Activities (before finance costs and provisions)*			
Continuing operations	- HK\$ 123 million	to	HK\$ 944 million
Discontinued operations	- HK\$ 52 million	to	HK\$ 29 million
• Finance Costs	- HK\$ 301 million	to	HK\$ 335 million
• Provisions, net	- HK\$ 88 million	to	HK\$ 126 million
• Net Profit Attributable to Shareholders (Restated)	+ HK\$ 97 million	to	HK\$ 320 million

* The decrease was largely due to the disposal of our non-core businesses during the period under review, the one-month suspension of water supply to Hong Kong being pushed forward from December to June and the drop of hotel business during the Severe Acute Respiratory Syndrome ("SARS") period.

KEY FINANCIAL INFORMATION (AS AT 30 JUNE 2003)

• Analysis of Gross Financial Borrowings (HK\$'million)

Loan maturity profile		Currency		Interest rate	
Within 1 year	525	Hong Kong Dollar	13,953	Floating	14,663 [#]
In the 2nd year	703	Renminbi	1,941	Fixed	1,231
In the 3rd to 5th year	2,030				
Over 5 years	12,636				
	<u>15,894</u>		<u>15,894</u>		<u>15,894</u>

Borrowings amounted to HK\$7 billion were hedged by fixed interest rate swap agreements. There was also certain hedging by way of a short term forward rate agreement but the same has expired in August 2003.

• Types of Financing (HK\$'million)

	Available	Facilities Utilised
Fixed rate notes	1,231	1,231
Bank and other borrowings	17,061	14,663
	<u>18,292</u>	<u>15,894</u>

• Balance Sheet Ratios

	As at 30 June 2003	As at 31 December 2002 (Restated)
Gearing ratio	1.78	2.16
Liquidity ratio	1.05	1.15

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 47.

Respective responsibilities of the Directors and Auditors

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. It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 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 2003.

Ernst & Young

Certified Public Accountants

Hong Kong
18 September 2003

UNAUDITED INTERIM FINANCIAL REPORT**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT***For the six months ended 30 June 2003*

		For the six months ended 30 June	
	<i>Notes</i>	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited) (Restated)
TURNOVER	2, 3		
Continuing operations		2,160,665	2,339,352
Discontinued operations		338,159	1,014,779
		2,498,824	3,354,131
Cost of sales		(1,363,616)	(1,917,846)
Gross profit		1,135,208	1,436,285
Other revenue and gains		55,705	50,914
Selling and distribution costs		(50,830)	(96,620)
Administrative expenses		(155,639)	(235,175)
Loss on discontinuation of various operations	3(a), 3(c)	(3,738)	(552)
Other operating expenses, net		(134,222)	(220,675)
PROFIT FROM OPERATING ACTIVITIES	2, 4	846,484	934,177
Finance costs	5	(334,520)	(636,323)
		511,964	297,854
Share of profit of a jointly-controlled entity		32,796	25,990
Share of profits less losses of associates		13,684	81,012
PROFIT BEFORE TAX			
Continuing operations		536,466	434,249
Discontinued operations		21,978	(29,393)
		558,444	404,856
Tax	6		
Continuing operations		(101,780)	(90,581)
Discontinued operations		(1,794)	(10,768)
		(103,574)	(101,349)
PROFIT BEFORE MINORITY INTERESTS		454,870	303,507
Minority interests		(134,787)	(80,653)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		320,083	222,854
EARNINGS PER SHARE	8		
– Basic		HK¢5.28	HK¢3.54
– Diluted		HK¢5.08	HK¢3.52

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2003

	Notes	30 June 2003 HK\$'000 (Unaudited)	31 December 2002 HK\$'000 (Audited) (Restated)
NON-CURRENT ASSETS			
Fixed assets		7,956,753	9,860,868
Investment properties		2,124,680	2,289,280
Goodwill:			
Goodwill		716	835
Negative goodwill		(126,846)	(131,246)
Interest in a jointly-controlled entity		936,999	968,130
Interests in associates		361,983	423,617
Deferred tax assets	1	8,188	37,896
Contractual joint venture		–	77,340
Other financial assets		30,894	33,244
Intangible assets		13,383,620	13,628,236
Other long term assets		2,480,593	1,954,103
		27,157,580	29,142,303
CURRENT ASSETS			
Properties under development		44,000	69,600
Due from a contractual joint venture		–	58,005
Loan receivables		53,520	884
Other financial assets		166	151
Due from a related company		1,403	1,470
Due from minority shareholders of subsidiaries		–	8,726
Due from fellow subsidiaries		3,056	401
Inventories		44,207	476,387
Receivables, prepayments and deposits	9	391,407	686,778
Pledged bank deposits and balances	10	–	17,513
Cash and cash equivalents	10	1,124,576	1,770,910
		1,662,335	3,090,825

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

30 June 2003

		30 June 2003 HK\$'000 (Unaudited)	31 December 2002 HK\$'000 (Audited) (Restated)
CURRENT LIABILITIES			
Trade payables	11	(83,109)	(292,098)
Accruals and other liabilities		(694,719)	(941,975)
Tax payable		(20,283)	(19,751)
Due to minority shareholders of subsidiaries	13	(258,118)	(405,172)
Due to fellow subsidiaries		(826)	(2,635)
Due to the immediate holding company	12	(1,968)	(1,050)
Bank and other interest-bearing borrowings	14	(524,876)	(1,034,019)
		(1,583,899)	(2,696,700)
NET CURRENT ASSETS			
		78,436	394,125
TOTAL ASSETS LESS CURRENT LIABILITIES			
		27,236,016	29,536,428
NON-CURRENT LIABILITIES			
Bank and other interest-bearing borrowings	14	(15,369,058)	(17,034,079)
Due to minority shareholders of subsidiaries	13	(70,301)	(198,373)
Provision for bank loans guaranteed		-	(358,521)
Deferred tax liabilities	1	(854,328)	(819,016)
		(16,293,687)	(18,409,989)
MINORITY INTERESTS			
		(1,813,295)	(2,306,455)
		9,129,034	8,819,984
CAPITAL AND RESERVES			
Issued capital	15	2,610,007	2,581,857
Reserves	17	6,519,027	6,238,127
		9,129,034	8,819,984

CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 June 2003*

	<i>Notes</i>	For the six months ended 30 June	
		2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited) (Restated)
Total equity at 1 January:			
As previously reported		9,415,383	9,117,497
Prior period adjustments	1	(595,399)	(509,195)
As restated		8,819,984	8,608,302
Exchange differences on translation of the financial statements of subsidiaries and associates operating in Mainland China and overseas, and net gains/(losses) not recognised in the consolidated profit and loss account	17	576	(59)
Net profit for the period attributable to shareholders – Restated	17	320,083	222,854
Release of reserves upon disposals of associates and subsidiaries	17	(43,805)	2,366
Issue of new shares, including share premium, upon exercise of share options	15	32,196	6,534
Total equity at 30 June		9,129,034	8,839,997

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 June 2003*

	For the six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from operations	1,360,894	1,630,635
Interest received	11,159	12,093
Interest paid	(374,382)	(657,962)
Dividends paid to minority shareholders	(187,446)	(149,176)
Dividends from associates	–	5,366
Profits tax paid	(58,085)	(64,275)
	<hr/>	<hr/>
Net cash inflow from operating activities	752,140	776,681
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(17,672)	(40,755)
Capital injection to an associate	(28,263)	–
Additions to other long term assets	(571,049)	(146,732)
(Increase)/decrease in non-pledged bank deposits with original maturity of more than three months when acquired	500	(2,197)
Acquisition of additional interest in a subsidiary	(7,196)	(7,357)
Return of capital from investment securities	–	6,868
Repayment of loans advanced to a fellow subsidiary	994	74,910
Disposal of subsidiaries and an associate	693,528	3,761
Proceeds from disposal of fixed assets	11,694	86,931
Proceeds from disposal of investment properties	12,670	–
Proceeds from disposal of a deconsolidated subsidiary	–	850
Repayment of a loan advanced to a contractual joint venture	135,345	–
Decrease in pledged bank deposits and balances	17,513	16,456
	<hr/>	<hr/>
Net cash inflow/(outflow) from investing activities	248,064	(7,265)
	<hr/>	<hr/>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (continued)

For the six months ended 30 June 2003

	For the six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of new ordinary shares	32,196	6,534
New bank loans	893,340	328,508
Loans from the immediate holding company	202,157	–
Repayment of bank loans	(1,154,747)	(811,258)
Repayment of transferable loan instruments	(265,034)	(37,785)
Redemption of floating rate notes	(245,282)	(34,968)
Repayment of Notes Payable and GH Holdings Debts	(174,958)	(299,176)
Redemption of bonds	(417,085)	(59,472)
Repayment of provision for bank loans guaranteed	(358,521)	(51,113)
Repayment of loans from the immediate holding company	(158,444)	(12,692)
Repayment of a loan from an associate	–	(37,690)
	<hr/>	<hr/>
Net cash outflow from financing activities	(1,646,378)	(1,009,112)
	<hr/>	<hr/>
NET DECREASE IN CASH AND CASH EQUIVALENTS		
	(646,174)	(239,696)
Cash and cash equivalents at beginning of period	1,770,410	1,534,634
Effect of foreign exchange rate changes, net	340	(335)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR	1,124,576	1,294,603
	<hr/>	<hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	704,249	1,132,628
Non-pledged bank deposits with original maturity of less than three months when acquired	420,327	162,083
Bank overdrafts	–	(108)
	<hr/>	<hr/>
	1,124,576	1,294,603
	<hr/>	<hr/>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2003

1. ACCOUNTING POLICIES AND PRIOR PERIOD ADJUSTMENTS

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 2002, except for the revised SSAP 12 "Income Taxes" and the new interpretations relating thereto which have been retrospectively adopted for the first time in the preparation of the current period's condensed consolidated financial statements.

SSAP 12 (Revised) prescribes the basis for accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred tax).

Due to the adoption of SSAP 12 (Revised) in the current period, prior period adjustments were made to recognise the deferred tax assets and liabilities in relation to (i) the differences between capital allowance for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences, which are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; (ii) the fair value adjustments arising from the acquisitions of subsidiaries and a jointly-controlled entity; and (iii) tax losses arising in the prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

The effects of the adjustments on these condensed consolidated financial statements are summarised as follows:

	As at 1 January 2003 HK\$'000	As at 1 January 2002 HK\$'000
	Increase/(decrease)	
Balance sheet		
Deferred tax assets	37,896	41,145
Deferred tax liabilities	816,731	695,988
Interest in a jointly-controlled entity	(50,934)	(50,300)
Minority interests	(234,370)	(195,948)
Accumulated losses	532,320	446,116
Goodwill classified under capital reserve	63,079	63,079
	<hr/>	<hr/>
		For the six months ended 30 June 2002 HK\$'000 Increase/(decrease)
Profit and loss account		
Deferred tax expenses, net (including share of net deferred tax expenses attributable to a jointly-controlled entity)		31,134
Minority share of profit		(10,967)
Net profit for the period		<hr/> (20,167)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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:

Continuing:

- (i) The property investment segment mainly invests in various properties in Hong Kong and in the mainland of the People's Republic of China ("PRC" or "Mainland China") that are held for rental income purposes. This segment also provides property management services for certain residential and commercial properties;
- (ii) The toll roads and bridges segment invests in various roads and bridges projects in Mainland China;
- (iii) The water distribution segment operates a water supply project in Mainland China supplying natural water to Hong Kong, Dongguan and Shenzhen;
- (iv) The electric power generation segment operates coal-fire power plants supplying electricity in Guangdong Province;
- (v) The hotel operations and management segment operates the Group's hotels in Hong Kong and Mainland China;
- (vi) The department stores segment operates department stores in Mainland China; and
- (vii) Corporate and other segment holds certain properties under development and engages in providing corporate services to other segments.

