

Notes to Financial Statements

31 December 2003

1. Corporate Information

During the year, the Group was principally engaged in investment holding, property holding and investment, the development of properties for sale, investing in infrastructure and energy projects, water supply to Hong Kong, Shenzhen and Dongguan in the mainland of the People's Republic of China ("the PRC" or "Mainland China"), hotel ownership and operations, hotel management, retail operation, the provision of travel and transportation services (the "Tours Operation"), the manufacture of malts for the brewing industry (the "Malting Operation"), the production of beer (the "Brewery Operation"), the processing and sale of semi-finished and finished leather (the "Tannery Operation"), the merchandise trading (the "Merchandise Trading Operation"), and the provision of mortgage finance.

In March 2003, the Company disposed of various investments to GDH Limited, the Company's immediate holding company, (the "Disposal Transaction"). These investments, together with their principal activities, are summarised as follows:

Investments	Principal activities
900,000,000 shares in the then issued share capital of Guangdong Brewery Holdings Limited ("GD Brewery")	the Brewery Operation
375,100,000 shares in the then issued share capital of Guangdong Tannery Limited ("GD Tannery")	the Tannery Operation and the Merchandise Trading Operation
100% equity interest in Supertime Development Limited ("Supertime")	the Malting Operation
100% equity interest in Guangdong (H.K.) Tours Company Limited ("GD Tours")	the Tours Operation
24.8% 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")	property development

Upon the completion of the Disposal Transaction, the Group discontinued its Brewery Operation, Tannery Operation, Merchandise Trading Operation, Malting Operation, and Tours Operation. Accordingly, these operations are disclosed as "Discontinued Operations" and additional disclosures pursuant to SSAP 33 "Discontinuing operations" are set out in notes 5 and 6 to the financial statements.

In 2002, the Group's businesses in the design, manufacture and sale of leather ware products (the "Leather Ware Operation") and the manufacture and sale of packaging materials (the "Packaging Materials Operation") were discontinued as a result of the Group's disposal of its entire 60% interest in Alpha Universal Limited ("Alpha Universal") and termination of operation of Xuzhou Gangwei Colour Package Co., Ltd. ("Xuzhou Gangwei"), respectively. Further details of these transactions and discontinued operations are set out in notes 5 and 6 to the financial statements.

In the opinion of the directors, the ultimate holding company of the Company is 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) ("Yue Gang Investment"), a company established in Mainland China.

Notes to Financial Statements

31 December 2003

2. Impact of New and Revised Statements of Standard Accounting Practice (“SSAPs”)

The following new and revised SSAPs and Interpretation are effective for the first time for the current year’s financial statements and have had a significant impact thereon:

- SSAP 12 (Revised) : “Income taxes”
- SSAP 35 : “Accounting for government grants and disclosure of government assistance”
- Interpretation 20 : “Income taxes — Recovery of revalued non-depreciable assets”

These SSAPs and Interpretation prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs and Interpretation are summarised as follows:

SSAP 12 prescribes the 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 carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences 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;
- a deferred tax liability has been recognised on the revaluation of the Group’s land and buildings;
- a deferred tax liability has been recognised relating to the fair value adjustments arising from the acquisition of subsidiaries, associates and a jointly-controlled entity;
- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

Notes to Financial Statements

31 December 2003

2. Impact of New and Revised Statements of Standard Accounting Practice (“SSAPs”) (continued)

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and
- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 44 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and note 56 to the financial statements.

SSAP 35 prescribes the accounting for government grants and other forms of government assistance.

The adoption of this SSAP has had no significant impact for these financial statements on the amounts recorded for the government grants, however, additional disclosures are now required and are detailed in notes 3 and 9 to the financial statements.

Interpretation 20 requires that a deferred tax asset or liability that arises from the revaluation of certain non-depreciable assets and investment properties is measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Group in respect of the revaluation of its investment and hotel properties in the deferred tax calculated under SSAP 12.

3. Summary of Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment and hotel properties and other investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intra-group transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Notes to Financial Statements

31 December 2003

3. Summary of Significant Accounting Policies (continued)

Subsidiaries

A subsidiary is a company, other than a jointly-controlled entity, in which the Company, directly or indirectly, controls more than half of its voting power or issued share/registered capital or controls the composition of its board of directors.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulate the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which assets are to be realised upon its dissolution. The profits and losses from operations and any distribution of surplus assets are shared by the venturers either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company; or
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company; or
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) an investment security, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over the joint venture company.

Notes to Financial Statements

31 December 2003

3. Summary of Significant Accounting Policies (continued)

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of a jointly-controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in a jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in consolidated capital reserve, is included as part of the Group's interests in associates.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

Contractual joint venture

A contractual joint venture refers to the rights and obligations stipulated in a contract for the development, jointly with independent third parties, of investment projects in Mainland China. Under the terms of such contracts, the Group does not hold any of the joint ventures' registered capital and the residual interests in the projects will be transferred to various parties at the end of the contractual period in accordance with the terms of the contracts. Such investments are stated at cost less accumulated amortisation, computed to write off the cost, less any residual value, of the contractual joint ventures over the underlying contract terms, and impairment losses.

Notes to Financial Statements

31 December 2003

3. Summary of Significant Accounting Policies (continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against the consolidated capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against the consolidated capital reserve. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant consolidated capital reserve, as appropriate. Any attributable goodwill previously eliminated against the consolidated capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against the consolidated capital reserve, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

Notes to Financial Statements

31 December 2003

3. Summary of Significant Accounting Policies (continued)

Negative goodwill (continued)

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill to the extent of the fair values of the acquired non-monetary assets is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, negative goodwill arising on acquisitions was credited to the consolidated capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such negative goodwill to remain credited to the consolidated capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant consolidated reserves as appropriate. Any attributable negative goodwill previously credited to the consolidated capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Related parties

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

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

Notes to Financial Statements

31 December 2003

3. Summary of Significant Accounting Policies (continued)

Impairment of assets (continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than construction in progress and investment and hotel properties, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each fixed asset over its estimated useful life, after taking into account its estimated residual value. The principal annual rates used for this purpose are as follows:

Freehold land	Nil
Leasehold land	Over the lease terms
Buildings	2%–20%
Tunnels, dams, water mains and reservoirs	3.3%–10%
Plant and machinery	4%–25%
Furniture, fixtures and equipment	4%–32%
Leasehold improvements	Over the lease terms
Motor vehicles	6%–30%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Notes to Financial Statements

31 December 2003

3. Summary of Significant Accounting Policies (continued)

Fixed assets and depreciation (continued)

Construction in progress represents buildings and plant and machinery under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

With effect from 1 January 2003, depreciation of a toll road's cost is calculated to write off the carrying amount of the toll road over its estimated remaining useful life and is based on the traffic volume and forecast annual growth rates of the traffic volume throughout the toll road's remaining concession period. The method is more commonly referred to as the "unit of usage" method. This depreciation method was adopted to better reflect the consumption pattern of the expected economic benefits over the remaining concession period of the toll road. In prior years, the toll road was depreciated on a straight-line basis on an annual rate of 3.6% per annum. Had the accounting method remained unchanged from the previous year, the depreciation charge in respect of these assets for the current year would have increased by approximately HK\$3,257,000.

Hotel properties

Hotel properties are stated at their open market values, based on their existing use, on the basis of annual professional valuations. Movements in the values of the hotel properties are dealt with in the hotel property revaluation reserve, on an individual basis, unless the applicable reserve balance is exhausted, in which case the decrease is charged to the profit and loss account as incurred. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

It is the Group's policy to maintain the hotel properties in such condition that their residual values are not currently diminished by the passage of time. The related maintenance and repairs expenditure is charged to the profit and loss account in the year in which it is incurred. The costs of significant improvements are capitalised. Accordingly, the directors consider that depreciation is not necessary due to the Group's ability to maintain or increase the hotel properties' residual values.

Upon the disposal of a hotel property, the relevant portion of the hotel property revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Notes to Financial Statements

31 December 2003

3. Summary of Significant Accounting Policies (continued)

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the carrying amount over the remaining term of the lease.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Operating right

The operating right represents the right to supply natural water to Hong Kong, Shenzhen and Dongguan in Mainland China for a period of 30 years commencing from 18 August 2000. The purchased operating right is stated at cost less accumulated amortisation and impairment. Amortisation is charged to the profit and loss account on the straight-line basis over a period of 30 years.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Other financial assets

Other financial assets include investment securities and other investments.

Notes to Financial Statements

31 December 2003

3. Summary of Significant Accounting Policies (continued)

Other financial assets (continued)

Investment securities

Investment securities are listed and unlisted equity securities, intended to be held for a continuing strategic or long term purpose, which are stated at cost less any impairment losses, on an individual investment basis.

When impairments have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the previously recognised impairments loss is reversed and credited to the profit and loss account to the extent of the amounts previously charged.

Other investments

Other investments comprising those securities which are not classified as investment securities are stated at their fair values at the balance sheet date on an individual investment basis.

The fair values of such listed securities are their quoted market prices at the balance sheet date whereas the fair values of such unlisted securities are estimated by the directors.

The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

The profit or loss on disposal of investment securities and other investments is accounted for in the period in which the disposal occurs as the difference between the net sales proceeds and the carrying amount of the relevant investment.

Other long term assets

Other long term assets include a prepayment for a land use right, prepaid rental, reusable packaging materials and deferred expenses.

The prepayment for the land use right was stated at cost less impairment losses. During the year, the prepayment for the land use right was transferred to fixed assets upon the commencement of operation of the Phase IV Renovation Project (as defined in note 24(b) to the financial statements). Depreciation on the land use right commenced upon the operation of the Phase IV Renovation Project and is calculated on the straight-line basis over the remaining lease terms of the land use right.

Notes to Financial Statements

31 December 2003

3. Summary of Significant Accounting Policies (continued)

Other long term assets (continued)

Prepaid rental is stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the profit and loss account on the straight-line basis over the period of the respective leases.

Reusable packaging materials currently in use were stated at cost less accumulated amortisation and impairment losses. Amortisation was charged to the profit and loss account on the straight-line basis over a period of three years.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and manufactured finished goods, cost comprises direct materials, direct labour, and an appropriate portion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Properties under development

Properties under development are stated at cost less impairment losses.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including time deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Notes to Financial Statements

31 December 2003

3. Summary of Significant Accounting Policies (continued)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or if it relates to items that are recognised in the same or a different period in equity, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interest in a jointly-controlled entity, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in a jointly-controlled entity, deferred tax assets are only recognised to the extent it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Notes to Financial Statements

31 December 2003

3. Summary of Significant Accounting Policies (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. During the year, certain borrowing costs were included in prepaid construction cost, details of which are set out in note 24(c) to the financial statements.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of subsidiaries, associates and a jointly-controlled entity operating in Mainland China and overseas are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of these subsidiaries, associates and jointly-controlled entity are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of subsidiaries, associates and a jointly-controlled entity operating in Mainland China and overseas are translated to Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these subsidiaries, associates and jointly-controlled entity which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

Government grants

Government grants in relation to subsidies for interest expense for borrowings that are related to the Phase IV Renovation Project (as defined in note 24(b) to the financial statements) are recognised in the profit and loss account as a deduction of interest expense. The government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with all conditions attaching to it.

Notes to Financial Statements

31 December 2003

3. Summary of Significant Accounting Policies (continued)

Employee benefits

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its eligible employees. Contributions are made based on a percentage of the employees' basic salaries/relevant income and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer mandatory contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are proportionately refunded to the Group upon the employee's termination of services in accordance with the vesting scales of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes (the "CP Schemes") operated by respective local municipal government. These subsidiaries are required to contribute certain percentage of their covered payroll to the CP Schemes to fund their benefits. The only obligation of the Group with respect to the CP Schemes is to pay the ongoing required contributions under the CP Schemes. Contributions under the CP Schemes are charged to the profit and loss account as they become payable in accordance with the rules of the CP Schemes.

Share option schemes

The Company and its listed subsidiaries operate share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under these share option schemes is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company and its listed subsidiaries as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company and its listed subsidiaries in their share premium accounts. Options which are cancelled prior to their exercise dates, or which lapse, are deleted from their registers of outstanding options.

Notes to Financial Statements

31 December 2003

3. Summary of Significant Accounting Policies (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, properties, fixed assets and investments (collectively “goods and investments”), when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods and investments sold;
- (b) from the sale of electricity, based on the consumption recorded by meter reading during the year;
- (c) from the sale of water to the purchasers, based on the actual volume of water supplied, or when the actual volume of water supplied to Hong Kong is less than the contracted volume of water supplied, revenue is recognised according to the contracted volume;
- (d) from the rendering of hotel, tour and other services, based on the period in which such services are rendered;
- (e) rental income, on a time proportion basis over the lease terms;
- (f) toll revenue, net of business tax, on a cash receipt basis;
- (g) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (h) dividends and investment income, when the shareholders’ right to receive payment has been established.

4. Turnover

Continuing:

Turnover from continuing operations represents proceeds from the sale of investments; rental income; revenue from hotel ownership and operations; the invoiced value of electricity and water sold; income from the sale of properties, investment properties and properties under development; the gross invoiced revenue arising from the sale of goods in department stores; commission income; agency and consultancy fees; toll revenue; and interest income from the provision of credit facilities to customers, after eliminations of all significant intra-group transactions.

Notes to Financial Statements

31 December 2003

4. Turnover (continued)

Discontinued:

Turnover from discontinued operations includes the net invoiced value of manufactured products sold in the Brewery Operation, the Tannery Operation, the Malting Operation, the Leather Ware Operation and the Packaging Materials Operation; income generated from the Tours Operation; the gross invoiced revenue arising from general merchandise trading in the Merchandise Trading Operation, net of goods returned, trade discounts and value-added tax, after eliminations of all significant intra-group transactions.

Revenue from the following activities has been included in turnover:

	2003 HK\$'000	2002 HK\$'000
Turnover		
<i>Continuing:</i>		
Sale of goods	773,511	736,032
Sale of water and electricity	3,582,066	3,296,348
Sale of properties, investment properties and properties under development	—	90,148
Hotel and rental income	458,888	513,580
Rendering of other services	—	15,161
Toll revenue	8,880	8,587
Investment, interest and dividend income	2,439	100
	4,825,784	4,659,956
<i>Discontinued:</i>		
Sale of goods	276,834	1,806,038
Tours service income	61,325	271,031
	338,159	2,077,069
	5,163,943	6,737,025

Notes to Financial Statements

31 December 2003

5. 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 services which are subject to risks and returns that are different from those of the other business segments:

Continuing:

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

Notes to Financial Statements

31 December 2003

5. Segment Information (continued)

Discontinued:

- (a) The following segments were discontinued upon the completion of the Disposal Transaction as set out in note 6(a) to the financial statements:
- (i) The Brewery Operation segment produces beer in Shenzhen and distributes and sells it in both Mainland China and Hong Kong.
 - (ii) The Tannery Operation segment processes raw leather to finished leather for use in the leather ware products production industry.
 - (iii) The Merchandise Trading Operation segment purchases commodities and sells them to customers.
 - (iv) The Malting Operation segment produces malts for use in the brewing production in Mainland China.
 - (v) The Tours Operation segment organises tours in Hong Kong and Mainland China and provides transportation services in Hong Kong and between Hong Kong and the Guangdong Province.
- (b) The Leather Ware Operation segment produces leather ware products in Mainland China and sells them mainly in Hong Kong. This segment was discontinued following the Group's disposal of its entire 60% interest in Alpha Universal in the prior year as set out in note 6(b) to the financial statements.
- (c) The Packaging Materials Operation segment produces and distributes packaging materials in Mainland China. This segment was discontinued following the Group's termination of the operation of Xuzhou Gangwei in the prior year as set out in note 6(c) to the financial statements.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets, except that, in respect of the Mainland China segment which included mainly the segment assets relating to water distribution located in Mainland China, the segment revenue derived therefrom, including that earned from the Hong Kong Government, is included under this Mainland China segment. The directors consider this a fairer presentation of information relating to this geographical segment.

Notes to Financial Statements

31 December 2003

5. Segment Information (continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

	Continuing segments					
	Property Investment		Property Development		Toll Roads and Bridges	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:						
Sales to external customers	304,165	300,965	—	90,148	8,880	8,587
Intersegment sales	60,573	78,614	—	—	—	—
Other revenue from external sources (note)	3,972	2,835	—	4,031	259	37,166
Other revenue from intersegment (note)	—	—	—	—	—	—
Exchange gains/(losses), net	(114)	937	—	—	(417)	71
Total	368,596	383,351	—	94,179	8,722	45,824
Segment results	188,139	142,165	(37,184)	(26,830)	1,122	35,699
Interest Income						
Unallocated other operating income/(expenses), net						
Other unallocated gains						
Other unallocated expenses						
Profit from operating activities						
Finance costs						
Share of profits less losses of:						
A jointly-controlled entity	—	—	—	—	63,359	62,320
Associates	(6,633)	—	—	4,502	—	52,976
Profit before tax						
Tax						
Profit before minority interests						
Minority interests						
Net profit from ordinary activities attributable to shareholders						

Note: Excluding exchange gains/(losses), net

Notes to Financial Statements

31 December 2003

5. Segment Information (continued)

(a) Business segments (continued)

Group

	Continuing segments					
	Water Distribution		Electric Power Generation		Hotel Operations and Management	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:						
Sales to external customers	2,958,281	2,831,978	623,786	464,370	154,722	212,615
Intersegment sales	—	—	—	—	4,056	1,675
Other revenue from external sources (note)	—	1,446	—	—	8,275	3,186
Other revenue from intersegment (note)	—	—	—	—	—	—
Exchange gains/(losses), net	(12,265)	—	31	2,401	127	856
Total	2,946,016	2,833,424	623,817	466,771	167,180	218,332
Segment results	1,621,097	1,621,343	155,884	44,260	102,137	73,432
Interest income						
Unallocated other operating income/(expenses), net						
Other unallocated gains						
Other unallocated expenses						
Profit from operating activities						
Finance costs						
Share of profits less losses of:						
A jointly-controlled entity	—	—	—	—	—	—
Associates	—	—	55,530	49,992	—	—
Profit before tax						
Tax						
Profit before minority interests						
Minority interests						
Net profit from ordinary activities attributable to shareholders						

Note: Excluding exchange gains/(losses), net

Notes to Financial Statements

31 December 2003

5. Segment Information (continued)

(a) Business segments (continued)

Group

	Continuing segments					
	Department Stores		Corporate and other		Subtotal	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:						
Sales to external customers	773,511	736,032	2,439	15,261	4,825,784	4,659,956
Intersegment sales	—	—	(4,241)	—	60,388	80,289
Other revenue from external sources (note)	6,425	5,723	11,083	801	30,014	55,188
Other revenue from intersegment (note)	—	—	—	652	—	652
Exchange gains/(losses), net	8	2	(1,132)	(2,472)	(13,762)	1,795
Total	779,944	741,757	8,149	14,242	4,902,424	4,797,880
Segment results	71,776	27,690	(57,341)	(92,489)	2,045,630	1,825,270
Interest income						
Unallocated other operating income/(expenses), net						
Other unallocated gains						
Other unallocated expenses						
Profit from operating activities						
Finance costs						
Share of profits less losses of:						
A jointly-controlled entity	—	—	—	—	63,359	62,320
Associates	4,013	6,332	—	—	52,910	113,802
Profit before tax						
Tax						
Profit before minority interests						
Minority interests						
Net profit from ordinary activities attributable to shareholders						

Note: Excluding exchange gains/(losses), net

Notes to Financial Statements

31 December 2003

5. Segment Information (continued)

(a) Business segments (continued)

Group

	Discontinued segments					
	Tours Operation		Brewery Operation		Malting Operation	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:						
Sales to external customers	61,325	271,031	110,513	593,052	102,047	683,931
Intersegment sales	—	—	—	—	19,670	66,505
Other revenue from external sources (note)	128	7,838	3,374	32,773	1,429	6,404
Other revenue from intersegment (note)	—	—	—	—	—	—
Exchange gains/(losses), net	—	24	(25)	(387)	378	(345)
Total	61,453	278,893	113,862	625,438	123,524	756,495
Segment results	(240)	(9,160)	11,690	103,682	15,098	67,712
Interest income						
Unallocated other operating income/(expenses), net						
Other unallocated gains						
Other unallocated expenses						
Profit from operating activities						
Finance costs						
Share of profits less losses of:						
A jointly-controlled entity	—	—	—	—	—	—
Associates	803	1,843	—	(4,437)	—	—
Profit before tax						
Tax						
Profit before minority interests						
Minority interests						
Net profit from ordinary activities attributable to shareholders						

Note: Excluding exchange gains/(losses), net

Notes to Financial Statements

31 December 2003

5. Segment Information (continued)

(a) Business segments (continued)

Group

	Discontinued segments					
	Tannery Operation		Merchandise Trading Operation		Leather Ware Operation	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:						
Sales to external customers	64,274	412,759	—	90,329	—	17,665
Intersegment sales	—	—	—	—	—	—
Other revenue from external sources (note)	149	1,121	—	3,900	—	2,308
Other revenue from intersegment (note)	—	—	—	—	—	—
Exchange gains/(losses), net	105	(222)	—	(297)	—	(42)
Total	64,528	413,658	—	93,932	—	19,931
Segment results	2,350	(39,612)	—	(24,562)	—	(439)
Interest income						
Unallocated other operating income/(expenses), net						
Other unallocated gains						
Other unallocated expenses						
Profit from operating activities						
Finance costs						
Share of profits less losses of:						
A jointly-controlled entity	—	—	—	—	—	—
Associates	—	—	—	—	—	—
Profit before tax						
Tax						
Profit before minority interests						
Minority interests						
Net profit from ordinary activities attributable to shareholders						

Note: Excluding exchange gains/(losses), net

Notes to Financial Statements

31 December 2003

5. Segment Information (continued)

(a) Business segments (continued)

Group

	Discontinued segments			
	Packaging Materials Operation		Subtotal	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:				
Sales to external customers	—	8,302	338,159	2,077,069
Intersegment sales	—	—	19,670	66,505
Other revenue from external sources (note)	—	—	5,080	54,344
Other revenue from intersegment (note)	—	—	—	—
Exchange gains/(losses), net	—	—	458	(1,269)
Total	—	8,302	363,367	2,196,649
Segment results	—	(89)	28,898	97,532
Interest income				
Unallocated other operating income/(expenses), net				
Other unallocated gains				
Other unallocated expenses				
Profit from operating activities				
Finance costs				
Share of profits less losses of:				
A jointly-controlled entity	—	—	—	—
Associates	—	—	803	(2,594)
Profit before tax				
Tax				
Profit before minority interests				
Minority interests				
Net profit from ordinary activities attributable to shareholders				

Note: Excluding exchange gains/(losses), net

Notes to Financial Statements

31 December 2003

5. Segment Information (continued)

(a) Business segments (continued)

Group

	Eliminations		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
				(Restated)
Segment revenue:				
Sales to external customers	—	—	5,163,943	6,737,025
Intersegment sales	(80,058)	(146,794)	—	—
Other revenue from external sources (note)	—	—	35,094	109,532
Other revenue from intersegment (note)	—	(652)	—	—
Exchange gains/(losses), net	—	—	(13,304)	526
Total	(80,058)	(147,446)	5,185,733	6,847,083
Segment results	—	—	2,074,528	1,922,802
Interest Income			19,028	31,457
Unallocated other operating income/(expenses), net			36,927	(111,683)
Other unallocated gains			41,589	11,118
Other unallocated expenses			—	(2,961)
Profit from operating activities			2,172,072	1,850,733
Finance costs			(616,582)	(1,494,119)
Share of profits less losses of:				
A jointly-controlled entity	—	—	63,359	62,320
Associates	—	—	53,713	111,208
Profit before tax			1,672,562	530,142
Tax			(223,587)	(237,918)
Profit before minority interests			1,448,975	292,224
Minority interests			(342,254)	(97,320)
Net profit from ordinary activities attributable to shareholders			1,106,721	194,904

Note: Excluding exchange gains/(losses), net

Notes to Financial Statements

31 December 2003

5. Segment Information (continued)

(a) Business segments (continued)

Group

	Continuing segments									
	Property Investment		Property Development		Toll Roads and Bridges		Water Distribution		Electric Power Generation	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
						(Restated)				
Segment assets	3,295,856	3,553,361	43,630	80,767	201,380	205,934	23,230,612	21,174,115	686,651	610,315
Interests in associates	—	—	—	89,852	—	—	—	—	343,818	297,705
Interest in a jointly-controlled entity	—	—	—	—	961,297	968,130	—	—	—	—
Unallocated assets										
Total assets										
Segment liabilities	268,632	394,315	4,589	38,191	79,671	79,693	357,654	164,728	244,328	264,572
Unallocated liabilities										
Total liabilities										
Other segment information:										
Depreciation and amortisation	4,639	6,388	11	150	4,541	7,790	834,127	779,981	62,321	44,241
Unallocated amounts										
Impairment losses recognised in the profit and loss account	—	4,712	26,836	28,800	—	—	9,687	—	—	—
Unallocated amounts										
Other non-cash expenses	89,416	89,432	—	—	—	—	9,275	—	—	—
Capital expenditure	1,013	131	—	—	—	—	640,168	604,042	15,081	36,319