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

- (i) The tours and tour transportation services (the "Tours Operation") segment organises tours in Hong Kong and Mainland China and provides transportation services in Hong Kong and between Hong Kong and Guangdong Province. The Tours Operation segment was discontinued upon the completion of the Disposal Transaction as set out in note 3(a) to the condensed consolidated financial statements;
- (ii) The beer manufacturing, distribution and sales (the "Brewery Operation") segment produces beer in Shenzhen and distributes and sells it in both Mainland China and Hong Kong. The Brewery Operation segment was discontinued upon the completion of the Disposal Transaction as set out in note 3(a) to the condensed consolidated financial statements;
- (iii) The malting manufacturing, distribution and sales (the "Malting Operation") segment produces malts for use in the brewing production in Mainland China. The Malting Operation segment was discontinued upon the completion of the Disposal Transaction as set out in note 3(a) to the condensed consolidated financial statements;
- (iv) The leather processing (the "Tannery Operation") segment processes raw leather to finished leather for use in the leather ware products production industry. The Tannery Operation segment was discontinued upon the completion of the Disposal Transaction as set out in note 3(a) to the condensed consolidated financial statements;
- (v) The merchandise trading (the "Merchandise Trading Operation") segment purchases commodities and sells them to customers. The Merchandise Trading Operation segment was discontinued upon the completion of the Disposal Transaction as set out in note 3(a) to the condensed consolidated financial statements;
- (vi) The leather ware products manufacturing, distribution and sales (the "Leather Ware Operation") segment produces leather ware products in Mainland China and sells them mainly in Hong Kong. The Leather Ware Operation segment was discontinued following the Group's disposal of its entire 60% equity interest in Alpha Universal Limited in the prior year as set out in note 3(b) to the condensed consolidated financial statements; and
- (vii) The packaging materials manufacturing, distribution and sales (the "Packaging Materials Operation") segment produces and distributes packaging materials in Mainland China. The Packaging Materials Operation segment was discontinued following the Group's termination of the operation of Xuzhou Gangwei Colour Packaging Co., Ltd. in the prior year as set out in note 3(c) to the condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

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

	Continuing Operations											
	Property Investment		Toll Roads and Bridges		Water Distribution		Electric Power Generation		Hotel Operations and Management		Department Stores	
	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	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
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	151,573	149,965	4,111	4,274	1,289,740	1,427,804	268,867	269,087	65,475	98,872	378,793	369,290
Inter-segment sales	31,553	40,427	-	-	-	-	-	-	337	1,707	-	-
Other revenue from inter-segment (Note)	-	-	-	-	-	-	-	-	-	-	-	-
Other revenue from external sources (Note)	2,315	2,256	36	45	1,006	-	-	194	421	1,883	3,109	3,745
Exchange gains/(losses), net	(11)	(321)	-	-	-	-	2	(24)	288	333	308	-
Total	185,430	192,327	4,147	4,319	1,290,746	1,427,804	268,869	269,257	66,521	102,795	382,210	373,035
Segment results	62,555	75,195	(1,282)	616	699,599	824,062	65,128	71,386	(20,113)	30,950	24,570	14,454
Interest income and unallocated gains												
Unallocated expenses												
Profit from operating activities												
Finance costs												
Share of profits less losses of:												
A jointly-controlled entity	-	-	32,796	25,990	-	-	-	-	-	-	-	-
Associates	-	-	-	35,027	-	-	12,220	37,144	-	-	(813)	1,866
Profit before tax												
Tax												
Profit before minority interests												
Minority interests												
Net profit from ordinary activities attributable to shareholders												
Other financial information:												
Depreciation and amortisation	2,515	4,938	2,696	2,694	392,829	386,785	21,265	17,845	5,203	8,057	11,068	9,445
Unallocated amounts												
Impairment losses recognised in the profit and loss account	-	-	-	-	-	-	-	-	-	-	-	-
Unallocated amounts												

Note: Excluding exchange gains/(losses), net

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Continuing Operations				Discontinued Operations							
	Corporate and other		Subtotal		Tours Operation		Brewery Operation		Malting Operation		Tannery Operation	
	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	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	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	2,106	20,060	2,160,665	2,339,352	61,325	87,594	110,513	276,433	102,047	336,584	64,274	199,240
Inter-segment sales	-	-	31,890	42,134	-	2,025	-	-	19,670	23,234	-	-
Other revenue from inter-segment (Note)	3,643	4,396	3,643	4,396	-	-	-	-	-	-	-	-
Other revenue from external sources (Note)	25,170	4,822	32,057	12,945	128	442	3,374	18,543	1,429	406	149	548
Exchange gains/(losses), net	1,586	(2,495)	2,173	(2,507)	-	25	(25)	(25)	378	(105)	105	(9)
Total	32,505	26,783	2,230,428	2,396,320	61,453	90,086	113,862	294,951	123,524	360,119	64,528	199,779
Segment results	36,417	(70,428)	866,874	946,235	(240)	(54,837)	11,690	57,639	15,098	20,898	2,350	(22,760)
Interest income and unallocated gains												
Unallocated expenses												
Profit from operating activities												
Finance costs												
Share of profits less losses of:												
A jointly-controlled entity	-	-	32,796	25,990	-	-	-	-	-	-	-	-
Associates	1,474	9,077	12,881	83,114	803	896	-	(2,998)	-	-	-	-
Profit before tax												
Tax												
Profit before minority interests												
Minority interests												
Net profit from ordinary activities attributable to shareholders												
Other financial information:												
Depreciation and amortisation	1,980	5,071	437,556	434,835	12	5,830	22,055	46,017	9,494	19,025	4,162	7,802
Unallocated amounts												
Impairment losses recognised in the profit and loss account	20,000	28,400	20,000	28,400	-	49,000	-	-	-	2,289	-	1,403
Unallocated amounts												

Note: Excluding exchange gains/(losses), net

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Discontinued Operations								Elimination		Consolidated Total	
	Merchandise Trading Operation		Leather Ware Operation		Packaging Materials Operation		Subtotal					
	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	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
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	-	89,838	-	16,766	-	8,324	338,159	1,014,779	-	-	2,498,824	3,354,131
Inter-segment sales	-	-	-	-	-	-	19,670	25,259	(51,560)	(67,393)	-	-
Other revenue from inter-segment (Note)	-	-	-	-	-	-	-	-	(3,643)	(4,396)	-	-
Other revenue from external sources (Note)	-	47	-	579	-	8	5,080	20,573	-	-	37,137	33,518
Exchange gains/(losses), net	-	(28)	-	(42)	-	-	458	(184)	-	-	2,631	(2,691)
Total	-	89,857	-	17,303	-	8,332	363,367	1,060,427	(55,203)	(71,789)	2,538,592	3,384,958
Segment results	-	(28,677)	-	(144)	-	(89)	28,898	(27,970)	-	227	895,772	918,492
Interest income and unallocated gains											15,937	17,396
Unallocated expenses											(65,225)	(1,711)
Profit from operating activities											846,484	934,177
Finance costs											(334,520)	(636,323)
Share of profits less losses of:												
A jointly-controlled entity	-	-	-	-	-	-	-	-	-	-	32,796	25,990
Associates	-	-	-	-	-	-	803	(2,102)	-	-	13,684	81,012
Profit before tax											558,444	404,856
Tax											(103,574)	(101,349)
Profit before minority interests											454,870	303,507
Minority interests											(134,787)	(80,653)
Net profit from ordinary activities attributable to shareholders											320,083	222,854
Other financial information:												
Depreciation and amortisation	-	7	-	921	-	-	35,723	79,602	-	-	473,279	514,437
Unallocated amounts											119	119
											473,398	514,556
Impairment losses recognised in the profit and loss account	-	-	-	-	-	-	-	52,692	-	-	20,000	81,092
Unallocated amounts											62,362	-
											82,362	81,092

Note: Excluding exchange gains/(losses), net

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following tables present revenue for the Group's geographical segments.

	Hong Kong		Mainland China		Other		Consolidated 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	
	2003	2002	2003	2002	2003	2002	2003	2002
	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	115,720	185,888	2,382,127	3,157,407	977	10,836	2,498,824	3,354,131
Other revenue from								
external sources (Note)	4,121	2,069	33,016	29,765	-	1,684	37,137	33,518
Exchange gains/(losses), net	1,711	(103)	920	(93)	-	(2,495)	2,631	(2,691)
Total	121,552	187,854	2,416,063	3,187,079	977	10,025	2,538,592	3,384,958

Note: Excluding exchange gains/(losses), net

3. DISCONTINUED OPERATIONS

(a) Disposal of the Group's entire interests in certain assets

On 26 February 2003, the Company entered into a conditional agreement (the "Disposal Agreement") with its parent company, GDH Limited, for the disposal of the following assets at a total consideration of HK\$1,451,226,000 (the "Disposal Transaction").

- The Group's entire 100% equity interest in Guangdong (H.K.) Tours Company Limited ("GD Tours"). During the period, GD Tours and its subsidiaries carried out the Group's Tours Operation.
- The Group's entire 900,000,000 shares in issued capital of Guangdong Brewery Holdings Limited ("GD Brewery"). During the period, GD Brewery and its subsidiaries carried out the Group's Brewery Operation.
- The Group's entire 100% equity interest in Supertime Development Limited ("Supertime"). During the period, Supertime and its subsidiaries carried out the Group's Malting Operation.
- The Group's entire 375,100,000 shares in issued capital of Guangdong Tannery Limited ("GD Tannery"). During the period, GD Tannery and its subsidiaries carried out the Group's Tannery Operation and Merchandise Trading Operation.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. DISCONTINUED OPERATIONS (continued)

(a) Disposal of the Group's entire interest in certain assets (continued)

- The Group's entire 24.8% equity interest in 廣州市番禺粵海房地產有限公司 (Guangzhou Panyu Yue Hai Real Estate Limited) ("Guangzhou Panyu"). Guangzhou Panyu and its subsidiaries operates a property development project in Guangzhou.
- Net inter-company debts, being the amounts outstanding at the date of the completion of the Disposal Transaction, owed to the Group by GD Tannery, Supertime, GD Tours, and certain of their respective subsidiaries.

On 31 March 2003, the Disposal Transaction was completed and resulted in a loss of HK\$3,738,000 to the Group. Since then, GD Brewery, GD Tannery, Supertime, and GD Tours ceased to be subsidiaries of the Group and the Group's Brewery Operation, Tannery Operation, Merchandise Trading Operation, Malting Operation, and Tours Operation were discontinued in the current period.

(b) Disposal of the Group's entire 60% interest in Alpha Universal Limited ("Alpha Universal")

In June 2002, GD Tannery entered into a conditional sales and purchases agreement with an independent third party for the disposal of the Group's 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 principally operated the Group's Leather Ware Operation.

In July 2002, the Group's disposal of its entire 60% interest in the Alpha Universal Group was completed and resulted in a gain of HK\$636,000 to the Group in that year. Upon the completion of this transaction, Alpha Universal ceased to be a subsidiary of the Group and the Group's Leather Ware Operation was discontinued in the prior year.

(c) Discontinuation of the operation of Xuzhou Gangwei Colour Package Co., Ltd. ("Xuzhou Gangwei")

In June 2002, the Group negotiated with the staff of Xuzhou Gangwei 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 business and 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 the Group's Packaging Materials Operation was then completed.

In connection with the decision to discontinue the Packaging Materials Operation, the Group incurred compensation payments to staff of HK\$552,000.

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

The turnover, other revenue and gains, expenses, profit/(loss) before tax and tax attributable to the discontinued operations for the six months ended 30 June 2003 are as follows:

	Tours Operation		Brewery Operation		Subtotal	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	61,325	87,594	110,513	276,433	171,838	364,027
Cost of sales	(53,645)	(66,286)	(68,774)	(168,399)	(122,419)	(234,685)
Gross profit	7,680	21,308	41,739	108,034	49,419	129,342
Other revenue and gains	155	3,999	3,794	18,862	3,949	22,861
Selling and distribution costs	(838)	(3,053)	(26,495)	(48,211)	(27,333)	(51,264)
Administrative expenses	(4,926)	(23,167)	(6,903)	(20,702)	(11,829)	(43,869)
Other operating expenses, net	(2,283)	(50,624)	-	-	(2,283)	(50,624)
Profit/(loss) from operating activities	(212)	(51,537)	12,135	57,983	11,923	6,446
Finance costs	(1,818)	(3,311)	-	-	(1,818)	(3,311)
Share of profits less losses of associates	803	895	-	(2,997)	803	(2,102)
Profit/(loss) before tax	(1,227)	(53,953)	12,135	54,986	10,908	1,033
Tax	(265)	(295)	(574)	(8,357)	(839)	(8,652)
Profit/(loss) before minority interests	(1,492)	(54,248)	11,561	46,629	10,069	(7,619)
Minority interests	-	71	(5,371)	(15,500)	(5,371)	(15,429)
Net profit/(loss) for the period	(1,492)	(54,177)	6,190	31,129	4,698	(23,048)

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

The net cash flows attributable to the discontinued operations for the six months ended 30 June 2003 are as follows:

	Tours Operation		Brewery Operation		Subtotal	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Operating	(12,835)	(31,011)	7,549	74,623	(5,286)	43,612
Investing	5,204	(2,177)	(12,038)	(7,340)	(6,834)	(9,517)
Financing	-	(119,511)	153	-	153	(119,511)
Net cash inflow/(outflow)	(7,631)	(152,699)	(4,336)	67,283	(11,967)	(85,416)

The carrying amounts of the total assets and liabilities of the discontinued operations at the balance sheet date are as follows:

	As at		As at		As at	
	30 June	31 December	30 June	31 December	30 June	31 December
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Total assets	-	134,645	-	1,409,329	-	1,543,974
Total liabilities	-	(172,523)	-	(221,457)	-	(393,980)
Net assets	-	(37,878)	-	1,187,872	-	1,149,994

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

The turnover, other revenue and gains, expenses, profit/(loss) before tax and tax attributable to the discontinued operations for the six months ended 30 June 2003 are as follows:

	Malting Operation		Tannery Operation		Subtotal	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	102,047	336,584	64,274	199,240	166,321	535,824
Cost of sales	(76,413)	(288,260)	(57,984)	(181,942)	(134,397)	(470,202)
Gross profit	25,634	48,324	6,290	17,298	31,924	65,622
Other revenue and gains	1,843	395	292	539	2,135	934
Selling and distribution costs	(5,077)	(15,494)	(527)	(9,040)	(5,604)	(24,534)
Administrative expenses	(7,267)	(8,401)	(3,667)	(14,462)	(10,934)	(22,863)
Other operating expenses, net	-	(3,652)	-	(11,311)	-	(14,963)
Profit/(loss) from operating activities	15,133	21,172	2,388	(16,976)	17,521	4,196
Finance costs	(3,972)	(5,860)	(2,479)	-	(6,451)	(5,860)
Share of profits less losses of associates	-	-	-	-	-	-
Profit/(loss) before tax	11,161	15,312	(91)	(16,976)	11,070	(1,664)
Tax	(955)	(2,116)	-	-	(955)	(2,116)
Profit/(loss) before minority interests	10,206	13,196	(91)	(16,976)	10,115	(3,780)
Minority interests	(5,570)	(3,501)	-	7,554	(5,570)	4,053
Net profit/(loss) for the period	4,636	9,695	(91)	(9,422)	4,545	273

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

The net cash flows attributable to the discontinued operations for the six months ended 30 June 2003 are as follows:

	Malting Operation		Tannery Operation		Subtotal	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Operating	(29,424)	80,019	(42,864)	(21,064)	(72,288)	58,955
Investing	(341)	(779)	9,308	(9,188)	8,967	(9,967)
Financing	95,273	(73,671)	(5,930)	9,206	89,343	(64,465)
Net cash inflow/(outflow)	65,508	5,569	(39,486)	(21,046)	26,022	(15,477)

The carrying amounts of the total assets and liabilities of the discontinued operations at the balance sheet date are as follows:

	As at		As at		As at	
	30 June	31 December	30 June	31 December	30 June	31 December
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Total assets	-	736,086	-	412,865	-	1,148,951
Total liabilities	-	(316,831)	-	(138,895)	-	(455,726)
Net assets	-	419,255	-	273,970	-	693,225

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

The turnover, other revenue and gains, expenses, profit/(loss) before tax and tax attributable to the discontinued operations for the six months ended 30 June 2003 are as follows:

	Mechandise Trading Operation		Leather Ware Operation		Subtotal	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	-	89,838	-	16,766	-	106,604
Cost of sales	-	(82,038)	-	(5,615)	-	(87,653)
Gross profit	-	7,800	-	11,151	-	18,951
Other revenue and gains	-	19	-	601	-	620
Selling and distribution costs	-	-	-	(6,845)	-	(6,845)
Administrative expenses	-	-	-	(5,069)	-	(5,069)
Other operating expenses, net	-	(36,496)	-	41	-	(36,455)
Profit/(loss) from operating activities	-	(28,677)	-	(121)	-	(28,798)
Finance costs	-	-	-	(32)	-	(32)
Share of profits less losses of associates	-	-	-	-	-	-
Profit/(loss) before tax	-	(28,677)	-	(153)	-	(28,830)
Tax	-	-	-	-	-	-
Profit/(loss) before minority interests	-	(28,677)	-	(153)	-	(28,830)
Minority interests	-	9,518	-	-	-	9,518
Net profit/(loss) for the period	-	(19,159)	-	(153)	-	(19,312)

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

The net cash flows attributable to the discontinued operations for the six months ended 30 June 2003 are as follows:

	Mechandise Trading Operation		Leather Ware Operation		Subtotal	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Operating	-	14,447	-	(608)	-	13,839
Investing	-	-	-	(317)	-	(317)
Financing	-	(64,623)	-	-	-	(64,623)
Net cash inflow/(outflow)	-	(50,176)	-	(925)	-	(51,101)

The carrying amounts of the total assets and liabilities of the discontinued operations at the balance sheet date are as follows:

	As at		As at		As at	
	30 June	31 December	30 June	31 December	30 June	31 December
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Total assets	-	1,219	-	-	-	1,219
Total liabilities	-	(605)	-	-	-	(605)
Net assets	-	614	-	-	-	614

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

The turnover, other revenue and gains, expenses, profit/(loss) before tax and tax attributable to the discontinued operations for the six months ended 30 June 2003 are as follows:

	Packaging Materials Operation		Total	
	For the six months ended 30 June		For the six months ended 30 June	
	2003	2002	2003	2002
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Turnover	-	8,324	338,159	1,014,779
Cost of sales	-	(6,089)	(256,816)	(798,629)
Gross profit	-	2,235	81,343	216,150
Other revenue and gains	-	165	6,084	24,580
Selling and distribution costs	-	(840)	(32,937)	(83,483)
Administrative expenses	-	(760)	(22,763)	(72,561)
Other operating expenses, net	-	(732)	(2,283)	(102,774)
Profit/(loss) from operating activities	-	68	29,444	(18,088)
Finance costs	-	-	(8,269)	(9,203)
Share of profits less losses of associates	-	-	803	(2,102)
Profit/(loss) before tax	-	68	21,978	(29,393)
Tax	-	-	(1,794)	(10,768)
Profit/(loss) before minority interests	-	68	20,184	(40,161)
Minority interests	-	-	(10,941)	(1,858)
Net profit/(loss) for the period	-	68	9,243	(42,019)

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

The net cash flows attributable to the discontinued operations for the six months ended 30 June 2003 are as follows:

	Packaging Materials Operation		Total	
	For the six months ended 30 June		For the six months ended 30 June	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Operating	-	(287)	(77,574)	116,119
Investing	-	154	2,133	(19,647)
Financing	-	-	89,496	(248,599)
Net cash inflow/(outflow)	-	(133)	14,055	(152,127)

The carrying amounts of the total assets and liabilities of the discontinued operations at the balance sheet date are as follows:

	As at	As at	As at	As at
	30 June	31 December	30 June	31 December
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Total assets	-	-	-	2,694,144
Total liabilities	-	-	-	(850,311)
Net assets	-	-	-	1,843,833

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**4. PROFIT FROM OPERATING ACTIVITIES**

The Group's profit from operating activities is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	547,150	1,074,713
Depreciation	171,047	207,736
Amortisation of deferred expenses*	545	3,136
Amortisation of reusable packaging materials*	2,023	3,201
Amortisation of the operating right*	244,616	244,616
Amortisation of trademarks*	–	700
Amortisation of prepaid rental*	55,048	55,048
(Gain)/Expenses included in other operating expenses, net:		
Amortisation of goodwill	119	119
Revaluation deficit on investment properties	72,075	73,213
Revaluation deficit on hotel properties	37,000	–
Impairment of properties under development	20,000	28,400
Impairment of investment securities	2,362	–
Impairment of an interest in a jointly-controlled entity	60,000	–
Write-back of provision against an amount due from a fellow subsidiary	(994)	(2,619)
Write-back of provision against bad and doubtful debts (<i>Note</i>)	(64,041)	–
Unrealised holding loss of other investments	–	76
Gain on disposal of a deconsolidated subsidiary	–	(850)
Provisions against inventories	–	10,571
Provisions for doubtful debts	–	48,655
Impairment of fixed assets	–	52,692
Loss on disposal of fixed assets	–	8,555
Loss on disposal of an associate	–	2,366
Interest income	(11,159)	(12,093)
Gain on disposal of subsidiaries and an associate, net	(19,475)	–
Royalty income from trademarks	–	(500)
Negative goodwill recognised*	(5,784)	(5,359)

* 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)**4. PROFIT FROM OPERATING ACTIVITIES** (continued)

Note: The balance included an amount of HK\$30,000,000 representing partial recovery of two loans of Yue Sheng Finance Limited ("Yue Sheng Finance"), a wholly-owned subsidiary of the Company, which was involved in legal proceedings in both Mainland China and Hong Kong.

In March 2001, Yue Sheng Finance commenced legal proceedings in Mainland China to recover the two loans aggregating a total of HK\$40,000,000 together with interest thereon from two Chinese parties who are the guarantors of the loans. The Chinese parties and the borrower of the loans (the "Borrower") also commenced legal proceedings in Hong Kong against Yue Sheng Finance and a former subsidiary of the Group in July 2001 seeking, inter alia, a declaration that the plaintiffs (i.e., the Chinese Parties and the Borrower) do not have legal obligation to repay the loans and any compensation.

On 10 July 2003, Yue Sheng Finance and the Chinese parties reached a settlement for the legal proceedings in Mainland China, whereby the Chinese parties shall repay Yue Sheng Finance amounting to RMB31,827,000 (HK\$30,000,000), which is comprised of cash of RMB20,000,000 (HK\$18,852,000) and a piece of land in Mainland China with a market value equivalent to RMB11,827,000 (HK\$11,148,000). Yue Sheng Finance, the Chinese Parties and the Borrower have also reached a settlement in respect of the legal proceedings in Hong Kong whereby the actions of all these parties against Yue Sheng Finance were to be discontinued.

On 14 July 2003, the legal proceedings in Hong Kong against Yue Sheng Finance was discontinued accordingly.

5. FINANCE COSTS

	For the six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank loans, overdrafts and other borrowings repayable:		
Within five years	58,606	83,849
Over five years	303,062	562,951
Interest on provision for bank loans guaranteed	12,714	11,162
	374,382	657,962
Less: Interest included in prepaid construction cost	(39,862)	(22,736)
	334,520	635,226
Amortisation of swap cost in respect of a swap agreement	–	1,097
	334,520	636,323

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**6. TAX**

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on assessable profits of subsidiaries, associates and a jointly-controlled entity of the Group in Mainland China and overseas have been calculated at the rate of tax applicable to those subsidiaries and associates, and the jointly-controlled entity based on existing legislation, interpretations and practices in respect thereof.

	For the six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited) (Restated)
Company and subsidiaries:		
<i>Current tax:</i>		
Hong Kong	740	3,046
Mainland China	60,530	54,999
Over provision in prior periods	–	(831)
	61,270	57,214
<i>Deferred tax, net:</i>	36,649	28,457
	97,919	85,671
Share of tax attributable to:		
Jointly-controlled entity	4,315	3,118
Associates	1,340	12,560
	103,574	101,349
Tax charge for the period	103,574	101,349

7. DIVIDENDS

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 2003 (six months ended 30 June 2002: Nil).

As at 30 June 2003, the accumulated (but undeclared) fixed dividends on the Company's 3¼% redeemable cumulative convertible preference shares (the "Preference Shares") amounted to HK\$112,455,000 (as at 31 December 2002: HK\$92,236,000). Such accumulated dividends, in respect of the period starting from 7 October 1998, do not accrue interest.

Under the terms of the Preference Shares, for the year from 7 April 2003 to 6 April 2004, the Preference Shares carry fixed dividend of 6.60% per annum with respect to their redemption amount, and, from 7 April 2004 onwards, the Preference Shares will carry a fixed dividend of 9.60% per annum with respect to their redemption amount.

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

The calculation of the basic and diluted earnings per share for the six months ended 30 June 2003, together with the comparative amounts for the same period in 2002, is based on the following data:

	For the six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited) (Restated)
Earnings:		
Net profit attributable to shareholders	320,083	222,854
Less: Provision for Preference Share redemption premium	(14,146)	(26,524)
Preference Share dividends	(20,219)	(10,894)
	<u>285,718</u>	<u>185,436</u>
Earnings for the purpose of basic and diluted earnings per share	<u>285,718</u>	<u>185,436</u>
Number of shares:		
Weighted average number of Ordinary Shares in issue	5,181,919,384	5,136,914,717
Effect of the Additional Shares to be issued arising from the Acquisition from the date when all necessary conditions have been satisfied	<u>231,000,000</u>	<u>104,450,000</u>
For the purpose of basic earnings per share	<u>5,412,919,384</u>	<u>5,241,364,717</u>
Weighted average number of Ordinary Shares in issue	5,181,919,384	5,136,914,717
Assumed issued at no consideration on deemed exercise of all share options outstanding during the period	113,399,165	2,940,286
Effect of the Additional Shares to be issued arising from the Acquisition from the beginning of period	<u>330,000,000</u>	<u>132,000,000</u>
For the purpose of diluted earnings per share	<u>5,625,318,549</u>	<u>5,271,855,003</u>

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 (each such share an "Additional Share") 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.

As WaterCo had already attained the performance milestones under the Earnout Agreement for the first, second, third, fourth, and fifth years of the Earnout Period in connection with the issuance of Additional Shares in September 2001, March 2002, September 2002, March 2003, and June 2003, respectively, the Company had an obligation to issue a total of 330 million Additional Shares to GDH Limited on a date which is 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"). The construction of the Phase IV Renovation Project was completed in June 2003, and the assets will be formally handed over to the Group by the end of year 2003 following a series of specific testing on the project. Further details of which are set out in note 19(b)(v) to the condensed consolidated financial statements.

The effect of the 330 million Additional Shares for the first, second, third, fourth, and fifth years of the Earnout Period has been incorporated in the computation of the basic and diluted earnings per shares for the current period.