Notes to Financial Statements

31 December 2003

5. Segment Information (continued)

(a) Business segments (continued)

Group

	Continuing segments							
	Hotel Operations and Management		Department Stores		Corporate and Other		Subtotal	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
								(Restated)
Segment assets	1,826,913	1,760,717	262,770	136,229	601,011	504,032	30,148,823	28,025,470
Interests in associates	—	—	27,586	25,153	—	—	371,404	412,710
Interest in a jointly-controlled entity	—	—	—	—	—	—	961,297	968,130
Unallocated assets								
Total assets								
Segment liabilities	30,426	38,708	228,285	177,445	53,155	74,832	1,266,740	1,232,484
Unallocated liabilities								
Total liabilities								
Other segment information:								
Depreciation and amortisation	13,650	14,134	18,004	25,493	3,608	9,039	940,901	887,216
Unallocated amounts								
Impairment losses recognised in the profit and loss account	—	—	13,867	—	—	—	50,390	33,512
Unallocated amounts								
Other non-cash expenses	(59,796)	—	—	—	3,283	7,421	42,178	96,853
Capital expenditure	10,703	10,913	879	2,613	51,374	15,245	719,218	669,263

Notes to Financial Statements

31 December 2003

5. Segment Information (continued)

(a) Business segments (continued)

Group

	Discontinued segments									
	Tours Operation		Brewery Operation		Malting Operation		Tannery Operation		Merchandise Trading Operation	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment assets	—	123,738	—	1,409,329	—	736,086	—	414,904	—	2,964
Interests in associates	—	10,907	—	—	—	—	—	—	—	—
Interest in a jointly-controlled entity	—	—	—	—	—	—	—	—	—	—
Unallocated assets										
Total assets										
Segment liabilities	—	131,128	—	220,283	—	168,148	—	79,625	—	2,475
Unallocated liabilities										
Total liabilities										
Other segment information:										
Depreciation and amortisation	12	11,630	22,055	88,963	9,494	38,792	4,162	15,294	—	46
Unallocated amounts										
Impairment losses recognised in the profit and loss account	—	46,992	—	—	—	2,146	—	1,493	—	—
Unallocated amounts										
Other non-cash expenses	—	—	—	—	—	—	—	11,930	—	29,169
Capital expenditure	216	1,802	20,101	26,073	340	8,405	1,307	15,039	—	—

Notes to Financial Statements

31 December 2003

5. Segment Information (continued)

(a) Business segments (continued)

Group

	Discontinued segments						Eliminations		Consolidated	
	Leather Ware Operation		Packaging Materials Operation		Subtotal		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000				
										(Restated)
Segment assets	—	—	—	—	—	2,687,021	—	(10,132)	30,148,823	30,702,359
Interests in associates	—	—	—	—	—	10,907	—	—	371,404	423,617
Interest in a jointly-controlled entity	—	—	—	—	—	—	—	—	961,297	968,130
Unallocated assets									60,839	139,022
Total assets									31,542,363	32,233,128
Segment liabilities	—	—	—	—	—	601,659	—	(10,132)	1,266,740	1,824,011
Unallocated liabilities									19,374,014	19,282,678
Total liabilities									20,640,754	21,106,689
Other segment information:										
Depreciation and amortisation	—	1,058	—	—	35,723	155,783	—	—	976,624	1,042,999
Unallocated amounts									238	—
									976,862	1,042,999
Impairment losses recognised in the profit and loss account	—	—	—	—	—	50,631	—	—	50,390	84,143
Unallocated amounts, net									70,256	112,143
									120,646	196,286
Other non-cash expenses	—	—	—	713	—	41,812	—	—	42,178	138,665
Capital expenditure	—	342	—	4	21,964	51,665	—	—	741,182	720,928

Notes to Financial Statements

31 December 2003

5. Segment Information (continued)

(b) Geographical segments

The following tables present revenue, profit/(loss) and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong		Mainland China		Other		Eliminations		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:										
Sales to external customers	175,860	476,235	4,988,083	6,246,485	—	14,305	—	—	5,163,943	6,737,025
Other revenue from external customers (Note)	14,069	8,557	21,025	104,251	—	3,917	—	—	35,094	116,725
Exchange gains/(losses), net	(1,569)	(2,762)	(11,735)	3,498	—	(210)	—	—	(13,304)	526
Revenue from external customers	188,360	482,030	4,997,373	6,354,234	—	18,012	—	—	5,185,733	6,854,276
Other segment information:										
Segment assets	2,305,577	2,523,300	27,843,246	28,087,858	—	19,062	—	(3,756)	30,148,823	30,626,464
Capital expenditure	59,260	6,071	681,922	714,857	—	—	—	—	741,182	720,928

Note: Excluding exchange gains/(losses), net

Notes to Financial Statements

31 December 2003

6. Discontinued Operations

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

As described in note 1 to the financial statements, on 26 February 2003, the Company entered into a conditional agreement (the "Disposal Agreement") with 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 900,000,000 shares in the then issued share capital of GD Brewery, which with its subsidiaries carried out the Group's Brewing Operation;
- The Group's entire 375,100,000 shares in the then issued share capital of GD Tannery, which with its subsidiaries carried out the Group's Tannery Operation and Merchandise Trading Operation;
- The Group's entire 100% equity interest in Supertime, which with its subsidiaries carried out the Group's Malting Operation;
- The Group's entire 100% equity interest in GD Tours, which with its subsidiaries carried out the Group's Tours Operation;
- The Group's entire 24.8% equity interest in Guangzhou Panyu, the subsidiaries of which operated a property development project in Guangzhou; and
- Net inter-company debts, being the amounts outstanding at the date of 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 net loss on disposal/discontinuation of certain operations of HK\$3,738,000 to the Group. Since then, GD Brewery, GD Tannery, Supertime, and GD Tours all ceased to be subsidiaries of the Group and the Group's operations carried out through these companies were discontinued.

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

In June 2002, GD Tannery, a then subsidiary of the Company, entered into a conditional sale and purchases agreement, which was completed in July 2002, 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"), which principally operated the Group's Leather Ware Products Operation, at HK\$6,596,000 (net of expenses). Upon the completion of this transaction in prior year, the Group's Leather Ware Products Operation was discontinued and a gain on disposal of such operation of HK\$636,000 was recorded.

Notes to Financial Statements

31 December 2003

6. Discontinued Operations (continued)

(c) Discontinuation of the operation of Xuzhou Gangwei

In June 2002, the board of directors of Xuzhou Gangwei resolved to discontinue its Packaging Materials Operation and lease all its plant and machinery to an independent third party. On 30 June 2002, the Packaging Materials Operation was discontinued and all the related plant and machinery were leased out. In connection with the discontinuation of the Group's Packaging Materials Operation, the Group incurred a loss of HK\$552,000 which mainly represented compensation payments made to relevant staff.

The turnover, other revenue and gains, expenses, profit/(loss) before tax and tax attributable to the discontinued operations for the year ended 31 December 2003 are as follows:

	Brewery Operation		Tannery Operation		Merchandise Trading Operation	
	31 December 2003 HK\$'000	31 December 2002 HK\$'000	31 December 2003 HK\$'000	31 December 2002 HK\$'000	31 December 2003 HK\$'000	31 December 2002 HK\$'000
		(Restated)				
Turnover	110,513	593,052	64,274	412,759	—	90,329
Cost of sales	(68,774)	(351,680)	(57,984)	(416,233)	—	(84,761)
Gross profit/(loss)	41,739	241,372	6,290	(3,474)	—	5,568
Other revenue and gains	3,794	34,034	292	1,080	—	3,775
Selling and distribution costs	(26,495)	(133,960)	(527)	(2,318)	—	(311)
Administrative expenses	(6,903)	(36,504)	(3,667)	(12,036)	—	(4,252)
Other operating expenses, net	—	—	—	(22,685)	—	(29,169)
Profit/(loss) from operating activities	12,135	104,942	2,388	(39,433)	—	(24,389)
Finance costs	—	—	(2,479)	(5,063)	—	(4,471)
Share of profits less losses of associates	—	(4,437)	—	—	—	—
Profit/(loss) before tax	12,135	100,505	(91)	(44,496)	—	(28,860)
Tax	(574)	(14,654)	—	—	—	—
Profit/(loss) before minority interests	11,561	85,851	(91)	(44,496)	—	(28,860)
Minority interests	(5,371)	(28,078)	—	—	—	—
Net profit/(loss) for the year	6,190	57,773	(91)	(44,496)	—	(28,860)

Notes to Financial Statements

31 December 2003

6. Discontinued Operations (continued)

The net cash flows attributable to the discontinued operations for the year ended 31 December 2003 are as follows:

	Brewery Operation		Tannery Operation		Merchandise Trading Operation	
	31 December	31 December	31 December	31 December	31 December	31 December
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating	7,549	182,264	(42,864)	19,682	—	(22,082)
Investing	(12,038)	(6,036)	9,308	(10,333)	—	1,778
Financing	153	—	(5,930)	(47)	—	(31,275)
Net cash inflows/(outflows)	(4,336)	176,228	(39,486)	9,302	—	(51,579)

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

	Brewery Operation		Tannery Operation		Merchandise Trading Operation	
	31 December	31 December	31 December	31 December	31 December	31 December
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)				
Total assets	—	1,439,401	—	412,865	—	1,219
Total liabilities	—	(221,457)	—	(138,895)	—	(605)
Net assets	—	1,217,944	—	273,970	—	614

Notes to Financial Statements

31 December 2003

6. Discontinued Operations (continued)

The turnover, other revenue and gains, expenses, profit/(loss) before tax and tax attributable to the discontinued operations for the year ended 31 December 2003 are as follows:

	Malting Operation		Tours Operation		Leather Ware Operation	
	31 December 2003 HK\$'000	31 December 2002 HK\$'000	31 December 2003 HK\$'000	31 December 2002 HK\$'000	31 December 2003 HK\$'000	31 December 2002 HK\$'000
Turnover	102,047	683,931	61,325	271,031	—	17,665
Cost of sales	(76,413)	(560,662)	(53,645)	(227,360)	—	(5,985)
Gross profit	25,634	123,269	7,680	43,671	—	11,680
Other revenue and gains	1,843	6,368	155	9,242	—	2,332
Selling and distribution costs	(5,077)	(34,131)	(838)	(4,794)	—	(7,259)
Administrative expenses	(7,267)	(25,082)	(4,926)	(47,907)	—	(7,144)
Other operating expenses, net	—	(2,342)	(2,283)	(7,992)	—	(24)
Profit/(loss) from operating activities	15,133	68,082	(212)	(7,780)	—	(415)
Finance costs	(3,972)	(10,200)	(1,818)	(1,611)	—	(29)
Share of profits less losses of associates	—	—	803	2,016	—	—
Profit/(loss) before tax	11,161	57,882	(1,227)	(7,375)	—	(444)
Tax	(955)	(5,190)	(265)	(715)	—	—
Profit/(loss) before minority interests	10,206	52,692	(1,492)	(8,090)	—	(444)
Minority interests	(5,570)	(19,349)	—	(57)	—	177
Net profit/(loss) for the year	4,636	33,343	(1,492)	(8,147)	—	(267)

Notes to Financial Statements

31 December 2003

6. Discontinued Operations (continued)

The net cash flows attributable to the discontinued operations for the year ended 31 December 2003 are as follows:

	Malting Operation		Tours Operation		Leather Ware Operation	
	31 December 2003 HK\$'000	31 December 2002 HK\$'000	31 December 2003 HK\$'000	31 December 2002 HK\$'000	31 December 2003 HK\$'000	31 December 2002 HK\$'000
Operating	(29,424)	160,645	(12,835)	53,403	—	(608)
Investing	(341)	(8,258)	5,204	(553)	—	(317)
Financing	95,273	(160,720)	—	(69,262)	—	—
Net cash inflows/(outflows)	65,508	(8,333)	(7,631)	(16,412)	—	(925)

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

	Malting Operation		Tours Operation		Leather Ware Operation	
	31 December 2003 HK\$'000	31 December 2002 HK\$'000	31 December 2003 HK\$'000	31 December 2002 HK\$'000	31 December 2003 HK\$'000	31 December 2002 HK\$'000
Total assets	—	736,086	—	134,645	—	—
Total liabilities	—	(316,831)	—	(172,523)	—	—
Net assets	—	419,255	—	(37,878)	—	—

Notes to Financial Statements

31 December 2003

6. Discontinued Operations (continued)

The turnover, other revenue and gains, expenses, profit/(loss) before tax and tax attributable to the discontinued operations for the year ended 31 December 2003 are as follows:

	Packaging Materials Operation		Total	
	31 December 2003 HK\$'000	31 December 2002 HK\$'000	31 December 2003 HK\$'000	31 December 2002 HK\$'000
				(Restated)
Turnover	—	8,302	338,159	2,077,069
Cost of sales	—	(6,067)	(256,816)	(1,652,748)
Gross profit	—	2,235	81,343	424,321
Other revenue and gains	—	157	6,084	56,988
Selling and distribution costs	—	(832)	(32,937)	(183,605)
Administrative expenses	—	(760)	(22,763)	(133,685)
Other operating expenses, net	—	(732)	(2,283)	(62,944)
Profit from operating activities	—	68	29,444	101,075
Finance costs	—	—	(8,269)	(21,374)
Share of profits less losses of associates	—	—	803	(2,421)
Profit before tax	—	68	21,978	77,280
Tax	—	—	(1,794)	(20,559)
Profit before minority interests	—	68	20,184	56,721
Minority interests	—	—	(10,941)	(47,307)
Net profit for the year	—	68	9,243	9,414

Notes to Financial Statements

31 December 2003

6. Discontinued Operations (continued)

The net cash flows attributable to the discontinued operations for the year ended 31 December 2003 are as follows:

	Packaging Materials Operation		Total	
	31 December 2003 HK\$'000	31 December 2002 HK\$'000	31 December 2003 HK\$'000	31 December 2002 HK\$'000
Operating	—	(287)	(77,574)	393,017
Investing	—	154	2,133	(23,565)
Financing	—	—	89,496	(261,304)
Net cash inflows/(outflows)	—	(133)	14,055	108,148

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

	Packaging Materials Operation		Total	
	31 December 2003 HK\$'000	31 December 2002 HK\$'000	31 December 2003 HK\$'000	31 December 2002 HK\$'000
				(Restated)
Total assets	—	—	—	2,724,216
Total liabilities	—	—	—	(850,311)
Net assets	—	—	—	1,873,905

Notes to Financial Statements

31 December 2003

7. Profit from Operating Activities

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

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
Cost of inventories sold*		908,049	2,385,997
Depreciation	14	362,150	426,100
Amortisation of deferred expenses*		8,154	4,998
Amortisation of reusable packaging materials*		2,023	6,667
Amortisation of operating right*	23	493,287	493,287
Amortisation of trademarks*		—	700
Amortisation of prepaid rental*	24(a)	111,010	111,009
Minimum lease payments under operating leases in respect of land and buildings		1,915	16,916
Auditors' remuneration		2,877	6,500
Staff costs (excluding directors' remuneration — note 8)			
Wages and salaries		233,724	373,607
Pension scheme contributions		17,899	30,511
Less: Forfeited contributions		(309)	(943)
Net pension scheme contributions#		17,590	29,568
		251,314	403,175
Gross rental income from investment properties		(254,658)	(278,568)
Less: Outgoings		5,023	14,547
Net rental income from investment properties		(249,635)	(264,021)
Negative goodwill recognised as income**	21	(11,633)	(11,003)
Other rental income, net		(29,272)	(37,975)
Gain on disposal of a deconsolidated subsidiary	17	—	(850)
Gain on disposal of subsidiaries and associates, net	48(b)	(19,474)	(37,386)
Royalty income from trademarks		—	(500)
Gain from settlement of a litigation		—	(3,900)
Interest income		(19,028)	(31,457)
Exchange (gains)/losses, net		13,304	(526)

Notes to Financial Statements

31 December 2003

7. Profit from Operating Activities (continued)

Material (profit)/loss items included in other operating expenses, net:

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
Amortisation of goodwill	21	238	238
Investment property revaluation deficit, net	16	89,416	77,643
Hotel property revaluation surplus, net	14	(62,010)	(2,763)
Impairment of fixed assets	14	23,554	55,343
Impairment of interest in a jointly-controlled entity	18	60,000	—
Impairment of a contractual joint venture	20	—	110,253
Impairment of investment securities		10,256	1,890
Impairment of properties under development	15	26,836	28,800
Loss on disposal of fixed assets, net		415	13,857
Loss on disposal of investment properties		977	260
Unrealised losses on revaluation of other investments		—	2,747
Write-back of provision for impairment in a deconsolidated subsidiary	17	(46,895)	—
Write-back of provision against an amount due from a fellow subsidiary		(994)	(3,207)
Provisions against inventories, net		9,771	8,327
Provisions for/(write-back of provision against) doubtful debts, net		(58,031)	40,906

* These costs and expenses are included in "Cost of sales" on the face of the consolidated profit and loss account.

** The negative goodwill recognised as income for the year is included in "Other revenue and gains" on the face of the consolidated profit and loss account.

As at 31 December 2002 and 2003, there were no material forfeited pension scheme contributions outstanding and available to reduce the Group's pension scheme contributions in future years.

Notes to Financial Statements

31 December 2003

8. Directors' Remuneration and Five Highest Paid Employees

- (a) Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Fees:		
Executive directors	—	—
Independent non-executive directors	800	800
	800	800
Other emoluments:		
Salaries, allowances and benefits in kind	3,849	3,343
Bonuses paid and payable	844	708
Pension scheme contributions	720	583
Less: Forfeited contributions	—	—
Net pension scheme contributions	720	583
Total directors' remuneration	6,213	5,434

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2003	2002
Nil — HK\$1,000,000	13	13
HK\$1,000,001 — HK\$1,500,000	—	2
HK\$1,500,001 — HK\$2,000,000	2	1
	15	16

During the year, 24,000,000 (2002: 85,000,000) share options of the Company were granted to certain directors in respect of their services to the Group, further details of which are set out in note 46(a) to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

There was no arrangement under which a director waived or agreed to waive any remuneration during the current and the prior years.

Notes to Financial Statements

31 December 2003

8. Directors' Remuneration and Five Highest Paid Employees (continued)

- (b) The five highest paid employees of the Group during the year included two (2002: two) directors. Details of the remuneration of the other three (2002: three) highest paid, non-director employees for the year are as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Salaries, allowances and other benefits in kind	3,162	3,068
Bonuses paid and payable	454	1,415
Pension scheme contributions	150	71
	3,766	4,554

The remuneration of the other three highest paid, non-director employees (2002: three) fell within the following bands:

	Number of individuals	
	2003	2002
HK\$1,000,001 — HK\$1,500,000	2	2
HK\$1,500,001 — HK\$2,000,000	1	1
	3	3

During the year, 3,100,000 (2002: 4,000,000) share options were granted to the above three (2002: two of the above three) highest paid employees in respect of their services to the Group, further details of which are included in note 46(a) to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above five highest paid employees' remuneration disclosures.

Notes to Financial Statements

31 December 2003

9. Finance Costs

	Notes	Group	
		2003 HK\$'000	2002 HK\$'000
Interest on bank loans and other borrowings repayable:			
Within five years*		30,903	140,552
Over five years**		453,312	1,103,052
Interest on provision for bank loans guaranteed		4,070	21,073
		488,285	1,264,677
Less: Interest included in prepaid construction costs	24(c)	(25,611)	(34,006)
		462,674	1,230,671
Finance charges incurred on interest rate swap agreements, net		153,908	—
Amortisation of swap cost in respect of the Swap Agreement	40(b)(iii)	—	14,328
Finance charges for the amendment in respect of the Swap Agreement	40(b)(iii)	—	136,266
Finance charges for the debt refinancing of GH Holdings		—	112,854
Total finance costs for the year		616,582	1,494,119

* Include interest expense on Straight Bonds (as defined in note 37 to the financial statements) and Convertible Bonds (as defined in note 38 to the financial statements) of HK\$556,000 and HK\$218,000, respectively.

** Net of government grants of HK\$25,992,000 in respect of subsidies for interest expense.

Notes to Financial Statements

31 December 2003

10. 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 year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. Taxes on profits assessable in Mainland China and elsewhere have been calculated at the rates of tax prevailing in those places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2003 HK\$'000	2002 HK\$'000
		(Restated)
Group		
Current — Hong Kong		
Charge for the year	2,403	4,795
Overprovision in the prior year	(1,643)	(75)
Current — Mainland China		
Charge for the year	128,038	84,039
Underprovision in prior years	1,612	543
Deferred (note 44)	70,484	133,614
	200,894	222,916
Share of tax attributable to:		
A jointly-controlled entity	10,466	(1,287)
Associates	12,227	16,289
	223,587	237,918
Total tax charge for the year	223,587	237,918

Notes to Financial Statements

31 December 2003

10. Tax (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries, a jointly-controlled entity and associates are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	Hong Kong		2003 Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	145,351		1,527,211		1,672,562	
Tax at the statutory or applicable tax rate	25,436	17.5	503,980	33.0	529,416	31.7
Lower tax rate for specific provinces or local authority and as a result of tax holidays	—	—	(308,699)	(20.2)	(308,699)	(18.5)
Effect on opening deferred tax of increase in rate	150	0.1	—	—	150	—
Adjustments in respect of current tax of previous periods	(1,643)	(1.1)	1,612	0.1	(31)	—
Income not subject to tax	(48,726)	(33.5)	(69,497)	(4.6)	(118,223)	(7.1)
Expenses not deductible for tax	28,982	19.9	11,684	0.8	40,666	2.4
Effect of unused tax losses for the year not recognised	16,827	11.5	28,883	1.9	45,710	2.7
Tax losses utilised from previous periods	(12,406)	(8.5)	—	—	(12,406)	(0.7)
Higher tax rate in respect of certain gain on revaluation surplus credited to the profit and loss accounts	—	—	46,714	3.1	46,714	2.8
Others	1,188	0.8	(898)	(0.1)	290	—
Tax charged at the Group's effective rate	9,808	6.7	213,779	14.0	223,587	13.3

Notes to Financial Statements

31 December 2003

10. Tax (continued)

	Hong Kong		2002 Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	(300,218)		830,360		530,142	
Tax at the statutory or applicable tax rate	(48,035)	16.0	274,019	33.0	225,984	42.6
Lower tax rate for specific provinces or local authority and as a result of tax holidays	—	—	(212,571)	(25.6)	(212,571)	(40.1)
Adjustments in respect of current tax of previous periods	(75)	—	543	0.1	468	0.1
Income not subject to tax	(23,373)	7.8	(16,193)	(2.0)	(39,566)	(7.5)
Expenses not deductible for tax	49,358	(16.4)	97,839	11.8	147,197	27.8
Effect of unused tax losses for the year not recognised	40,424	(13.4)	18,749	2.3	59,173	11.2
Tax losses utilised from previous periods	(6,714)	2.2	(14,715)	(1.8)	(21,429)	(4.0)
Higher tax rate in respect of capital gain on revaluation surplus credited to profit and loss accounts	—	—	84,262	10.1	84,262	15.9
Others	(6,067)	2.0	467	0.1	(5,600)	(1.1)
Tax charged at the Group's effective rate	5,518	(1.8)	232,400	28.0	237,918	44.9

Under the PRC income tax law, enterprises are subject to corporate income tax ("CIT") at a rate of 33%. However, certain of the Group's PRC subsidiaries are operating in specific development zones of the PRC, and the relevant tax authorities have granted the enterprises a preferential CIT rate of 15%. CIT is payable based on the taxable income as reported in the statutory accounts which are prepared in accordance with PRC accounting regulations.

In addition, certain subsidiaries of the Group are entitled to tax holidays in Guangdong Province, PRC, during 2002 and 2003.

11. Net Profit/(Loss) from Ordinary Activities Attributable to Shareholders

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company, was HK\$7,432,000 (2002: net profit of HK\$143,201,000).

Notes to Financial Statements

31 December 2003

12. Dividend

The board of directors does not recommend the payment of any dividend with respect to the Ordinary Shares (as defined in note 45 to the financial statements) for the year (2002: Nil).

As at 31 December 2002, the accumulated (but undeclared) fixed dividends on the Preference Shares (as defined in note 45 to the financial statements) amounted to HK\$92,236,000. Such accumulated dividends, in respect of the period starting from 7 October 1998, did not accrue interest. Upon the completion of the Company's Capital Reduction Proposal (as defined in note 47(a) to the financial statements) on 24 December 2003, the Preference Shares were cancelled and the Company's obligation to settle the accumulated but undeclared dividends on the Preference Shares up to 24 December 2003 were waived and in replacement therewith the Company issued the Straight Bonds (as defined in note 37 to the financial statements) and Convertible Bonds (as defined in note 38 to the financial statements) to the beneficial owners of the Preference Shares. Further details of the Capital Reduction Proposal and the Preference Share Cancellation are included respectively in note 47(a) and (d) to the financial statements.