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

9. RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 30 June 2003, included in the receivables, prepayments and deposits are trade receivables of HK\$107,773,000 (as at 31 December 2002: HK\$385,283,000) 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**9. RECEIVABLES, PREPAYMENTS AND DEPOSITS** (continued)

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

	As at 30 June 2003 HK\$'000 (Unaudited)	As at 31 December 2002 HK\$'000 (Audited)
Within 3 months	104,063	379,895
More than 3 months and less than 6 months	2,681	3,948
More than 6 months and less than 1 year	839	32,765
More than 1 year	10,640	243,966
	118,223	660,574
Less: Provisions for doubtful debts	(10,450)	(275,291)
	107,773	385,283

10. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS AND BALANCES

	As at 30 June 2003 HK\$'000 (Unaudited)	As at 31 December 2002 HK\$'000 (Audited)
Cash and bank balances	704,249	1,412,667
Time deposits	420,327	375,756
	1,124,576	1,788,423
Less: Pledged bank deposits and balances (Note)	-	(17,513)
Cash and cash equivalents	1,124,576	1,770,910

Note: In the prior year, these bank deposits and balances were pledged to certain banks for certain trade and credit facilities granted to the Group. These facilities were terminated during the period.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**11. TRADE PAYABLES**

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

	As at 30 June 2003 HK\$'000 (Unaudited)	As at 31 December 2002 HK\$'000 (Audited)
Within 3 months	77,388	214,383
More than 3 months and less than 6 months	1,999	14,064
More than 6 months and less than 1 year	662	2,330
More than 1 year	3,060	61,321
	83,109	292,098

12. DUE TO THE IMMEDIATE HOLDING COMPANY

The amounts due to the immediate holding company, GDH Limited, are analysed as follows:

	As at 30 June 2003 HK\$'000 (Unaudited)	As at 31 December 2002 HK\$'000 (Audited)
Non interest-bearing portion	1,968	1,050
Interest-bearing portion (<i>included in Note 14</i>)	170,000	626,623
	171,968	627,673

The interest-bearing portion of the amounts due to the immediate holding company bears interest at 1% above HIBOR per annum.

13. DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

The amounts due to minority shareholders of subsidiaries are analysed as follows:

	As at 30 June 2003 HK\$'000 (Unaudited)	As at 31 December 2002 HK\$'000 (Audited)
Non interest-bearing portion	328,419	603,545
Interest-bearing portion (<i>included in Note 14</i>)	–	42,448
	328,419	645,993

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**14. BANK AND OTHER INTEREST-BEARING BORROWINGS**

	Notes	As at 30 June 2003			As at 31 December 2002		
		Current liabilities	Non-current liabilities	Total	Current liabilities	Non-current liabilities	Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans and overdrafts		354,876	14,137,774	14,492,650	721,656	14,343,728	15,065,384
Bonds		-	-	-	-	417,085	417,085
Floating rate notes		-	-	-	-	245,282	245,282
Notes payable and							
GH Holdings Debts		-	1,231,284	1,231,284	-	1,406,242	1,406,242
Transferable loan instruments		-	-	-	-	265,034	265,034
Due to the immediate							
holding company	12	170,000	-	170,000	305,316	321,307	626,623
Due to minority shareholders							
of subsidiaries	13	-	-	-	7,047	35,401	42,448
		524,876	15,369,058	15,893,934	1,034,019	17,034,079	18,068,098

15. SHARE CAPITAL

	As at 30 June 2003 HK\$'000 (Unaudited)	As at 31 December 2002 HK\$'000 (Audited)
Authorised:		
8,000,000,000 Ordinary Shares of HK\$0.50 each	4,000,000	4,000,000
200,000 3 ¹ / ₄ % Preference Shares of US\$1.00 each	1,549	1,549
	4,001,549	4,001,549
Issued and fully paid:		
5,218,682,672 Ordinary Shares (2002: 5,162,382,672 Ordinary Shares)	2,609,341	2,581,191
85,949 Preference Shares (2002: 85,949 Preference Shares)	666	666
	2,610,007	2,581,857

During the six months ended 30 June 2003, the subscription rights attaching to 56,300,000 share options were exercised at subscription prices ranging from HK\$0.5312 to HK\$0.96 per Ordinary Share (see Note 16), resulting in the issue of 56,300,000 Ordinary Shares for a total consideration, before expenses, of HK\$32,196,000.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. SHARE OPTION SCHEMES

As at 31 December 2002, the Group operated share option schemes of the Company, GD Brewery and GD Tannery. Upon the completion of the Disposal Transaction, GD Brewery and GD Tannery ceased to be subsidiaries of the Company and their share option schemes were no longer part of the Group's share option schemes.

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				As at 30 June 2003	Date of grant of share options* (dd.mm.yyyy)	Exercise period of share options (both dates inclusive)# (dd.mm.yyyy)	Exercise price of share options** HK\$	Closing price of the Company's Ordinary Shares prior to the date of grant*** HK\$
	As at 1 January 2003	Granted during the period##	Cancelled/lapsed during the period	Exercised during the period###					
Directors									
WU Jiesi	12,000,000	-	-	(5,000,000)	7,000,000	01.11.2001	02.05.2002 to 01.05.2007	0.74	0.73
	9,000,000	-	-	-	9,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
	6,000,000	-	-	-	6,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89
	-	3,000,000	-	-	3,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22
LI Wenyue	12,000,000	-	-	(5,000,000)	7,000,000	10.08.2001	11.02.2002 to 10.02.2007	0.5312	0.66
	9,000,000	-	-	-	9,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
	6,000,000	-	-	-	6,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89
	-	3,000,000	-	-	3,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22
ZHANG Hui	5,000,000	-	-	-	5,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89
	-	3,000,000	-	-	3,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22
CHAN Cho Chak, John	1,000,000	-	-	-	1,000,000	01.11.2001	02.05.2002 to 01.05.2007	0.74	0.73
	1,000,000	-	-	-	1,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
	1,000,000	-	-	-	1,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89
	-	1,000,000	-	-	1,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. SHARE OPTION SCHEMES (continued)

Name or category of participant	Number of share options				As at 30 June 2003	Date of grant of share options* (dd.mm.yyyy)	Exercise period of share options (both dates inclusive) [#] (dd.mm.yyyy)	Exercise price of share options** HK\$	Closing price of the Company's Ordinary Shares prior to the date of grant*** HK\$
	As at 1 January 2003	Granted during the period [#]	Cancelled/lapsed during the period	Exercised during the period ^{##}					
Li Kwok Po, David	1,000,000	-	-	-	1,000,000	01.11.2001	02.05.2002 to 01.05.2007	0.74	0.73
	1,000,000	-	-	-	1,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
	1,000,000	-	-	-	1,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89
	-	1,000,000	-	-	1,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22
CHENG Mo Chi, Moses	1,000,000	-	-	-	1,000,000	01.11.2001	02.05.2002 to 01.05.2007	0.74	0.73
	1,000,000	-	-	-	1,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
	1,000,000	-	-	-	1,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89
	-	1,000,000	-	-	1,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22
FUNG, Daniel R.	1,000,000	-	-	-	1,000,000	01.11.2001	02.05.2002 to 01.05.2007	0.74	0.73
	1,000,000	-	-	-	1,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
	1,000,000	-	-	-	1,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89
	-	1,000,000	-	-	1,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22
YE Xuquan	12,000,000	-	-	(5,000,000)	7,000,000	10.08.2001	11.02.2002 to 10.02.2007	0.5312	0.66
	9,000,000	-	-	-	9,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
	6,000,000	-	-	-	6,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89
	-	3,000,000	-	-	3,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. SHARE OPTION SCHEMES (continued)

Name or category of participant	Number of share options					Date of grant of share options* (dd.mm.yyyy)	Exercise period of share options (both dates inclusive)† (dd.mm.yyyy)	Exercise price of share options** HK\$	Closing price of the Company's Ordinary Shares prior to the date of grant*** HK\$
	As at 1 January 2003	Granted during the period‡	Cancelled/lapsed during the period	Exercised during the period‡‡‡	As at 30 June 2003				
LI Wai Keung	1,500,000	-	-	(800,000)	700,000	01.11.2001	02.05.2002 to 01.05.2007	0.74	0.73
	1,500,000	-	-	-	1,500,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
	1,500,000	-	-	-	1,500,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89
	-	1,500,000	-	-	1,500,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22
ZHANG Yaping	12,000,000	-	-	-	12,000,000	10.08.2001	11.02.2002 to 10.02.2007	0.5312	0.66
	9,000,000	-	-	-	9,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
	6,000,000	-	-	-	6,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89
	-	1,000,000	-	-	1,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22
ZHAI Zhiming	1,000,000	-	-	-	1,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
	1,000,000	-	-	-	1,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89
	-	1,000,000	-	-	1,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22
WANG Man Kwan, Paul	1,000,000	-	-	(1,000,000)	-	10.08.2001	11.02.2002 to 10.02.2007	0.5312	0.66
	1,500,000	-	-	-	1,500,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
	1,500,000	-	-	-	1,500,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89
	-	1,500,000	-	-	1,500,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. SHARE OPTION SCHEMES (continued)

Name or category of participant	Number of share options					Date of grant of share options* (dd.mm.yyyy)	Exercise period of share options (both dates inclusive)† (dd.mm.yyyy)	Exercise price of share options** HK\$	Closing price of the Company's Ordinary Shares prior to the date of grant*** HK\$
	As at 1 January 2003	Granted during the period‡	Cancelled/lapsed during the period	Exercised during the period‡‡‡	As at 30 June 2003				
GU Shunan	1,000,000	-	-	-	1,000,000	01.11.2001	02.05.2002 to 01.05.2007	0.74	0.73
	1,000,000	-	-	-	1,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
	1,000,000	-	-	-	1,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89
	-	1,000,000	-	-	1,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22
WANG Xiaofeng	1,000,000	-	-	-	1,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
	1,000,000	-	-	-	1,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89
	-	1,000,000	-	-	1,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22
YU Lai	-	1,000,000	-	-	1,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22
	<u>140,500,000</u>	<u>24,000,000</u>	<u>-</u>	<u>(16,800,000)</u>	<u>147,700,000</u>				
Others									
Employees	2,705,000	-	(90,000)	-	2,615,000	18.02.1998	19.08.1998 to 18.08.2003	2.892	3.50
	2,850,000	-	-	-	2,850,000	16.03.1998	17.09.1998 to 16.09.2003	3.024	3.80
	90,200,000	-	-	(36,100,000)	54,100,000	10.08.2001	11.02.2002 to 10.02.2007	0.5312	0.66
	13,800,000	-	-	(2,600,000)	11,200,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81
	67,900,000	-	-	(800,000)	67,100,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89
-	31,900,000	-	-	31,900,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	
Consultant	31,393,939	-	-	-	31,393,939	03.06.2002	21.12.2002 to 03.06.2007	0.816	0.81
	<u>208,848,939</u>	<u>31,900,000</u>	<u>(90,000)</u>	<u>(39,500,000)</u>	<u>201,158,939</u>				
Total	<u>349,348,939</u>	<u>55,900,000</u>	<u>(90,000)</u>	<u>(56,300,000)</u>	<u>348,858,939</u>				

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**16. SHARE OPTION SCHEMES** (continued)

- * *The vesting period of the share options is from the date of 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 closing price of the Ordinary Shares prior to the date of grant of the share options is the closing price on the Hong Kong Stock Exchange on the trading day immediately before the date of grant of the share options.*
- # *If the last day of the option period is not a business day in Hong Kong, the option period expires at 5:01 p.m. on the business day preceding that day (Hong Kong time).*
- ## *HK\$1.00 is payable by the grantee on acceptance of the offer in respect of the option granted on 4 December 2002 and 7 May 2003.*
- ### *The weighted average closing price of the shares immediately before the date on which the share options were exercised: HK\$1.1218.*

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. RESERVES

	Ordinary Share premium account HK\$'000 (Unaudited)	Preference Share premium account HK\$'000 (Unaudited)	Ordinary Shares to be issued HK\$'000 (Unaudited)	Capital reserve HK\$'000 (Unaudited)	Expansion fund reserve HK\$'000 (Unaudited)	Exchange fluctuation reserve HK\$'000 (Unaudited)	Accumulated losses HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
At 1 January 2003:								
As previously reported	5,927,889	665,142	242,880	3,668,943	145,313	(66,611)	(3,750,030)	6,833,526
Prior period adjustments (Note 1)	-	-	-	(63,079)	-	-	(532,320)	(595,399)
As restated	5,927,889	665,142	242,880	3,605,864	145,313	(66,611)	(4,282,350)	6,238,127
Exercises of share options	4,046	-	-	-	-	-	-	4,046
Disposal of subsidiaries and an associate	-	-	-	(462,527)	(36,336)	18,876	436,182	(43,805)
Net profit for the period	-	-	-	-	-	-	320,083	320,083
Exchange adjustments	-	-	-	-	-	576	-	576
Additional Shares to be issued as a result of the Acquisition	-	-	60,720	(60,720)	-	-	-	-
At 30 June 2003	5,931,935	665,142	303,600	3,082,617	108,977	(47,159)	(3,526,085)	6,519,027
At 1 January 2002:								
As previously reported	5,926,972	665,142	121,440	3,790,383	98,742	(67,772)	(3,984,567)	6,550,340
Prior period adjustments (Note 1)	-	-	-	(63,079)	-	-	(446,116)	(509,195)
As restated	5,926,972	665,142	121,440	3,727,304	98,742	(67,772)	(4,430,683)	6,041,145
Exercises of share options	384	-	-	-	-	-	-	384
Disposal of an associate	-	-	-	-	(3,222)	2,366	3,222	2,366
Net profit for the period	-	-	-	-	-	-	222,854	222,854
Transfer from the profit and loss account	-	-	-	-	1,215	-	(1,215)	-
Exchange adjustments	-	-	-	-	-	(59)	-	(59)
Additional Shares to be issued as a result of the Acquisition	-	-	60,720	(60,720)	-	-	-	-
At 30 June 2002	5,927,356	665,142	182,160	3,666,584	96,735	(65,465)	(4,205,822)	6,266,690

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**18. NOTES TO CONDENSED CONSOLIDATED CASH FLOW STATEMENT****(a) Acquisition of a subsidiary**

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 0.16% interest in GH Holdings at a total consideration of HK\$7,195,000. As a result of these acquisitions, the Group increased its holdings in GH Holdings to 82.58% and recognised a negative goodwill of HK\$1,384,000.