13. Earnings Per Share

The calculation of the basic and diluted earnings per share for the years ended 31 December 2003 and 2002 are based on:

	2003 HK\$'000	2002 HK\$'000
		(Restated)
Earnings:		
Net profit attributable to holders of Ordinary Shares	1,106,721	194,904
Less: Provision for Preference Share redemption premium*	—	(53,048)
Preference Shares dividend*	—	(21,788)
Earnings for the purpose of basic earnings per share	1,106,721	120,068
Add: Interest saving on Convertible Bonds from date of issue	218	—
Earnings for the purpose of diluted earnings per share	1,106,939	120,068

* As a result of the Preference Share Cancellation (as defined in note 47(a) to the financial statements), the Company's obligation to provide for Preference Shares redemption premium and to accrue for the Preference Shares dividend was waived in December 2003.

Notes to Financial Statements

31 December 2003

13. Earnings Per Share (continued)

	2003	2002
		(Restated)
Number of shares:		
Weighted average number of Ordinary Shares in issue	5,214,533,083	5,141,494,726
Effect of Additional Shares (as defined in note 47(c) to the financial statements) to be issued arising from the Acquisition from the date when all necessary conditions have been satisfied	280,500,000	137,500,000
For the purpose of basic earnings per share	5,495,033,083	5,278,994,726
Weighted average number of Ordinary Shares in issue	5,214,533,083	5,141,494,726
Assumed issued at no consideration on deemed exercise of all share options outstanding during the year	151,284,000	48,915,741
Assumed issued on deemed conversion of Convertible Bonds into Ordinary Shares on date of issue	5,891,538	—
Effect of Additional Shares to be issued arising from the Acquisition from the beginning of year	330,000,000	198,000,000
For the purpose of diluted earnings per share	5,701,708,621	5,388,410,467

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 (the “Acquisition Circular”).

Since WaterCo had already met the performance milestones specified under the Earnout Agreement for the first, second, third, fourth, and fifth years of the Earnout Period in September 2001, March 2002, September 2002, March 2003, and June 2003 respectively, the Company was obliged to issue a total of 330 million Additional Shares to GDH Limited in accordance with the Earnout Agreement. On 27 February 2004, 198,000,000 Additional Shares were issued to GDH Limited in accordance with the Earnout Agreement. Another 66,000,000 Additional Shares will be issued on 21 December 2004 and the remaining 66,000,000 Additional Shares will be issued on 21 December 2005.

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 share for the current and prior years.

Notes to Financial Statements

31 December 2003

14. Fixed Assets

Group

	Hotel		Tunnels, dams, water		Furniture, fixtures and		Leasehold improvements	Motor vehicles	Toll road	Construction in progress	Total
	properties	buildings	mains and reservoirs	Plant and machinery	equipment						
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:											
At beginning of year	1,638,168	5,445,538	1,428,421	2,469,063	279,666	118,442	148,985	225,120	527,430	12,280,833	
Additions	—	2,532	1,842,098	544,521	13,045	402	484	—	8,352	2,411,434	
Transfer from other long term assets (note 24)	—	450,403	1,600,050	461,870	—	—	—	—	—	2,512,323	
Transfer to investment properties (note 16)	—	(70,395)	—	—	—	—	—	—	—	(70,395)	
Reclassifications	—	8,418	40,833	5,480	1,159	563	—	—	(56,453)	—	
Disposals	—	(30,713)	—	(7,227)	(5,521)	(2,706)	(2,309)	—	—	(48,476)	
Disposal of subsidiaries (note 48(b))	—	(978,729)	—	(1,750,177)	(37,128)	(24,578)	(124,357)	—	(32,884)	(2,947,853)	
Revaluation surplus, net (note 7)	62,010	—	—	—	—	—	—	—	—	62,010	
Exchange adjustments	(1,538)	(1,391)	—	(1,186)	(247)	(234)	(101)	(868)	(1,864)	(7,429)	
At 31 December 2003	1,698,640	4,825,663	4,911,402	1,722,344	250,974	91,889	22,702	224,252	444,581	14,192,447	
Accumulated depreciation and impairment:											
At beginning of year	—	757,584	101,807	1,084,397	234,257	96,907	112,979	32,034	—	2,419,965	
Provided during the year	—	160,916	70,146	103,396	10,723	7,006	5,422	4,541	—	362,150	
Impairments (note 7)	—	13,867	—	—	—	—	—	—	9,687	23,554	
Transfer to investment properties (note 16)	—	(2,520)	—	—	—	—	—	—	—	(2,520)	
Disposals	—	(15,898)	—	(781)	(4,881)	(1,803)	(2,231)	—	—	(25,594)	
Disposal of subsidiaries (note 48(b))	—	(313,737)	—	(857,990)	(26,367)	(21,584)	(100,629)	—	—	(1,320,307)	
Exchange adjustments	—	(551)	—	(682)	(279)	(266)	(18)	(82)	—	(1,878)	
At 31 December 2003	—	599,661	171,953	328,340	213,453	80,260	15,523	36,493	9,687	1,455,370	
Net book value:											
At 31 December 2003	1,698,640	4,226,002	4,739,449	1,394,004	37,521	11,629	7,179	187,759	434,894	12,737,077	
At 31 December 2002	1,638,168	4,687,954	1,326,614	1,384,666	45,409	21,535	36,006	193,086	527,430	9,860,868	

At 31 December 2003, all temporary land use rights certificates for the existing water supply operation issued from the Shenzhen and Dongguan Land Authorities have been received. The procedures for the conversion from temporary land use rights certificates to land use rights certificates of these land use rights were in progress. For Phase IV Renovation Project transferred to fixed assets in October 2003, the applications for land use rights certificates have been commenced and these land use rights certificates have not yet been issued by the relevant offices of the Land Authority in the PRC as at the balance sheet date. Notwithstanding this, the directors are of the opinion that the Group has obtained beneficial title to these assets as at 31 December 2003 and the land use rights certificates can be received.

Notes to Financial Statements

31 December 2003

14. Fixed Assets (continued)

The net book values of the Group's hotel properties and land and buildings as at 31 December 2003 are analysed as follows:

	Hotel properties		Land and buildings	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Long term leases in Hong Kong	692,700	686,035	235,612	404,149
Medium term leases in Hong Kong	399,266	394,834	41,268	6,399
Long term leases in Mainland China	—	—	—	20,468
Medium term leases in Mainland China	606,674	557,299	3,949,122	4,254,404
Freehold in other location	—	—	—	2,534
	1,698,640	1,638,168	4,226,002	4,687,954

The hotel properties were revalued individually at the balance sheet date by Vigers Appraisal & Consulting Limited, independent professional qualified valuers, on an open market value basis, based on their existing use, at an aggregate amount of HK\$1,698,640,000 as at 31 December 2003 (2002: HK\$1,638,168,000).

A net revaluation surplus of HK\$62,010,000 (2002: HK\$2,763,000) resulting from the above revaluations has been credited to the consolidated profit and loss account, to partly offset the revaluation deficit previously charged.

Had the carrying values of the Group's hotel properties been stated at historical cost less accumulated depreciation and impairment losses in accordance with the Group's accounting policies, their carrying amounts would have been HK\$1,698,640,000 (2002: HK\$1,638,168,000).

Notes to Financial Statements

31 December 2003

14. Fixed Assets (continued)

Company

	Furniture, fixtures and equipment HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:				
At beginning of year	11,215	10,311	612	22,138
Additions	117	186	—	303
Disposals	—	(1,971)	—	(1,971)
At 31 December 2003	11,332	8,526	612	20,470
Accumulated depreciation:				
At beginning of year	9,609	6,030	612	16,251
Provided during the year	1,271	2,183	—	3,454
Disposals	—	(1,193)	—	(1,193)
At 31 December 2003	10,880	7,020	612	18,512
Net book value:				
At 31 December 2003	452	1,506	—	1,958
At 31 December 2002	1,606	4,281	—	5,887

Notes to Financial Statements

31 December 2003

15. Properties under Development

	Group	
	2003 HK\$'000	2002 HK\$'000
Balance at beginning of year	69,600	173,147
Impairment (note 7)	(26,836)	(28,800)
Disposals	—	(74,711)
Disposal of subsidiaries (note 48(b))	(5,600)	—
Exchange adjustments	(23)	(36)
Balance at 31 December	37,141	69,600

The carrying value of the Group's properties under development is analysed as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Long term leases in Mainland China	37,141	64,000
Medium term leases in Mainland China	—	5,600
	37,141	69,600

Notes to Financial Statements

31 December 2003

16. Investment Properties

	Group	
	2003 HK\$'000	2002 HK\$'000
Balance at beginning of year, at valuation	2,289,280	2,332,118
Additions	—	30,000
Transfer from fixed assets (note 14)	67,875	7,549
Transfer to fixed assets	—	(500)
Revaluation deficit, net	(89,416)	(77,643)
Disposals	(12,670)	(1,649)
Disposal of subsidiaries (note 48(b))	(147,731)	—
Exchange adjustments	(1,199)	(595)
Balance at 31 December, at valuation	2,106,139	2,289,280

The net book values of the Group's investment properties as at 31 December are analysed as follows:

	2003 HK\$'000	2002 HK\$'000
Analysis by geographical location:		
Freehold in Thailand	—	12,670
Long term leases in Hong Kong	287,400	370,400
Medium term leases in Hong Kong	1,500	5,570
Medium term leases in Mainland China	1,817,239	1,900,640
	2,106,139	2,289,280

The Group's investment properties were revalued by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, on an open market value basis, based on their existing use, at 31 December 2003.

Further particulars of the Group's investment properties are included on page 184.

Notes to Financial Statements

31 December 2003

17. Interests in Subsidiaries

	Company	
	2003 HK\$'000	2002 HK\$'000
Investments at cost:		
Listed	—	726,825
Unlisted	4,908,120	6,107,276
	4,908,120	6,834,101
Due from subsidiaries	4,453,672	5,570,624
Due to subsidiaries	(1,425,460)	(837,840)
	7,936,332	11,566,885
Provision for impairment	(2,137,655)	(2,525,761)
	5,798,677	9,041,124
Market value of listed shares as at 31 December	—	504,018

Other than as mentioned below, the amounts due from/to subsidiaries are unsecured, interest-free and have no specific terms of repayment.

Included in the amounts due from subsidiaries are unsecured loans of HK\$445,000,000, which bear interest at the rates ranging from Hong Kong Prime Rate plus 1% to 9% per annum and are repayable within 5 years.

Included in the amounts due to subsidiaries are unsecured loans in an aggregate sum of HK\$994,640,000, which bear interest at the rates ranging from 2% to 5.1% per annum. The amounts are payable in accordance with the terms and conditions of the Straight Bonds and the Convertible Bonds.

Notes to Financial Statements

31 December 2003

17. Interests in Subsidiaries (continued)

Particulars of the principal subsidiaries at the balance sheet date were as follows:

Company	Place of incorporation/ registration and operations	Nominal value of issued share capital, registered/paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Bateson Developments Limited	British Virgin Islands/ Hong Kong	US\$9 ordinary US\$91 non-voting deferred	100%	—	Property investment
Fill Success Investments Limited	Hong Kong	HK\$2 ordinary HK\$2 non-voting deferred	—	100%	Hotel ownership
GH Water Supply (Holdings) Limited*	Cayman Islands/ Mainland China	HK\$1,000,000 ordinary HK\$100 Class A special shares HK\$10 Class B special shares	82.66%	—	Investment holding
廣東天寶(集團)股份有限公司 (Guang Dong Teem (Holdings) Ltd.) ⁽¹⁾	Mainland China	RMB840,000,000	8.77%	54%	Property investment and investment holding
Guangdong Hotel Limited	Hong Kong	HK\$2 ordinary HK\$5,000,000 non- voting deferred	—	100%	Hotel ownership and operations
Guangdong (International) Hotel Management Limited	Hong Kong	HK\$10,000	100%	—	Hotel management
Guangdong Investment Finance (Cayman) Limited	Cayman Islands	US\$2	100%	—	Provision of finance to the Group
GDI Finance (Cayman) 2003 Limited	Cayman Islands/ Hong Kong	US\$1	100%	—	Provision of finance to the Group
Guangdong Nan Fang (Holdings) Co. Ltd.	British Virgin Islands/ Mainland China	US\$10,000	56.34%	—	Property investment
Guangdong Power (International) Limited	British Virgin Islands/ Hong Kong	US\$44,078,850	51%	—	Investment holding

Notes to Financial Statements

31 December 2003

17. Interests in Subsidiaries (continued)

Company	Place of incorporation/ registration and operations	Nominal value of issued share capital, registered/paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangdong Properties Holdings Limited	Hong Kong	HK\$2	100%	—	Investment holding
廣東天貿南大百貨有限公司 (Guangdong Teem Nanda Department Stores Ltd.) ⁽⁴⁾ ("Tiannan")	Mainland China	RMB8,000,000	—	76.92%	Department stores operations
廣東粵港供水有限公司 (Guangdong Yue Gang Water Supply Company Limited) ^{(2)*}	Mainland China	HK\$6,116,000,000	—	81.83%	Water supply business
Guangdong Yingde Highway Ltd. ⁽²⁾	Mainland China	RMB93,200,000	—	70%	Highway operations
惠陽粵海房產發展有限公司 (Hui Yang Yue Hai Real Estate Development Ltd.) ⁽²⁾	Mainland China	RMB75,000,000	—	80%	Property development
Sen International Ventures Corporation (Hong Kong) Limited	Hong Kong	HK\$2	—	100%	Hotel operations
Shaoguan Power Plant (D) Ltd. ⁽¹⁾	Mainland China	US\$51,500,000	—	45.9%	Power plant operations
深圳粵海酒店企業有限公司 (Shenzhen Guangdong Hotel Enterprise Ltd.) ⁽²⁾	Mainland China	HK\$114,787,016	99%	—	Hotel ownership and operations
Yue Hai Hotel, Zhuhai ⁽³⁾	Mainland China	US\$10,000,000	—	100%	Hotel ownership and operations
Yue Sheng Finance Limited	Hong Kong	HK\$2	100%	—	Finance and investment
Zhongshan Power (Hong Kong) Limited	Hong Kong	HK\$100	95%	—	Investment holding

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

Notes to Financial Statements

31 December 2003

17. Interests in Subsidiaries (continued)

Notes:

- (1) Sino-foreign equity joint venture.
- (2) Sino-foreign co-operative joint venture.
- (3) Wholly-owned foreign enterprise.
- (4) Limited company established in Mainland China.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Due to the disengagement arrangements regarding certain subsidiaries and their significant accumulated losses, the Group's interests in these subsidiaries were deconsolidated and full provision for impairment were made in the prior years, as further detailed below.

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	—	—	—	—
Net liabilities deconsolidated	(483,888)	(483,888)	—	—
Amounts due from deconsolidated subsidiaries	209,731	209,731	—	—
	(274,157)	(274,157)	—	—
Provision for guarantees granted to banks of deconsolidated subsidiaries	582,885	582,885	582,885	582,885
	308,728	308,728	582,885	582,885
Provision for impairment	(261,833)	(308,728)	(535,990)	(582,885)
	46,895	—	46,895	—
Included in receivables, prepayments and deposits balance	(46,895)	—	(46,895)	—
	—	—	—	—

Notes to Financial Statements

31 December 2003

17. Interests in Subsidiaries (continued)

Particulars of the principal deconsolidated subsidiaries at the balance sheet date are as follows:

Company	Place of incorporation/ registration and operations	Nominal value of issued share capital, registered/paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guang Dong Nanhua Cement Limited# ("Nanhua Cement")	Mainland China	RMB500,000,000	—	70%	Manufacture of cement
Guangdong Construction Materials (International) Limited ("GCM")	Hong Kong	HK\$2	—	100%	Investment holding

Sino-foreign equity joint venture.

The post-deconsolidation results of these subsidiaries not dealt with in the financial statements of the Company in the prior years were insignificant.

Pursuant to a share sale agreement and a debt assignment, both dated 22 December 2003, entered into between GCM and an independent party, GCM's entire 70% equity interest in Nanhua Cement together with the debt owed by Nanhua Cement to GCM were transferred to the independent party at an aggregate cash consideration of RMB50,000,000 (approximately HK\$46,895,000). Such transaction was completed and the consideration was received by the Group subsequent to 31 December 2003. Accordingly, the Company reversed the impairment provision previously made against its interest in GCM by RMB50,000,000 (approximately HK\$46,895,000) in the current year and the related consideration receivable was included in the Company's and the Group's "Receivables, prepayments and deposits" as at 31 December 2003.

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

Notes to Financial Statements

31 December 2003

18. Interest in a Jointly-Controlled Entity

	Group	
	2003 HK\$'000	2002 HK\$'000
		(Restated)
Share of net assets	777,407	724,514
Due from a jointly-controlled entity	243,890	243,616
	1,021,297	968,130
Provision for impairment (note 7)	(60,000)	—
	961,297	968,130

The amount due from a jointly-controlled entity is unsecured, bears interest at LIBOR per annum and has no fixed terms of repayment.

Particulars of the jointly-controlled entity, which is a corporation, are as follows:

Company	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of attributable equity interest held by the Group	Principal activities
Guangdong Transport Investment (BVI) Company Limited ("GTI")	British Virgin Islands/ Mainland China	US\$100,000	51%	Investments in highway and bridge projects

Extracts of the audited operating results and financial position of GTI for the year ended 31 December 2002 (as restated) are as follows:

Operating results for the year ended 31 December 2002:

	2002 HK\$'000
	(Restated)
Turnover	21,862
Profit after tax	124,725

Notes to Financial Statements

31 December 2003

18. Interest in a Jointly-Controlled Entity (continued)

Financial position as at 31 December 2002:

	2002 HK\$'000
	(Restated)
Non-current assets	2,465,433
Current assets	86,151
Current liabilities	(56,964)
Non-current liabilities	(1,074,004)
Net asset value	1,420,616

No extracts of the operating results and financial position of GTI for the year ended 31 December 2003 are disclosed as they are not material to the Group's operating results and financial positions for the current year.

19. Interests in Associates

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Unlisted investments, at cost	—	—	115,062	115,062
Share of net assets	314,121	431,014	—	—
Due from associates	61,139	9,266	—	90
Due to associates	(3,856)	(9,135)	—	—
Provision for impairment	371,404	431,145	115,062	115,152
	—	(7,528)	—	—
At 31 December	371,404	423,617	115,062	115,152

The balances with associates are unsecured, interest-free and have no fixed terms of repayment.

Notes to Financial Statements

31 December 2003

19. Interests in Associates (continued)

Particulars of the principal associates, which are corporations, at the balance sheet date, are as follows:

Company	Place of incorporation/ registration and operations	Percentage of attributable equity interest held by		Principal activities
		Company	Group	
Guangdong Jusco Teem Stores Co. Ltd	Mainland China	—	21.97%	Retailing
Guangdong Power Investment Limited	British Virgin Islands/Hong Kong	49%	49%	Investment holding
廣東省韶關粵江發電有限責任公司 (Guangdong Shaoguan Yue Jiang Power Supply Limited)	Mainland China	—	11.48%	Power plant operations

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

20. Contractual Joint Venture

	Group	
	2003 HK\$'000	2002 HK\$'000
Unlisted investments, at cost	271,152	271,152
Less: Accumulated amortisation and impairment	(271,152)	(271,152)
Loan to a contractual joint venture	—	—
Due from a contractual joint venture	70,227	70,227
Less: Provision	(70,227)	(70,227)
At 31 December	—	135,345
Less: Portion classified as current assets	—	(58,005)
Non-current portion	—	77,340

Notes to Financial Statements

31 December 2003

20. Contractual Joint Venture (continued)

This represented the Group's cost of investment of approximately HK\$271 million in 中山火力發電廠 ("Zhongshan Power Plant") which is located in Zhongshan, Mainland China. The tenure of this contractual joint venture will expire in 2013.

In the prior year, the loan to this contractual joint venture was secured by the pledge to the Group of certain fixed assets of the contractual joint venture. The loan bore interest at 14.25% per annum and was fully repaid by Zhongshan Power Plant in January 2003 by raising a new bank loan.

As at the balance sheet date, the new bank loan is secured by all land, buildings and equipment of Zhongshan Power Plant and is also guaranteed by the Company, further details of which are set out in note 51 to the financial statements.

21. Goodwill and Negative Goodwill

The amounts of goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	Group	
	Goodwill	Negative goodwill
	HK\$'000	HK\$'000
Cost:		
At beginning of year	1,192	(152,535)
Acquisition of additional interests in a subsidiary	—	(1,751)
At 31 December 2003	1,192	(154,286)
Accumulated amortisation/(recognition as income):		
At beginning of year	357	(21,289)
Amortisation provided/(recognised as income) during the year	238	(11,633)
At 31 December 2003	595	(32,922)
Net book value:		
At 31 December 2003	597	(121,364)
At 31 December 2002	835	(131,246)

Notes to Financial Statements

31 December 2003

21. Goodwill and Negative Goodwill (continued)

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP, to remain eliminated against or credited to the consolidated capital reserve.

The amounts of the goodwill and negative goodwill remaining in consolidated capital reserve as at 31 December 2003, arising from the acquisition of subsidiaries and associates prior to the adoption of SSAP 30 in 2001 are as follows:

	Group	
	Goodwill eliminated against consolidated capital reserve	Negative goodwill credited to consolidated capital reserve
	HK\$'000	HK\$'000
<hr/>		
Cost:		
At beginning of year		
As previously reported	1,259,300	(1,897,463)
Prior year adjustments (note 56)	65,419	(2,340)
	<hr/>	
As restated	1,324,719	(1,899,803)
Disposal of subsidiaries and an associate (note 48(b))	(2,354)	65,035
Adjustment to negative goodwill arising from Additional Shares to be issued	—	182,160
	<hr/>	
At 31 December 2003	1,322,365	(1,652,608)
<hr/>		
Accumulated impairment:		
At beginning of year and at 31 December 2003	(1,018,662)	—
	<hr/>	
Net amount:		
At 31 December 2003	303,703	(1,652,608)
	<hr/>	
At 31 December 2002 (as restated)	306,057	(1,899,803)
	<hr/>	

Notes to Financial Statements

31 December 2003

22. Other Financial Assets

	Group	
	2003 HK\$'000	2002 HK\$'000
Investment securities, at cost		
Unlisted:		
Outside Hong Kong	115,153	134,491
Less: Impairment	(92,165)	(101,247)
	22,988	33,244
Other investments, at fair value		
Listed:		
Hong Kong	180	132
Unlisted:		
Outside Hong Kong	19	19
	23,187	33,395
Total other financial assets at 31 December	23,187	33,395
Less: Other investments classified as current assets, at fair value	(199)	(151)
	22,988	33,244
Non-current portion	22,988	33,244
Market value of Hong Kong listed investment at 31 December	180	132

As at 31 December 2003, included in the unlisted investment securities was a 24.5% interest in Pak Kong Transco Limited, a company established in Mainland China with an investment in the Pak Kong Bridges in Qingyuan, Mainland China, of HK\$18,646,000 (2002: HK\$18,646,000). In the opinion of the directors, the Group does not exercise significant influence over the financial and operating policies of Pak Kong Transco Limited and accordingly, this investment has not been equity accounted for as an associate.

Notes to Financial Statements

31 December 2003

23. Operating Right

Group

	HK\$'000
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Cost:	
At beginning of year and at 31 December 2003	14,798,611
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Accumulated amortisation:	
At beginning of year	1,170,375
Amortisation during the year	493,287
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At 31 December 2003	1,663,662
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Net book value:	
At 31 December 2003	13,134,949
<hr/>	
At 31 December 2002	13,628,236
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Prior to the Acquisition, WaterCo acquired the operating right from Yue Gang Investment to operate a water supply business, which supplies natural water to Hong Kong, Shenzhen and Dongguan in Mainland China, for a period of 30 years commencing from 18 August 2000. The operating right also grants WaterCo a right and licence to take up to 2.423 billion cubic metres of natural water annually from the Dongjiang River at Qiaotou Township in Dongguan, the exclusive right to supply natural water to Hong Kong and the non-exclusive right to supply natural water to Shenzhen and Dongguan for a period of 30 years commencing from 18 August 2000.