(b) Disposal of subsidiaries and an associate

- (i) On 31 March 2003, the Disposal Transaction was completed and certain subsidiaries and an associate were sold to GDH Limited. Details of the Disposal Transaction were set out in note 3 (a) to the condensed consolidated financial statements.
- (ii) On 2 May 2003, the Group completed the disposal of its entire 60% interest in Guangdong Parking Limited ("GD Parking"), together with an assignment of the Group's receivables from it, to an independent third party (the "Purchaser") at a nominal value of HK\$1. As an integral part of this transaction, the Group and the purchaser advanced approximately HK\$7.9 million and HK\$13 million, respectively, to GD Parking for the repayment of its then outstanding bank loan and, thereafter, the Group was released from all obligations under its guarantee for GD Parking's bank loan.
- (iii) On 30 May 2003, the Group completed the disposal of its entire interest in Suzhou Yuehai Real Estate Development Co., Ltd at a consideration of RMB4,500,000 (equivalent to HK\$4,240,000).

(c) Cash and cash equivalents

	As at 30 June 2003 HK\$'000 (Unaudited)	As at 30 June 2002 HK\$'000 (Unaudited)
Cash and cash equivalents in the condensed consolidated balance sheet	1,124,576	1,298,360
Non-pledged time deposits with original maturity of three months or more when acquired	–	(3,649)
Bank overdrafts	–	(108)
	<hr/>	<hr/>
Cash and cash equivalents in the condensed consolidated cash flow statements	<u>1,124,576</u>	<u>1,294,603</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**19. COMMITMENTS**

- (a) The Group leases certain of their properties under operating leases arrangements. Leases for properties are negotiated for terms ranging from 1 to 50 years.

As at 30 June 2003, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	As at 30 June 2003 HK\$'000 (Unaudited)	As at 31 December 2002 HK\$'000 (Audited)
Within one year	355	5,388
In the second to fifth years, inclusive	878	5,080
After five years	17,549	17,549
	18,782	28,017

- (b) In addition to the above operating lease commitments, the Group also had the following significant commitments at the balance sheet date:

	As at 30 June 2003 HK\$'000 (Unaudited)	As at 31 December 2002 HK\$'000 (Audited)
(i) Capital commitments in respect of property, plant and equipment:		
Contracted for	9,771	8,666
Authorised, but not contracted for	16	5,623
	9,787	14,289
(ii) Other capital commitment:		
Authorised, but not contracted for	–	76,992
(iii) The Group had approved the development of an office tower in Mainland China with an estimated cost of approximately RMB800 million. As at 30 June 2003, RMB224 million was paid for this project.		

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**19. COMMITMENTS** (continued)

(b) (continued)

- (iv) 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 exceeds the projected total cost of RMB4.7 billion.

The cost of RMB4.7 billion has been financed by a non interest-bearing loan facility of approximately RMB2.53 billion, which originates from a loan facility granted by the Hong Kong 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 5.184% per annum. An aggregate amount of RMB2,060 million (as at 31 December 2002: RMB1,460 million) has been drawn from these banks as at 30 June 2003.

- (v) Pursuant to the Earnout Agreement, the Company is committed to issue 330 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 construction of the project was completed in June 2003, and the assets will be formally handed over to the Group by the end of year 2003 following a series of specific testing on the project.

Further details of the above are set out in note 8 to the condensed consolidated financial statements.

- (vi) 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% equity interest in WaterCo) is not entitled to any distributed profits of WaterCo for the first fifteen years of operation and 100% of the distributed profits for that period shall be made to GH Holdings. Starting from the sixteenth year of operation, 1.01% of the distributed profits of WaterCo for the first fifteen years of operation plus simple interest of 8% per annum on the unpaid amount of the distributed profits shall be made to Yue Gang Investment (collectively referred to as the "Deferred Dividend"). Once Yue Gang Investment has received the Deferred Dividend in full, all of the WaterCo's distributable profits are to be distributed to the 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)**19. COMMITMENTS** (continued)

(b) (continued)

(vii) As at 30 June 2003, the Group had certain outstanding interest rate swap agreements with certain financial institutions for hedging certain of its borrowings at HIBOR per annum. Details of these agreements are set out below:

Types	Notional amount (HK\$)	Range of Duration	interest rate (p.a.)
Forward rate agreement	5,500 million	3 months	1.67%
Fixed rate swap agreements	6,000 million	9 to 10 years	4.69%-4.94%
Fixed rate swap agreements	1,000 million	4½ years	3.54%
Re-indexed floating rate to USD LIBOR	1,000 million	5 years	Daily average 6 months LIBOR in-arrear + 0.415%
Re-indexed floating rate to USD LIBOR	1,000 million	5 years	Daily average 6 months LIBOR in-arrear + 0.39%

20. CONTINGENT LIABILITIES

	As at 30 June 2003 HK\$'000 (Unaudited)	As at 31 December 2002 HK\$'000 (Audited)
(a) Guarantees:		
Guarantees given for banking facilities granted to a fellow subsidiary	–	395
Guarantees given in respect of mortgage loans made by banks to the Group's purchasers of properties	–	1,217
Guarantees given in respect of mortgage loans made by banks to an associate's purchasers of properties	–	685
Guarantee given in respect of a bank loan of the Group's contractual joint venture	120,900	–
	120,900	2,297

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**21. RELATED PARTY TRANSACTIONS**

In addition to the transactions set out elsewhere in the financial statements, the Group had the following related party transactions during the period.

	<i>Notes</i>	For the six months ended 30 June	
		2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Rental income from GDH Limited and certain of its subsidiaries	(i)	(2,986)	(3,695)
Interest income from a fellow subsidiary, Guangdong Finance Co., Limited	(ii)	(706)	(1,004)
General computer and SAP financial system maintenance service fees from GDH Limited and certain of its subsidiaries	(iii)	(978)	(1,280)
Sale of electricity to a minority shareholder of a subsidiary		–	(269,087)
Property management service fees paid to a fellow subsidiary	(iv)	1,951	1,888
Interest expense to:			
– Minority shareholders of subsidiaries	(v)	–	849
– GDH Limited and certain of its subsidiaries	(vi)	5,402	71,678
Engineering facilities and construction costs paid to a fellow subsidiary	(vii)	407	1,643
Repairs and maintenance services fees paid to a fellow subsidiary	(viii)	9	459
Hotel management fees received from fellow subsidiaries	(ix)	(183)	–
General computer and SAP financial system maintenance service fees paid to GDH Limited	(x)	138	–

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**21. RELATED PARTY TRANSACTIONS** (continued)

Notes:

- (i) 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. The Group's balances with GDH Limited are set out in note 12 to the condensed consolidated financial statements. The Group did not have any balances with these fellow subsidiaries as at 30 June 2003 and 31 December 2002.
- (ii) Guangdong Finance Co., Limited ("GD Finance") was a wholly-owned subsidiary of the Company before the transfer of its entire interest in GD Finance to GDH Limited as part of the consideration for the Acquisition in 2000. Since then, GD Finance has become a subsidiary of GDH Limited.

The interest income arose from unsecured loans advanced to GD Finance prior to the Acquisition. The loans bear 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 are repayable in accordance with the terms set out in the bank debt restructuring agreement of GD Finance. As at 30 June 2003, the balances with GD Finance amounting to HK\$43,955,000 (as at 31 December 2002: HK\$44,949,000) was fully provided.

- (iii) 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 are set out in note 12 to the condensed consolidated financial statements and the Group did not have any balances with these fellow subsidiaries as at 30 June 2003 and 31 December 2002.
- (iv) The management fees arose from the property management services rendered by a fellow subsidiary of the Company to WaterCo under contracts between them. As at 30 June 2003 and 31 December 2002, the Group did not have any balances with the fellow subsidiary.
- (v) The interest expense in the prior period arose from unsecured balances advanced by minority shareholders of the Company's subsidiaries, which bore interest at 2% above LIBOR per annum. During the period, these subsidiaries were disposed of by the Group and, accordingly, the Group did not have balances with these minority shareholders as at 30 June 2003.
- (vi) The interest expense arose from (a) an unsecured loan of HK\$170,000,000 advanced by GDH Limited (as at 31 December 2002: HK\$626,623,000), which bears interest at 1% above HIBOR per annum (for the six months ended 30 June 2002: the average bank lending rate and borrowing rate in Mainland China) and is repayable within one year; and (b) certain bank indebtedness of the Group and GH Holdings Debts amounting to HK\$76,262,000 as at 30 June 2003 (as at 31 December 2002: HK\$44,721,000).
- (vii) The construction costs arose from the construction of certain engineering facilities for WaterCo by a fellow subsidiary of the Company in accordance with contracts entered into between WaterCo and the fellow subsidiary. As at 30 June 2003 and 31 December 2002, the Group did not have any balances with the fellow subsidiary.
- (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 between WaterCo and the fellow subsidiary. As at 30 June 2003, the Group had an amount of HK\$742,000 due to the fellow subsidiary (as at 31 December 2002: HK\$1,150,000).
- (ix) The management fees income arose from the hotel management services rendered by the Company's subsidiary to certain of its fellow subsidiaries in accordance with the terms of agreements entered into between them. As at 30 June 2003 and 31 December 2002, the Group did not have any balances with these fellow subsidiaries.
- (x) GDH Limited provided the Company with certain general computer and SAP financial system maintenance service fees commencing from May 2003 in accordance with the agreement between the Company and GDH Limited.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**21. RELATED PARTY TRANSACTIONS** (continued)

Notes: (continued)

- (xi) 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 Company's immediate holding company is also a director and shareholder of AMRI.
- (xii) During the period, the cash distribution made by GH Holdings out of its capital contribution reserve and its distributable profits, amounting to HK\$36,737,000 (2002: HK\$22,795,000) was paid or payable to GDH Limited and certain of its subsidiaries as shareholders of GH Holdings. Such distribution was made in accordance with their respective interests in GH Holdings.

22. POST BALANCE SHEET EVENTS

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

- (a) By its announcement dated 21 August 2003, the Company announced its intention to put forward (i) a proposal to reduce the Company's share premium account by approximately HK\$3,879,160,000, being an amount equal to the Company's accumulated losses as at 30 June 2003 and thereafter to apply the amount of the share premium account so reduced in eliminating the accumulated losses of the Company as at 30 June 2003 (the "Loss Elimination Reduction"); and (ii) a proposal involving the cancellation of the 3¼% redeemable cumulative convertible preference shares of par value of US\$1 each and paid up value of US\$1,000 each in the capital of the Company and their replacement with HK\$497,320,000 5.1% five-year straight bonds and HK\$497,320,000 2.0% five-year convertible bonds, both to be issued to GDH Limited (as the beneficial owner of all the Preference Shares in issue) or its nominee (the "Preference Share Cancellation"). The Loss Elimination Reduction and the Preference Share Cancellation are referred to collectively as the "Capital Reduction Proposal".

The aggregate principal amount of the bonds of HK\$994,640,000 is less than the amount which GDH Limited would have been entitled to receive upon a full redemption of the preference shares pursuant to their terms, namely an amount equal to the aggregate of the paid-up par value and premium (totalling US\$85,949,000, which is approximately HK\$670,402,000), redemption premium (totalling US\$34,004,862, which is approximately HK\$265,238,000) and all unpaid but cumulated outstanding fixed dividend up to the date of redemption (which up to 30 June 2003 amounted to US\$14,417,331, which is approximately HK\$112,455,000).

The purpose of the Capital Reduction Proposal is to place the Company in a position to resume payment of dividends to its ordinary shareholders out of any distributable profits that may be generated in the years subsequent to 2003.