Notes to Financial Statements

31 December 2003

24. Other Long Term Assets

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Prepaid rental (note (a))	69,646	180,656	—	—
Prepayment for land use rights (note (b))	2,370	452,773	—	—
Prepaid construction costs (note (c))	—	1,406,681	—	—
Reusable packaging materials	—	15,778	—	—
Deposit for acquisition of additional interests in subsidiaries (note (d))	51,069	—	51,069	—
Other deferred expenses	158	8,312	—	154
	123,243	2,064,200	51,069	154
Less: Current portion of prepaid rental included in the receivables, prepayments and deposits balance (note (a))	(69,646)	(110,097)	—	—
	53,597	1,954,103	51,069	154

Notes:

- (a) Prior to the establishment of WaterCo on 18 August 2000, all fixed assets used for the exposed water supply channels and canals were owned by Yue Gang Investment. The amount at the balance sheet date represented unamortised prepaid rental for leasing certain fixed assets, including land, which are used for the exposed water supply channels and canals, from Yue Gang Investment. During the year, an amortisation of the prepaid rental of HK\$111,010,000 (2002: HK\$111,009,000) was charged to the consolidated profit and loss account.

The portion of unamortised prepaid rental outstanding as at 31 December 2003, which is to be amortised in the next twelve months amounting to HK\$69,646,000 (2002: HK\$110,097,000), has been reclassified to the receivables, prepayments and deposits balance.

- (b) The amount mainly represented the prepayment made for the right to use the land for the Dongshen Water Supply Phase IV Renovation Project (the "Phase IV Renovation Project") for a period of 30 years commencing from 18 August 2000. Upon the commencement of the operation of the Phase IV Renovation Project in October 2003, the prepayment was transferred to the Group's fixed assets.

Notes to Financial Statements

31 December 2003

24. Other Long Term Assets (continued)

- (c) Pursuant to a concession agreement dated 18 August 2000 entered into between WaterCo and the Guangdong Provincial Government, WaterCo agreed to appoint Guangdong Province Water Supply Project Administration General Bureau (the "Project Bureau") to be in charge of the organisation and implementation of the engineering, procurement and construction of the Phase IV Renovation Project according to an Engineering, Procurement and Construction Contract (the "EPC Contract") entered into with the Project Bureau on 15 December 2000. The projected total construction costs, including borrowing costs incurred for the Phase IV Renovation Project, is RMB4.7 billion.

During the year, such borrowing costs capitalised in the prepaid construction costs amounted to HK\$25,611,000 (2002: HK\$34,006,000), which represented a capitalisation rate of 5.184% (2002: 5.184%) being applied. Upon the commencement of operation of the Phase IV Renovation Project in October 2003, the prepaid construction costs of HK2,061,920,000 were transferred to the Group's fixed assets.

- (d) The balance represented deposit paid to an independent third party for the acquisition of further interests in the Group's subsidiaries, Teem Holdings Limited and 廣東天貿(集團)股份有限公司 Guang Dong Teem (Holdings) Ltd. The transaction was not yet completed up to the date of approval of these financial statements by the Company's board of directors.

25. Inventories

	Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials	4,023	238,428
Work in progress	—	72,861
Finished goods	39,614	157,214
Properties held for sale	—	7,884
At 31 December	43,637	476,387

At 31 December 2002, the carrying amount of inventories carried at net realisable value included in the above balance was HK\$53,937,000.

26. Receivables, Prepayments and Deposits

As at 31 December 2003, included in the receivables, prepayments and deposits are trade receivables, net of provisions, of HK\$531,554,000 (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 Financial Statements

31 December 2003

26. Receivables, Prepayments and Deposits (continued)

As at 31 December 2003, an aged analysis of the Group's trade receivables, based on payment due date, is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 3 months	530,455	379,895
More than 3 months and less than 6 months	1,494	3,948
More than 6 months and less than 1 year	880	32,765
More than 1 year	10,559	243,966
	543,388	660,574
Less: Provision for doubtful debts	(11,834)	(275,291)
	531,554	385,283

27. Cash and Cash Equivalents and Restricted/Pledged Cash and Bank Balances

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash and bank balances (note (a))	827,758	1,412,667	156,669	426,444
Time deposits	521,655	375,756	371,097	42,657
Trust account (note (b))	34,000	—	—	—
	1,383,413	1,788,423	527,766	469,101
Less: Restricted cash and bank balances/pledged bank deposits and balances (note (b))	(34,000)	(17,513)	—	—
Cash and cash equivalents at 31 December (note 48 (c))	1,349,413	1,770,910	527,766	469,101

Notes to Financial Statements

31 December 2003

27. Cash and Cash Equivalents and Restricted/Pledged Cash and Bank Balances (continued)

Notes:

- (a) A subsidiary of the Company is required to reserve certain cash and bank balances for, amongst other things, payment of interest, repayment of debts and distribution to shareholders of that subsidiary pursuant to an agreement entered into between the subsidiary and other parties. As at 31 December 2003, cash and bank balances retained for such purpose amounted to HK\$210,455,000 (2002: HK\$127,545,000).
- (b) Pursuant to an undertaking given to the court by the Company in its capital reduction application as further detailed in note 47(a) to the financial statements, on 17 December 2003, the Company set up a separate bank account with a local reputable bank in the name of Guangdong Investment (Nominees) Limited, as trustee and designated such bank account as "Guangdong Investment Limited Capital Reduction Trust Account" (the "Trust Account"). A sum of HK\$34,000,000 was deposited into the Trust Account in accordance with the terms of the trust deed in the form approved by the court (the "Trust Deed"). Unless and until all amounts due to those creditors of the Company who would be entitled to prove in a notional winding-up of the Company were one to commence on the Effective Date (as defined in note 47(a) to the financial statements) and who have not consented to the proposed reduction shall have been paid or satisfied or otherwise extinguished, or such creditors shall subsequently give their consent, or any period of limitation shall have expired, the Company shall retain to the credit of the Trust Account a sum in cash equal to the amount due to such non-consenting creditors for the time being unpaid. As at 31 December 2003, the amount standing to the credit of the Trust Account is HK\$34,000,000. The Trust Account shall be maintained for a period of six years from the Effective Date or such shorter period as provided under the Trust Deed. The Trust Account balance was classified as restricted cash and bank balances.

As at 31 December 2002, part of the bank deposits and balances were pledged to certain banks for certain trade and credit facilities granted to the Group.

28. Due from a Related Company

Particulars of an amount due from a related company of the Company and the Group disclosed pursuant to Section 161B of the Companies Ordinance are as follows:

Name	31 December 2003 HK\$'000	Maximum amount outstanding during the year HK\$'000	1 January 2003 HK\$'000
Eken Development Limited, owned by Tang Zhen*	1,334	1,470	1,470

* Senior executive of the Company

The balance is secured by a leasehold property, bears interest at 2% below Hong Kong prime rate per annum and is repayable monthly over a maximum period of 9 years from the balance sheet date.

The advance, which was made to facilitate the senior executive's purchase of a residential premise as his main residence, was made in accordance with the Company's employee home purchase scheme.

Notes to Financial Statements

31 December 2003

29. Due from Minority Shareholders of Subsidiaries

The amounts due from minority shareholders of subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

30. Due from/to Fellow Subsidiaries

As at 31 December 2003, included in the amounts due from fellow subsidiaries is an unsecured loan due from Guangdong Finance Co., Limited ("GD Finance") of HK\$43,922,000 (2002: HK\$44,949,000), which was fully provided for (2002: fully provided for). Such amounts due from fellow subsidiaries (i) is interest-free with effect from 30 June 2003, and (ii) bore 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 before 30 June 2003; and is repayable in accordance with the terms set out in the bank debt restructuring agreement of GD Finance. The remaining amounts due from fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The amounts due to fellow subsidiaries as at 31 December 2003 are unsecured, interest-free and have no fixed terms of repayment.

31. Due to the Immediate Holding Company

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

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Non-interest-bearing portion included under current liabilities	2,087	1,050	1,283	387
Interest-bearing portion (included in note 34)	—	626,623	—	568,000
At 31 December	2,087	627,673	1,283	568,387

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

Notes to Financial Statements

31 December 2003

31. Due to the Immediate Holding Company (continued)

At 31 December 2002, included in the interest-bearing portion of amounts due to the immediate holding company was an unsecured loan of HK\$568,000,000, which bore interest at 1% above HIBOR per annum. The remaining portion of the interest-bearing portion of amounts due to the immediate holding company of HK\$58,623,000 was unsecured and bore interest at 4% per annum up to September 2002 and, thereafter, the applicable interest rate was the average of bank lending rate and deposit rate in Mainland China. The maturities of these unsecured loans are as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	—	305,316	—	294,518
In the second year	—	10,798	—	—
In the third to fifth years, inclusive	—	305,303	—	273,482
Over five years	—	5,206	—	—
	—	626,623	—	568,000
Less: Portion classified as current liabilities	—	(305,316)	—	(294,518)
Non-current portion	—	321,307	—	273,482

Notes to Financial Statements

31 December 2003

32. Due to Minority Shareholders of Subsidiaries

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Interest-bearing borrowings (included in note 34):		
Current portion	—	7,047
Non-current portion	—	35,401
	—	42,448
Non interest-bearing borrowings:		
Current portion	248,924	405,172
Non-current portion	78,543	198,373
	327,467	603,545
	327,467	645,993

During the year, the interest-bearing portion of amounts due to minority shareholders of subsidiaries was unsecured and bore interest at 1.8% above LIBOR per annum (2002: 2% above LIBOR per annum).

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year or no fixed terms of repayment	248,924	412,219
In the second year	44,075	128,506
In the third to fifth years, inclusive	18,187	97,510
Over five years	16,281	7,758
	327,467	645,993

Notes to Financial Statements

31 December 2003

33. Trade Payables

As at 31 December, an aged analysis of the Group's trade payables, based on payment due date, is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 3 months	101,306	214,383
More than 3 months and less than 6 months	2,356	14,064
More than 6 months and less than 1 year	253	2,330
More than 1 year	3,300	61,321
	107,215	292,098

34. Bank and Other Interest-Bearing Borrowings

Group

	Notes	2003			2002		
		Current liabilities HK\$'000	Non-current liabilities HK\$'000	Total HK\$'000	Current liabilities HK\$'000	Non-current liabilities HK\$'000	Total HK\$'000
Due to the immediate holding company	31	—	—	—	305,316	321,307	626,623
Due to minority shareholders of subsidiaries	32	—	—	—	7,047	35,401	42,448
Bank loans	35	237,570	13,779,528	14,017,098	721,656	14,343,728	15,065,384
2005 Guaranteed Bonds	36	—	—	—	—	417,085	417,085
Straight bonds	37	—	497,320	497,320	—	—	—
Convertible bonds	38	—	497,320	497,320	—	—	—
Floating rate notes	39	—	—	—	—	245,282	245,282
Notes Payable and GH							
Holdings Debts	40	—	1,231,284	1,231,284	—	1,406,242	1,406,242
Transferable loan instruments	41	—	—	—	—	265,034	265,034
At 31 December		237,570	16,005,452	16,243,022	1,034,019	17,034,079	18,068,098

Notes to Financial Statements

31 December 2003

34. Bank and Other Interest-Bearing Borrowings (continued)

Company

	Notes	2003			2002		Total HK\$'000
		Current liabilities HK\$'000	Non-current liabilities HK\$'000	Total HK\$'000	Current liabilities HK\$'000	Non-current liabilities HK\$'000	
Due to the immediate holding company	31	—	—	—	294,518	273,482	568,000
Bank loans	35	—	—	—	—	663,612	663,612
Floating rate notes	39	—	—	—	—	245,282	245,282
Notes Payable	40	—	—	—	—	92,417	92,417
Transferable loan instruments	41	—	—	—	—	265,034	265,034
At 31 December		—	—	—	294,518	1,539,827	1,834,345

35. Bank Loans

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank loans (included in note 34):				
Secured	14,017,098	14,448,708	—	114,854
Unsecured	—	616,676	—	548,758
At 31 December	14,017,098	15,065,384	—	663,612

Notes to Financial Statements

31 December 2003

35. Bank Loans (continued)

The maturities of the above amounts are as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year or on demand	237,570	721,656	—	—
In the second year	750,834	677,238	—	—
In the third to fifth years, inclusive	2,062,472	2,483,810	—	663,612
Over five years	10,966,222	11,182,680	—	—
	14,017,098	15,065,384	—	663,612
Less: Portion classified as current liabilities	(237,570)	(721,656)	—	—
Non-current portion	13,779,528	14,343,728	—	663,612

Pursuant to a facility agreement entered into by the Group and certain parties dated 27 November 2002 (the "Refinancing Agreement"), the Group obtained two credit facilities of HK\$12,800 million (the "Refinancing Facility A") and HK\$2,000 million (the "Refinancing Facility B").