The Capital Reduction Proposal is subject to, inter alia, shareholders' approval and confirmation by the court. The circular in respect of the same has since been despatched to the shareholders on 4 September 2003 and the extraordinary general meeting of the Company therefor will be held on 29 September 2003. It is not possible at this stage to ascertain when the court hearing of the petition by the Company for the aforesaid confirmation by the court will take place. The Company is, however, seeking to achieve completion of the entire Capital Reduction Proposal by the end of 2003.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. POST BALANCE SHEET EVENTS (continued)

- (b) In July and August 2003, the Group agreed with certain financial institutions for the early termination of certain interest rate swap agreements and a profit of HK\$37 million was resulted. The termination was to improve the overall hedging costs of the Group.

23. COMPARATIVE AMOUNTS

As further explained in note 1 to these condensed consolidated financial statements, due to the adoption of the revised SSAP 12 during the period, the accounting treatment and presentation of certain items and balances in these condensed consolidated financial statements have been revised to comply with the new requirements. Accordingly, prior period adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current period's presentation.

24. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements were approved and authorised for issue by the Board of Directors on 18 September 2003.

BUSINESS REVIEW, DISCUSSION AND ANALYSIS, PROSPECT AND OTHER INFORMATION

I am pleased to present to you our results for the first six months of 2003. The highlight of the Group's activities during this period was the successful closing of the approximately HK\$1.5 billion sale of substantially all of our non-core businesses and the repayment of all of our remaining bank debts that were originally restructured in December 2000. Despite the impact of SARS on the Hong Kong economy in general, and the particular impact it had on our hotel group, I am pleased with the Group's progress and achievements thus far this year.

I would also like to point out that the Group's turnover, operating profit and earnings were all impacted by the suspension of water supply to Hong Kong for the whole month of June. It is our normal practice to suspend such services each year for one month, typically in December, in order to perform routine maintenance and repairs on the water supply system. This year, in order to cater for the testing and commissioning of the Phase IV Renovation Project that was coming into service, we had to move forward the one-month suspension from December to June. We do not expect any further service suspension this year and thus our 2003 full year's results will continue to reflect eleven months of service as in previous years.

Review of Group Results

The Group's turnover for the first six months of 2003 amounted to HK\$2,498,824,000 (2002: HK\$3,354,131,000). The decrease in turnover by HK\$855,307,000 was largely due to the disposal of substantially all of our non-core businesses on 31 March 2003, a decrease in turnover from the water distribution business (as discussed above) and a decrease in turnover at our hotel business due to the impact of SARS.

The Group's profit from operating activities (before finance costs and provisions) was HK\$972,886,000, compared to HK\$1,147,784,000 in 2002. The decrease was largely due to the one-month suspension of water supply to Hong Kong in June and the drop of hotel business during the SARS period.

The consolidated net profit attributable to shareholders amounted to HK\$320,083,000 for the six-month period ended 30 June 2003, compared to HK\$222,854,000 (restated) for the same period in 2002. The net increase in the current period's profit was largely due to savings in finance costs of HK\$301,803,000 (of which approximately HK\$249,229,000 contributed to the Group's results). These savings were partially offset by the loss of revenue from the water distribution business resulting from the one-month suspension of water supply to Hong Kong and a net increase in provisions on properties and investments.

The finance cost savings resulted from the completion of the debt refinancing of the Dongshen Water Supply Project on 20 December 2002. This refinancing lowered our interest cost from an effective rate in 2002 of approximately 7.7% per annum to a floating rate with margins ranging from 1% to 1.339% plus HIBOR per annum.

As a result of the continuing region-wide property market decline and the impact of SARS, we have decided to charge the provisions on property assets (including hotels) of HK\$129,075,000 to the Group's results. In addition, due to a change of market conditions, we have made a provision of HK\$60,000,000 to reflect the impairment in value of the Group's interest in a joint venture project. Partially offsetting these provisions was the recovery of HK\$64,041,000 on certain loans that had previously been provided for.

Basic earnings per share increased from HK¢3.54 (restated) to HK¢5.28, up 49.2% from the same period last year. Assuming water supply services were not suspended and the Group earned in June 2003 the same revenue as June of last year, the adjusted basic earnings per share would have been approximately HK¢7.94, 124.3% over the same period in 2002.

BUSINESS REVIEW, DISCUSSION AND ANALYSIS, PROSPECT AND OTHER INFORMATION

(continued)

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

Water Distribution

Profit contribution from the Dongshen Water Supply Project remained significant to the Group.

As I mentioned in my opening remarks, the six-month results of our water business were adversely affected by the one-month suspension of water supply to Hong Kong in June this year. As last year we made our annual suspension in December, the period-to-period comparison for the first six months of 2003 has been adversely affected.

The decision to move the annual suspension forward was driven by the coming into service of the Phase IV Renovation Project. The commencement of the operation of the Phase IV Renovation Project will substantially improve the quality of water supplied to Hong Kong, as water is now transported from the Dongjiang River to Shenzhen via overhead canals and tunnels.

From January to May 2003, the average monthly gross sale revenue on water supplied to Hong Kong amounted to approximately HK\$220,654,000. No water revenue from sales to Hong Kong was recorded in June.

Water supply to the Dongguan region continued to enjoy increases in volume and revenue. Results were further helped by an improved tariff collection system and tariff increases.

The volume and revenue of water supplied to Shenzhen region slightly decreased.

Operating profit before finance costs of the water distribution business for the six months period ended 30 June 2003 was HK\$702,430,000 (2002: HK\$831,805,000), the reduction was because of the one-month suspension of water supply to Hong Kong in June.

The successful refinancing of the water project debt of approximately HK\$14.8 billion was completed last December. It has resulted in significant savings of finance costs, which dropped to HK\$303,062,000 from HK\$553,783,000 in the same period last year.

In the first six months of 2003, the profit contribution to the Group from the water distribution business was HK\$320,120,000 (2002: HK\$223,942,000).

BUSINESS REVIEW, DISCUSSION AND ANALYSIS, PROSPECT AND OTHER INFORMATION

(continued)

Electric Power Generation*Shaoguan Power Plant D*

Sale of electricity by the Shaoguan Power Plant D (the "Shaoguan PPD") was adversely affected by the lower tariff which became effective July last year. However, extensive efforts by management to secure increased sales of electricity units (2003: 827 million kwh; 2002: 680 million kwh) significantly helped the Group's results. Total sales of electricity during the first six months of 2003 amounted to HK\$268,866,000, compared to HK\$269,087,000 for the same period last year. A profit of HK\$20,503,000 was contributed to the Group's results for the current period.

廣東省韶關粵江發電有限責任公司 (Guangdong Shaoguan Yue Jiang Power Supply Limited)

An associated company of Shaoguan PPD, 廣東省韶關粵江發電有限責任公司 (Guangdong Shaoguan Yue Jiang Power Supply Limited) (the "Yue Jiang Power Plant"), suffered from lower electricity generation (2003: 534 million kwh; 2002: 799 million kwh) and lower tariffs. As a result, sales were significantly down (2003: HK\$191,323,000, 2002: HK\$346,370,000), a drop of 44.76%. The significant drop was principally caused by the special repair and maintenance work carried out on the power generation system in the months of January, March and April, which led to the suspension of operation of the power plant.

Meixian Power Plant B

Sales of electricity by the power plant in Meixian, an investment of an associated company, amounted to 600 million kwh (2002: 855 million kwh), a drop of 29.8%. The drop was mainly due to the wet climate during the second quarter this year, which resulted in greater reliance on hydro electricity and accordingly a lower demand for thermal electricity. In the first six months of 2003, the Group's share of the sales revenue and operating profit before taxation were HK\$24,583,000 and HK\$7,451,000 (2002: HK\$40,963,000 and HK\$21,451,000), respectively.

Toll Roads and Bridges

In the first six months of 2003, an after-tax profit of HK\$55,845,000 (2002: HK\$44,845,000) was generated by the Group's jointly-controlled entity (the "JCE"), which holds interests in the "2 Roads and 2 Bridges" projects. The 24.5% increase in the JCE's profits was largely driven by a large savings in interest expense which resulted from the early repayment of bank loan, and also on average the better performance of the projects as compared to the same period last year. As at 30 June 2003, the balance of the loan was further reduced to US\$38,900,000 (as at 31 December 2002, the loan balance amounted to US\$59,800,000).

Humen Bridge recorded a growth of 10.5% in traffic flow. The average daily traffic for the first six months of 2003 increased to 32,068 vehicle trips (2002: 29,026 vehicle trips). The half-year revenue reached HK\$198,108,000 (2002: HK\$179,149,000), an increase of 10.6%. The Company's effective interest in this project is 15.3%.

Shantou Haiwan Bridge recorded a growth of 3.9% in traffic flow. The average daily traffic for the first six months of 2003 was 13,133 vehicle trips (2002: 12,641 vehicle trips). The half-year revenue reached HK\$59,254,000 (2002: HK\$56,854,000), an increase of 4.2%. The Company's effective interest in this project is 15.3%.

Guangzhou-Shantou Highway (Huizhou Section) recorded a growth of 4.6% in traffic flow. The average daily traffic for the first six months of 2003 was 24,250 vehicle trips (2002: 23,163 vehicle trips). The half-year revenue reached HK\$58,409,000 (2002: HK\$55,518,000), an increase of 5.2%. The Company's effective interest in this project is 26.01%.

BUSINESS REVIEW, DISCUSSION AND ANALYSIS, PROSPECT AND OTHER INFORMATION

(continued)

Toll Roads and Bridges (continued)

The traffic flow of Qinglian Highway dropped by 8.9%. The average daily traffic dropped to 29,410 vehicle trips (2002: 32,301 vehicle trips). The half-year revenue reached HK\$111,736,000 (2002: HK\$125,454,000), a decrease of 11%. The Company's effective interest in this project is 7.23%.

The performance of the two Pak Kong Bridges in Qingyuan remained stable, generating a steady cash return to the Group. The Company's effective interest in this project is 24.5%.

The average daily traffic of Yingkeng Highway dropped by 4% was mainly due to road work on roads linking to the highway. The Company's effective interest in this project is 70%.

Property Investment

Mainland China

Teem Plaza in Guangzhou continued to enjoy high occupancy rates (98%) and increasing rental income. Despite the negative impact of SARS, rental income at Teem Plaza for the first six months of 2003 was HK\$132,847,000, a 1.8% increase over last period's results.

Management attributes this positive results to aggressive actions taken during the second quarter of 2003 to offset the adverse impact of SARS. Selective and short-term revisions of rentals helped to maintain Teem Plaza's strong tenant base during the period. Promotional programmes after the outbreak of SARS helped the Plaza to resume full recovery of customer traffic and business in June.

Turnover of 廣東天貿南大百貨有限公司 (Guangdong Teem Nanda Department Stores Ltd.) for the six months period ended 30 June 2003 reached HK\$378,793,000, an increase of HK\$9,503,000 over the same period last year. Better sales of electrical appliances and promotional sales in June helped to offset the drop in sales during the SARS period of April and May 2003.

The Group's entire interests in the Riverside Garden, Panyu, Guangzhou and Suzhou Yuehai Real Estate Development Co., Ltd., which owned some car parks and shop units in Suzhou GD Plaza, were disposed of in the current period.

Hong Kong

The average occupancy rate at the Guangdong Investment Tower (the "GDI Tower") for the first half year of 2003 was at 83% (2002: 83%). However, the continuing depressed state of local commercial rental market brought a further reduction in the average rentals in respect of both lease renewals and new leases. Rental income for the GDI Tower for the first six months of 2003 amounted to HK\$9,981,000 (2002:13,628,000), a drop of 26.76%.

The disposal of the Group's entire interest in Guangdong Parking Limited, which held a car park located in North Point, was completed in May 2003.

BUSINESS REVIEW, DISCUSSION AND ANALYSIS, PROSPECT AND OTHER INFORMATION

(continued)

Hotel Operations and Management

Our hotel management team was managing nine hotels in Hong Kong, Macau and Mainland China as at 30 June 2003 (2002: ten hotels).

The hotel business during the first six months of 2003 was adversely affected by the outbreak of SARS. While the hotel group enjoyed healthy growth in the first quarter, SARS caused an adverse impact on the hotel group's second quarter's results.

In the first six months of 2003, the turnover of the Group's four hotels (Hong Kong: The Wharney Hotel Hong Kong and Guangdong Hotel, Hong Kong; Mainland China: 珠海粤海酒店(Yue Hai Hotel, Zhuhai) and Shenzhen Guangdong Hotel) dropped by HK\$34,463,000, as compared to the same period last year. Effective cost control measures including no pay leave and the selective closure of unoccupied floors helped the hotel group to keep the overall gross profit level positive. In addition, the four hotels on average enjoyed higher occupancy and room rates during the SARS period than comparable hotels in Hong Kong and Mainland China.

Attributable profit (before the hotel property revaluation deficit) of the hotel business to the Group for the first six months of 2003 amounted to HK\$4,226,000 (2002: HK\$28,658,000).

Liquidity, Gearing and Financial Resources

As at 30 June 2003, cash and bank balances of the Group fell by HK\$663 million to HK\$1,125 million (as at 31 December 2002: HK\$1,788 million), balances of which are mostly denominated in Hong Kong dollars (HK\$176 million) and Renminbi (equivalent to HK\$942 million). This is mainly due to the repayment and prepayment of all of the Group's remaining bank debts that were restructured in December 2000. As at 30 June 2003, the Group had financial borrowings amounting to HK\$15,894 million (as at 31 December 2002: HK\$18,325 million). Of the Group's total financial borrowings, HK\$525 million was repayable within one year while the remaining balances of HK\$2,733 million and HK\$12,636 million are repayable before or in 2008, and after 2008, respectively.

As at 30 June, 2003, the Group's total available credit facilities amounted to HK\$18,292 million, of which HK\$15,894 million have been utilised (as at 31 December 2002: HK\$21,263 million and HK\$18,370 million, respectively). The unutilised banking facilities amounted to HK\$2,398 million (as at 31 December 2002: HK\$2,893 million).

The gearing for the Group as at 30 June 2003 was 1.78 times (as at 31 December 2002: 2.16 times). The improvement mostly reflected the reduction in the level of the Group's financial borrowings due to full repayment of the Group's remaining restructured bank debts in May 2003, together with an increase in net asset value of the Group.

The existing cash resources and available credit facilities of the Group, together with steady cash flows generated from its operations, are sufficient to meet its payment obligation and business requirements.

Pledge of Assets

At 30 June 2003, none of the Group's fixed assets, investment properties and bank deposits were pledged to secure general banking facilities granted to the Group (as at 31 December 2002: HK\$725,157,000).

Save for the above, a property under development in Mainland China held under a long term lease with a carrying amount of HK\$44,000,000 as at 30 June 2003 (as at 31 December 2002: 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. As a settlement has since been reached in those proceedings, application has been made for the release of such security.

BUSINESS REVIEW, DISCUSSION AND ANALYSIS, PROSPECT AND OTHER INFORMATION

(continued)

Capital Expenditure

The Group's total capital expenditure for fixed assets were HK\$17 million in the first half of 2003, a decrease of HK\$24 million from HK\$41 million for the same period last year. The Group's half-year's capital expenditure (other than the disposed subsidiaries in current period) related principally to the additions of plant and machinery for the power plant at our electric power generating facilities and renovation works for our hotels.

Exposure to Fluctuations in Exchange and Interest Rates and Related Hedges

As at 30 June 2003, total Renminbi borrowings amounted to HK\$1,941 million (as at 31 December 2002: our foreign currency borrowings were HK\$3,330 million, of which HK\$1,923 million were United States dollars, HK\$16 million were Euros and HK\$1,391 million were Renminbi).

Interest Rate Hedges

As at 30 June 2003, the Group's total floating rate borrowings amounted to HK\$14,663 million (as at 31 December 2002: HK\$17,012 million), of which HK\$7,000 million (as at 31 December 2002: HK\$3,500 million) were hedged by fixed rate swap agreements. There was also certain hedging by way of a short term forward rate agreement but the same has expired in August 2003.

Litigation

As at 30 June 2003, there were no material contingent liabilities in respect of outstanding litigation or legal proceedings.

Number and Remuneration of Employees

As at 30 June 2003, the Group had a total of 3,509 employees. Among the employees, 3,299 were employed by subsidiaries in Mainland China and 210 were employed by the head office and subsidiaries in Hong Kong. Out of the total number, 610 were managerial employees of the head office and its subsidiaries. Total remuneration paid for the period under review was approximately HK\$89,488,000.

The Group recruits and promotes individuals based on merit and their development potential for the positions offered. Performance of staff is reviewed at least annually and employees' compensation is performance driven. The Group's remuneration and benefit policies are based on the business performance of the relevant employee's company. Year-end bonuses will be granted to those employees with outstanding performance. 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-job training and by regular job rotation, so as to improve staff quality to meet future challenges and gain a competitive edge.

The Group advocates a corporate culture which seeks to excel in terms of financial performance and economic benefit and to effectively deploy its human resources strictly on merit. It also aims to continuously streamline its organisational structure to result in further cost reductions. The Group manages and develops its staff through an effective performance appraisal system with an incentive/penalty scheme to enhance staff motivation in order to achieve corporate goals.

BUSINESS REVIEW, DISCUSSION AND ANALYSIS, PROSPECT AND OTHER INFORMATION

(continued)

Prospect

In the second half of the year, we will be focusing on (1) completion of the capital reduction proposal, (2) improving the performance of existing business, and (3) acquisitions in our core businesses.

Capital Reduction Proposal

As mentioned in our earlier announcement dated 21 August 2003, we are now working on the capital reduction proposal, which consists of (i) the Loss Elimination Reduction, and (ii) the Preference Share Cancellation. The effect of the Loss Elimination Reduction, if approved by the Company's ordinary shareholders and confirmed by the court, will eliminate the accumulated losses of the Company as at 30 June 2003. The Preference Share Cancellation, if approved by the Company's independent shareholders and confirmed by the court, will result in the cancellation of the Preference Shares and their replacement with bonds to be issued to GDH Limited, which is the beneficial owner of the Preference Shares in issue.

Together, these two measures will place the Company in a position to resume payment of dividends to its ordinary shareholders, out of distributable profits, if any, that may be generated in 2004 and beyond.

Operational Improvement

Across the Group, we will strive to further improve operational efficiency, manage costs aggressively, and enhance the quality of our management and the competitiveness of our businesses.

In the water distribution business, we will continue to develop new markets for our water in and around Dongguan and Shenzhen.

At our electric power generation business, we will combat the drop in tariff by maximising capacity utilisation at our plants.

The post SARS recovery of the tourist business in Hong Kong, together with the influx of visitors from Mainland China taking advantage of the new "free travel" policy to visit Hong Kong, will help the hotel group to achieve better results in the second half of 2003. Our hotel management company will continue to expand its hotel management services business by contracting to manage additional hotels.

Effective cost controls throughout the Group remains an ongoing exercise. We will continue to strive to increase our return on capital and assets.

New Business Opportunities

The plan to develop the East Tower at Teem Plaza has been finalised. The new tower will have 47 stories with approximately a total of 95,800 sq. metres of office space and will be a landmark office building in Guangzhou.

We continue to actively explore business acquisitions in our core business.

Finally, I would like to thank the Board, management and all staff for their hard work and dedication, as well as our shareholders for their support and confidence in the Group.

DIRECTORS' INTERESTS IN SECURITIES**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES**

As at 30 June 2003, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which a Director is taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Interests and short positions in the Company*(i) Interest in Ordinary Shares*

Name of Directors	Capacity/nature of interest	Number of Ordinary Shares held	Long/short position	Approximate Percentage of holding
LI Wenyue	Family *	400,000	Long position	0.0077%
YE Xuquan	Personal	1,672,000	Long position	0.0320%
WANG Man Kwan, Paul	Personal	700,000	Long position	0.0134%
GU Shunan	Personal	76,000	Long position	0.0015%
WANG Xiaofeng	Personal	120,000	Long position	0.0023%

* *held by the spouse of Mr. LI Wenyue*

Note: The number of the issued Ordinary Shares as at 30 June 2003 was 5,218,682,672.

(ii) Interests in options relating to Ordinary Shares

Name of Directors	Number of options held as at 1 January 2003	Options granted during the period Date <small>(dd.mm.yyyy)</small>	Number	Period during which option is exercisable <small>(dd.mm.yyyy)</small>	Total consideration paid for options <small>HK\$</small>	Price per Ordinary Share payable on exercise of options <small>HK\$</small>	Number of options exercised during the period	Number of options held as at 30 June 2003
WU Jiesi	12,000,000	-	-	02.05.2002 – 01.05.2007	-	0.74	5,000,000	7,000,000
	9,000,000	-	-	08.11.2002 – 07.11.2007	-	0.814	-	9,000,000
	6,000,000	-	-	05.03.2003 – 04.03.2008	1	0.96	-	6,000,000
	-	07.05.2003	3,000,000	08.08.2003 – 07.08.2008	1	1.22	-	3,000,000

DIRECTORS' INTERESTS IN SECURITIES (continued)**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES** (continued)**Interests and short positions in the Company** (continued)

(ii) Interests in options relating to Ordinary Shares (continued)

Name of Directors	Number of options held as at 1 January 2003	Options granted during the period		Period during which option is exercisable (dd.mm.yyyy)	Total consideration paid for options HK\$	Price per Ordinary Share payable on exercise of options HK\$	Number of options exercised during the period	Number of options held as at 30 June 2003
		Date (dd.mm.yyyy)	Number					
LI Wenyue	12,000,000	–	–	11.02.2002 – 10.02.2007	–	0.5312	5,000,000	7,000,000
	9,000,000	–	–	08.11.2002 – 07.11.2007	–	0.814	–	9,000,000
	6,000,000	–	–	05.03.2003 – 04.03.2008	1	0.96	–	6,000,000
	–	07.05.2003	3,000,000	08.08.2003 – 07.08.2008	1	1.22	–	3,000,000
ZHANG Hui	5,000,000	–	–	05.03.2003 – 04.03.2008	1	0.96	–	5,000,000
	–	07.05.2003	3,000,000	08.08.2003 – 07.08.2008	1	1.22	–	3,000,000
CHAN Cho Chak, John	1,000,000	–	–	02.05.2002 – 01.05.2007	–	0.74	–	1,000,000
	1,000,000	–	–	08.11.2002 – 07.11.2007	–	0.814	–	1,000,000
	1,000,000	–	–	05.03.2003 – 04.03.2008	1	0.96	–	1,000,000
	–	07.05.2003	1,000,000	08.08.2003 – 07.08.2008	1	1.22	–	1,000,000

DIRECTORS' INTERESTS IN SECURITIES (continued)**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES** (continued)**Interests and short positions in the Company** (continued)

(ii) Interests in options relating to Ordinary Shares (continued)

Name of Directors	Number of options held as at 1 January 2003	Options granted during the period		Period during which option is exercisable (dd.mm.yyyy)	Total consideration paid for options HK\$	Price per Ordinary Share payable on exercise of options HK\$	Number of options exercised during the period	Number of options held as at 30 June 2003
		Date (dd.mm.yyyy)	Number					
LI Kwok Po, David	1,000,000	-	-	02.05.2002 – 01.05.2007	-	0.74	-	1,000,000
	1,000,000	-	-	08.11.2002 – 07.11.2007	-	0.814	-	1,000,000
	1,000,000	-	-	05.03.2003 – 04.03.2008	1	0.96	-	1,000,000
	-	07.05.2003	1,000,000	08.08.2003 – 07.08.2008	1	1.22	-	1,000,000
CHENG Mo Chi, Moses	1,000,000	-	-	02.05.2002 – 01.05.2007	-	0.74	-	1,000,000
	1,000,000	-	-	08.11.2002 – 07.11.2007	-	0.814	-	1,000,000
	1,000,000	-	-	05.03.2003 – 04.03.2008	1	0.96	-	1,000,000
	-	07.05.2003	1,000,000	08.08.2003 – 07.08.2008	1	1.22	-	1,000,000
FUNG, Daniel R.	1,000,000	-	-	02.05.2002 – 01.05.2007	-	0.74	-	1,000,000
	1,000,000	-	-	08.11.2002 – 07.11.2007	-	0.814	-	1,000,000
	1,000,000	-	-	05.03.2003 – 04.03.2008	1	0.96	-	1,000,000
	-	07.05.2003	1,000,000	08.08.2003 – 07.08.2008	1	1.22	-	1,000,000

DIRECTORS' INTERESTS IN SECURITIES (continued)**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES** (continued)**Interests and short positions in the Company** (continued)

(ii) Interests in options relating to Ordinary Shares (continued)

Name of Directors	Number of options held as at 1 January 2003	Options granted during the period		Period during which option is exercisable (dd.mm.yyyy)	Total consideration paid for options HK\$	Price per Ordinary Share payable on exercise of options HK\$	Number of options exercised during the period	Number of options held as at 30 June 2003
		Date (dd.mm.yyyy)	Number					
YE Xuquan	12,000,000	-	-	11.02.2002 – 10.02.2007	-	0.5312	5,000,000	7,000,000
	9,000,000	-	-	08.11.2002 – 07.11.2007	-	0.814	-	9,000,000
	6,000,000	-	-	05.03.2003 – 04.03.2008	1	0.96	-	6,000,000
	-	07.05.2003	3,000,000	08.08.2003 – 07.08.2008	1	1.22	-	3,000,000
LI Wai Keung	1,500,000	-	-	02.05.2002 – 01.05.2007	-	0.74	800,000	700,000
	1,500,000	-	-	08.11.2002 – 07.11.2007	-	0.814	-	1,500,000
	1,500,000	-	-	05.03.2003 – 04.03.2008	1	0.96	-	1,500,000
	-	07.05.2003	1,500,000	08.08.2003 – 07.08.2008	1	1.22	-	1,500,000
ZHANG Yaping	12,000,000	-	-	11.02.2002 – 10.02.2007	-	0.5312	-	12,000,000
	9,000,000	-	-	08.11.2002 – 07.11.2007	-	0.814	-	9,000,000
	6,000,000	-	-	05.03.2003 – 04.03.2008	1	0.96	-	6,000,000
	-	07.05.2003	1,000,000	08.08.2003 – 07.08.2008	1	1.22	-	1,000,000

DIRECTORS' INTERESTS IN SECURITIES (continued)**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES** (continued)**Interests and short positions in the Company** (continued)

(ii) Interests in options relating to Ordinary Shares (continued)

Name of Directors	Number of options held as at 1 January 2003	Options granted during the period		Period during which option is exercisable (dd.mm.yyyy)	Total consideration paid for options HK\$	Price per Ordinary Share payable on exercise of options HK\$	Number of options exercised during the period	Number of options held as at 30 June 2003
		Date (dd.mm.yyyy)	Number					
ZHAI Zhiming	1,000,000	-	-	08.11.2002 – 07.11.2007	-	0.814	-	1,000,000
	1,000,000	-	-	05.03.2003 – 04.03.2008	1	0.96	-	1,000,000
	-	07.05.2003	1,000,000	08.08.2003 – 07.08.2008	1	1.22	-	1,000,000
WANG Man Kwan, Paul	1,000,000	-	-	11.02.2002 – 10.02.2007	-	0.5312	1,000,000	-
	1,500,000	-	-	08.11.2002 – 07.11.2007	-	0.814	-	1,500,000
	1,500,000	-	-	05.03.2003 – 04.03.2008	1	0.96	-	1,500,000
	-	07.05.2003	1,500,000	08.08.2003 – 07.08.2008	1	1.22	-	1,500,000
GU Shunan	1,000,000	-	-	02.05.2002 – 01.05.2007	-	0.74	-	1,000,000
	1,000,000	-	-	08.11.2002 – 07.11.2007	-	0.814	-	1,000,000
	1,000,000	-	-	05.03.2003 – 04.03.2008	1	0.96	-	1,000,000
	-	07.05.2003	1,000,000	08.08.2003 – 07.08.2008	1	1.22	-	1,000,000

DIRECTORS' INTERESTS IN SECURITIES (continued)**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES** (continued)**Interests and short positions in the Company** (continued)

(ii) Interests in options relating to Ordinary Shares (continued)

Name of Directors	Number of options held as at 1 January 2003	Options granted during the period		Period during which option is exercisable (dd.mm.yyyy)	Total consideration paid for options HK\$	Price per Ordinary Share payable on exercise of options HK\$	Number of options exercised during the period	Number of options held as at 30 June 2003
		Date (dd.mm.yyyy)	Number					
WANG Xiaofeng	1,000,000	-	-	08.11.2002 – 07.11.2007	-	0.814	-	1,000,000
	1,000,000	-	-	05.03.2003 – 04.03.2008	1	0.96	-	1,000,000
	-	07.05.2003	1,000,000	08.08.2003 – 07.08.2008	1	1.22	-	1,000,000
YU Lai	-	07.05.2003	1,000,000	08.08.2003 – 07.08.2008	1	1.22	-	1,000,000

Note: If the last day of any of the option periods is not a business day in Hong Kong, the option period shall end at the close of business on the business day preceding that day.

Interests and short positions in Guangdong Brewery Holdings Limited

(i) Interest in shares

Name of Directors	Capacity/nature of interest	Number of shares held	Long/short position	Approximate percentage of holding
WU Jiesi	Family *	206,000	Long position	0.0165%
LI Wenyue	Family **	400,000	Long position	0.0320%

* held by the spouse of Mr. WU Jiesi

** held by the spouse of Mr. LI Wenyue

Note: The number of the issued shares of Guangdong Brewery Holdings Limited as at 30 June 2003 was 1,250,400,000.

DIRECTORS' INTERESTS IN SECURITIES (continued)**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES** (continued)**Interests and short positions in Guangdong Brewery Holdings Limited** (continued)(ii) *Interest in options relating to shares*

Name of Directors	Number of options held as at 1 January 2003		Options granted during the period		Period during which option is exercisable	Total consideration paid for options	Price per share payable on exercise of options	Number of options exercised during the period	Number of options held as at 30 June 2003
	Date	Number	Date	Number					
CHENG Mo Chi, Moses	-	26.05.2003	300,000	27.08.2003 – 26.08.2008	1	0.84	-	300,000	
YE Xuquan	-	26.05.2003	2,000,000	27.08.2003 – 26.08.2008	1	0.84	-	2,000,000	

Note: If the last day of any of the option period is not a business day in Hong Kong, the option period shall end at the close of business on the business day preceding that day.

Interests and short positions in Guangnan (Holdings) Limited(i) *Interest in shares*

Name of Directors	Capacity/nature of interest	Number of shares held	Long/short position	Approximate percentage of holding
LI Kwok Po, David	Personal	150,000	Long position	0.0017%

Note: The number of the issued shares of Guangnan (Holdings) Limited as at 30 June 2003 was 8,998,332,859.

Save as the interests and short positions as disclosed above, as at 30 June 2003, none of the Directors or chief executive of the Company had any interests or short position in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which are required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which a Director is taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Save as disclosed above, the Company or any of its associated corporation 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 options during the period under review.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2003, so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) have an interest or short position in the Ordinary Shares or underlying Ordinary Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholders	Capacity/ nature of interest	Number of Ordinary Shares held	Long/short position	Approximate percentage of issued Ordinary Share capital
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) (Note 1)	Beneficial Owner/ Interest of controlled corporation	3,342,655,321	Long position	64.05%
GDH Limited (Note 2)	Beneficial Owner/ Interest of controlled corporation	3,342,655,321	Long position	64.05%
Guangdong Trust Ltd.	Beneficial Owner/ Interest of controlled corporation	580,326,928	Long position	11.12%

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. Of the 64.05% interest in Ordinary Shares referred to in the fifth column, 6.32% is derived from derivative interests. The remaining 57.73% is derived from interests in issued Ordinary Shares.
2. The interest of GDH Limited set out above includes attributable interest held through its wholly-owned subsidiary, Guangdong Trust Ltd. Of the 64.05% interest in Ordinary Shares referred to in the fifth column, 6.32% is derived from derivative interests. The remaining 57.73% is derived from interests in issued Ordinary Shares.

Save as disclosed above, no other person (other than a Director or chief executive of the Company) known to any Director or chief executive of the Company as at 30 June 2003 had an interest or short position in the Ordinary Shares or underlying Ordinary Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

In assessing the theoretical aggregate value of the share options granted during the period, the Black-Scholes option pricing model has been used.

Share options granted during the period ended 30 June 2003:

Date of Grant	:	07/05/2003
Vesting Period	:	07/05/2003 – 07/08/2003
Exercise Period	:	08/08/2003 – 07/08/2008
Exercise Price	:	HK\$1.22

	Number of Options At 07/05/03	Options Value At 07/05/03 (Note (2)) HK\$	Number of Options At 30/06/03	Options Value At 30/06/03 (Note (3)) HK\$
Grantee:				
WU Jiesi	3,000,000	1,440,000	3,000,000	1,800,000
LI Wenyue	3,000,000	1,440,000	3,000,000	1,800,000
ZHANG Hui	3,000,000	1,440,000	3,000,000	1,800,000
CHAN Cho Chak, John	1,000,000	480,000	1,000,000	600,000
LI Kwok Po, David	1,000,000	480,000	1,000,000	600,000
CHENG Mo Chi, Moses	1,000,000	480,000	1,000,000	600,000
FUNG, Daniel R.	1,000,000	480,000	1,000,000	600,000
YE Xuquan	3,000,000	1,440,000	3,000,000	1,800,000
LI Wai Keung	1,500,000	720,000	1,500,000	900,000
ZHANG Yaping	1,000,000	480,000	1,000,000	600,000
ZHAI Zhiming	1,000,000	480,000	1,000,000	600,000
WANG Man Kwan, Paul	1,500,000	720,000	1,500,000	900,000
GU Shunan	1,000,000	480,000	1,000,000	600,000
WANG Xiaofeng	1,000,000	480,000	1,000,000	600,000
YU Lai	1,000,000	480,000	1,000,000	600,000
Aggregate total of employees	<u>31,900,000</u>	<u>15,312,000</u>	<u>31,900,000</u>	<u>19,140,000</u>
Total	<u>55,900,000</u>	<u>26,832,000</u>	<u>55,900,000</u>	<u>33,540,000</u>

Notes:

(1) The closing price of the shares of the Company immediately before the date on which the options were granted was HK\$1.22.

(2) According to the Black-Scholes model[#], the total value of the options was estimated at HK\$26,832,000 as at 7 May 2003 (when the options were granted) with the following variables and assumptions:

Risk Free Rate : 2.95%, being the approximate yield of 5-year Exchange Fund Note traded on 07/05/2003

Expected Volatility : 38.6%, being the annualised volatility of the closing price of the shares of the Company from 07/05/2002 – 07/05/2003

Expected Dividend Yield : Nil

Expected Life of the Options : 5.25 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 07/05/2002 – 07/05/2003.

(3) According to the Black-Scholes model[#], the total value of the options was estimated at HK\$33,540,000 as at 30 June 2003 with the following variables and assumptions:

Risk Free Rate : 2.69%, being the approximate yield of 5-year Exchange Fund Note traded on 30/06/2003

Expected Volatility : 40.4%, being the annualised volatility of the closing price of the shares of the Company from 30/06/2002 – 30/06/2003

Expected Dividend Yield : Nil

Expected Life of the Options : 5.10 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 30/06/2002 – 30/06/2003.

(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.

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 only 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.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2003, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities listed on the Hong Kong Stock Exchange save and except that:-

- (i) the Company has issued the following new Ordinary Shares to certain option holders pursuant to the Company's share option scheme during the period:

	No. of new Ordinary Shares issued	Exercise price per Ordinary Share HK\$	Cash consideration HK\$
	47,100,000	0.5312	25,019,520
	5,800,000	0.74	4,292,000
	2,600,000	0.814	2,116,400
	800,000	0.96	768,000
	<u>56,300,000</u>		<u>32,195,920</u>
Total			

- (ii) in accordance with 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 already attained the performance milestones under the Earnout Agreement for the first, second, third, fourth and fifth years of the Earnout Period in connection with the issuance of additional Ordinary Shares in September 2001, March 2002, September 2002, March 2003 and June 2003 respectively, the Company has an obligation to issue a total of 330,000,000 Ordinary Shares to GDH Limited pursuant to the Earnout Agreement on a date which is the later of 21 December 2003 and the completion of the Phase IV Renovation Project. Further details are set out in note 8 to the condensed consolidated financial statements.

During the six months ended 30 June 2003, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities listed on the Luxembourg Stock Exchange save and except that:-

- (i) Guangdong Investment Finance (Cayman) Limited, a wholly-owned subsidiary of the Company, has redeemed on 2 May 2003 the aggregate principal amount outstanding of the guaranteed floating rate bonds due 2005 (formerly the 1% guaranteed convertible bonds due 2002) in whole together with interest accrued up to the date of redemption. The aggregate principal amount outstanding of the said bonds was US\$53,472,388 as at the date of redemption.

- (ii) the Company has redeemed on 2 May 2003 the aggregate principal amount outstanding of floating rate notes due 2005 (formerly the floating rate notes due 2001) in whole together with interest accrued up to the date of redemption. The aggregate principal amount outstanding of the said notes was US\$28,565,795.30 as at the date of redemption.

The conversion right of the Preference Shares lapsed on 31 March 2003 and during the period from 1 January 2003 to 31 March 2003, no Preference Shares were converted by way of redemption into Ordinary Shares. The Company has 85,949 Preference Shares in issue as at 30 June 2003. Pursuant to the terms of their issue the Preference Shares were due to be redeemed on 7 April 2003. The Company was, however, unable to redeem the Preference Shares on 7 April 2003 as a result of its accumulated losses. Under the terms of the Preference Shares, for the year from 7 April 2003 to 6 April 2004, the Preference Shares carry a fixed dividend of 6.60% per annum with respect to their redemption amount, and from 7 April 2004 onwards, the Preference Shares will carry a fixed dividend of 9.60% per annum with respect to their redemption amount. The Company has now put forward the Capital Reduction Proposal which includes, inter alia, the Preference Share Cancellation as more particularly set out in note 22(a) to the condensed consolidated financial statements.

CORPORATE GOVERNANCE

Board

The Board of Directors now comprises 15 Directors, and among them, four are Independent Non-Executive Directors the independent status of all of whom is strictly in accordance with the Listing Rules. There were two full Board meetings held during the period, and the average attendance rate of Directors stood at about 69.3%.

In accordance with the Articles of Association of the Company, all the Directors are subject to retirement and re-election at the annual general meeting in their first year of appointment and the further requirement for one-third of them (or the nearest number but not exceeding one-third) 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 this 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 introduced 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) maximising 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.

By order of the Board

LI Wenyue

Chairman

Hong Kong, 18 September 2003