As at 31 December 2003, the Group had an outstanding bank loan of HK\$11,421 million (2002: HK\$11,944 million) under the Refinancing Facility A (the "Bank Loan A") that was used to refinance all of the Group's Tranche A Credits and Tranche C Notes; and 75.88% of the Tranche B Credit (further details are included in note 40(b) to the financial statements). The Bank Loan A bears interest at 3-month HIBOR plus 1.399% per annum and is repayable in 18 consecutive instalments within 10 years. The first repayment was made in December 2003.

In addition, as at 31 December 2003, the Group had another bank loan of HK\$800 million (2002: HK\$800 million) drawn under the Refinancing Facility B (the "Bank Loan B"). The Bank Loan B bears interest at 3-month or 6-month HIBOR plus 1% per annum. The first repayment date of the Bank Loan B is in 2013.

The Bank Loan A and the Bank Loan B are both guaranteed by WaterCo on a subordinated basis and are secured by the pledge of water revenue of WaterCo.

During the year, the Group entered into certain interest rate swap transactions to hedge the interest rate risk. As at 31 December 2003, the outstanding swap contracts effectively converted the interest of a total notional principal of HK\$9,100 million from floating rate of HIBOR to a range of fixed interest rates per annum for the period from the effective dates of respective contracts to various maturity dates ranging from 2008 to 2012. Amounts payable under the swap guarantee in respect of the swap agreements are senior in right of the payment to the Tranche B Credit, the Bank Loan A and the Bank Loan B.

Notes to Financial Statements

31 December 2003

36. 2005 Guaranteed Bonds

The maturity of the Group's guaranteed floating rate bonds (the "2005 Guaranteed Bonds") is in 2005.

During the year, the 2005 Guaranteed Bonds bore interest at LIBOR plus 2% (2002: LIBOR plus 2%) per annum. A notice of redemption dated 1 April 2003 to the holders of the 2005 Guaranteed Bonds was given by the Group to redeem the aggregate principal amount outstanding of the 2005 Guaranteed Bonds in whole together with interest accrued to the date of redemption. The 2005 Guaranteed Bonds were fully redeemed by the Group on 2 May 2003.

37. Straight Bonds

Pursuant to the Preference Share Cancellation (as defined in note 47(a) to the financial statements), on 24 December 2003, GDI Finance (Cayman) 2003 Limited ("GDI Cayman"), a wholly-owned subsidiary of the Company, issued the HK\$497,320,000 5.1% five-year straight bonds (the "Straight Bonds") to GDH Limited as partial consideration for the cancellation of all of the Company's Preference Shares (as defined in note 45 to the financial statements) at the issue price of HK\$497,320,000.

The Straight Bonds bear interest at the rate of 5.1% per annum, payable semi-annually in arrears. Unless previously redeemed or purchased and cancelled, the Straight Bonds will be redeemed on 23 December 2008 (the "Maturing Date") at 100% of their principal amounts, plus interest accrued. The Straight Bonds are unconditionally and irrecoverably guaranteed by the Company.

At any time on or before 23 December 2005 with the consent of holders of the Straight Bonds representing not less than 66.66% of the outstanding principal amount of the Straight Bonds, and at any time on or after 24 December 2005 and prior to the Maturity Date, GDI Cayman may, having given not less than 15 nor more than 60 days' notice to the holders of the Straight Bonds, redeem the Straight Bonds in whole, or from time to time in part (being HK\$5,000,000 in a principal amount or an integral multiple thereof), at their principal amount together with the accrued interest.

HK\$350,000,000 in principal amount of the Straight Bonds, with the consent of the holders of the Straight Bonds, were fully redeemed by GDI Cayman subsequent to the year end date.

Notes to Financial Statements

31 December 2003

38. Convertible Bonds

Pursuant to the Preference Share Cancellation (as defined in note 47(a) to the financial statements), on 24 December 2003, GDI Cayman issued the HK\$497,320,000 2% five-year convertible bonds (the "Convertible Bonds") to GDH Limited as partial consideration for the cancellation of all of the Company's Preference Shares (as defined in note 45 to the financial statements), at the issue price of HK\$497,320,000.

The Convertible Bonds bear interest at the rate of 2.0% per annum, payable semi-annually in arrears. Unless previously redeemed, or converted, or purchased and cancelled, the Convertible Bonds will be redeemed on 23 December 2008 (the "Maturing Date") at 100% of their principal amounts. The Convertible Bonds are unconditionally and irrevocably guaranteed by the Company. Subject to prior permitted redemption, the Convertible Bonds may be converted at the option of the holders of the Convertible Bonds into fully paid ordinary shares of the Company with a par value of HK\$0.50 each (the "Conversion Shares"), at any time on and after 26 January 2004 to the close of business on 17 December 2008 or if the Convertible Bonds shall have been called for redemption before 17 December 2008, then up to the close of business on a date no later than 7 business days prior to the date fixed for the redemption thereof, at a conversion price of HK\$1.85 (subject to adjustment) per Conversion Share.

At any time, on or before 23 December 2005, with the consent of holders of the Convertible Bonds representing not less than 66.66% of the outstanding principal amount of the Convertible Bonds, and at any time on or after 24 December 2005, GDI Cayman may, having given not less than 15 nor more than 60 days' irrevocable notice to the Convertible Bondholders, redeem the Convertible Bonds in whole or, from time to time in part (being HK\$5,000,000 in principal amount or an integral multiple thereof), at their Accreted Value (as defined below).

If at least 95% in principal amount of the Convertible Bonds has already been converted, or redeemed, or purchased and cancelled, GDI Cayman may, at any time, having given not less than 15 nor more than 60 days' notice to the holders of the Convertible Bonds redeem the Convertible Bonds in whole, but not in part, at their Accreted Value.

"Accreted Value" means an amount which would represent an annual yield on Convertible Bonds purchased on the date of the original issuance of the Convertible Bonds, of 5.10% of the principal amount of the Convertible Bonds per annum (which shall be the same as the gross yield which the Convertible Bondholders would have received had the Convertible Bonds been redeemed on the Maturity Date), calculated on a semi-annual bond equivalent basis of the actual number of days elapsed in the relevant interest period divided by 365 days.

Notes to Financial Statements

31 December 2003

39. Floating Rate Notes

	Group and Company	
	2003 HK\$'000	2002 HK\$'000
Amended 2000 FRNs	—	22,469
Amended 2001 FRNs	—	222,813
At 31 December	—	245,282

The maturities of the above amounts are as follows:

	2003 HK\$'000	2002 HK\$'000
In the third to fifth years, inclusive	—	245,282

As at 31 December 2002, the principal amount outstanding of the amended 2000 FRNs and amended 2001 FRNs was US\$2,880,000 and US\$28,566,000, respectively. In 2002 and 2003, the FRNs bore interest at LIBOR plus 2% per annum and will mature in June 2005. The FRNs were fully repaid by the Company on 2 May 2003.

40. Notes Payable and GH Holdings Debts

Group

Notes	2003			2002		
	Current liabilities HK\$'000	Non-current liabilities HK\$'000	Total HK\$'000	Current liabilities HK\$'000	Non-current liabilities HK\$'000	Total HK\$'000
Notes Payable (a)	—	—	—	—	92,417	92,417
GH Holdings Debts (b)	—	1,231,284	1,231,284	—	1,313,825	1,313,825
At 31 December	—	1,231,284	1,231,284	—	1,406,242	1,406,242

Company

Notes Payable at 31 December	—	—	—	—	92,417	92,417
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Notes to Financial Statements

31 December 2003

40. Notes Payable and GH Holdings Debts (continued)

Notes:

(a) The Notes Payable

The Notes Payable were issued by the Company to replace certain bank loans of certain subsidiaries guaranteed by the Company. The Notes Payable bore interest at LIBOR plus 2% per annum and will mature in June 2005. During the year, all the outstanding Notes Payable were fully repaid by the Company.

(b) The GH Holdings Debts were issued by GH Holdings and consist of three pari passu tranches: Tranche A Credit, Tranche B Credit and Tranche C Notes.

(i) *The Tranche A Credit*

The Tranche A Credit was Hong Kong dollar denominated with a principal amount of HK\$5,448,300,000. The amount bore interest at 8% per annum and was repayable by 10 consecutive annual installments within 10 years. The first repayment was made in December 2001. The Tranche A Credit was fully refinanced in 2002.

(ii) *The Tranche B Credit*

The Tranche B Credit is Hong Kong dollar denominated with a principal amount of HK\$5,448,300,000 which bears interest at 8% per annum and is repayable in full in 2010. In 2002, an amount of HK\$4,134,475,000 of the Tranche B Credit was refinanced. As at 31 December 2003, the outstanding Tranche B Credit amounted to HK\$1,231,284,000 (2002: HK\$1,313,825,000).

(iii) *The Tranche C Notes*

The Tranche C Notes were United States dollar ("US\$") denominated and were translated at an exchange rate of HK\$7.7585 to US\$1, with an equivalent principal amount of HK\$3,103,400,000 in total. Such US dollar debts bore interest at 7% per annum and were repayable in full in 2008. The Tranche C Notes were issued in note form under a trust.

On 20 December 2000, GH Holdings entered into certain currency and interest rate swap transactions under a swap agreement (the "Swap Agreement") to effectively convert GH Holdings' US dollar obligations under the Tranche C Notes, including both principal and interest, into Hong Kong dollar debts with an interest rate of 8% per annum and at a contracted exchange rate of HK\$7.80 to US\$1.

Notes to Financial Statements

31 December 2003

40. Notes Payable and GH Holdings Debts (continued)

(b) The GH Holdings Debts were issued by GH Holdings and consist of three pari passu tranches: Tranche A Credit, Tranche B Credit and Tranche C Notes. (continued)

(iii) *The Tranche C Notes (continued)*

At 31 December 2001, the carrying amount of the Tranche C Notes was converted into Hong Kong dollars using the exchange rate of HK\$7.80 to US\$1, less any unamortised swap costs, which amounted to HK\$14,328,000 as at 31 December 2001, in respect of the Swap Agreement. The swap cost was amortised on the straight line basis over the period from the trade date to the termination date of the Swap Agreement. In 2002, the Tranche C Notes were fully refinanced and the then remaining swap cost of HK\$14,328,000 was charged to the consolidated profit and loss account as finance cost.

The GH Holdings Debts were guaranteed by WaterCo on a subordinated basis and secured by pledging the water revenue of WaterCo under a “Hong Kong Water Supply Agreement” entered into between the Guangdong Provincial Government and the Hong Kong Government, which had been assigned to WaterCo under a “WaterCo Water Supply Contract” entered into between WaterCo and the Guangdong Provincial Government. In addition, WaterCo had also guaranteed all of the obligations and liabilities of GH Holdings under the Swap Agreement (the “Swap Guarantee”) in respect of US\$400 million of the Tranche C Notes. The amounts payable under the Swap Guarantee were senior in right of repayment to the GH Holdings Debts.

On 20 December 2002, as a result of the full repayment of Tranche C Notes, the Swap Agreement was amended (the “Revised Swap Agreement”) at a consideration of HK\$136,266,000 which was charged to the consolidated profit and loss account as finance cost in 2002. The Revised Swap Agreement effectively converted the interest of a notional principal of HK\$3,500 million from a floating rate of HIBOR to a fixed interest rate per annum up to 20 December 2012.

As at 31 December 2003, GDH Limited and certain of its subsidiaries held Tranche B Credit amounting to HK\$76,262,000 (2002: Nil).

41. Transferable Loan Instruments

The maturities of the Company’s and the Group’s transferable loan instruments (the “TLIs”) as at the balance sheet date were as follows:

	2003 HK\$’000	2002 HK\$’000
In the third to fifth years, inclusive	—	265,034

Notes to Financial Statements

31 December 2003

41. Transferable Loan Instruments (continued)

The TLIs were for all purpose of the direct bank debts which represented the principal indebtedness owed by the Company. Accordingly, the TLIs bore the same interest and proportion of repayment as the other direct bank debts. Therefore, the maturities of the TLIs had been classified according to the repayment schedule and terms as contained in the bank debt restructuring agreement.

All the outstanding TLIs were repaid by the Company on 2 May 2003.

42. Non-Interest-Bearing Borrowing

The non-interest-bearing borrowing represents a loan facility granted by the Hong Kong Government to the Guangdong Provincial Government for the Phase IV Renovation Project with a principal amount of HK\$2.36 billion. Pursuant to the concession agreement in respect of the granting of concession by the Guangdong Provincial Government to the Group for the supply of natural water, WaterCo utilised the aforesaid loan facility for the construction of the Phase IV Renovation Project and agreed to bear the repayment obligation of the Guangdong Provincial Government to the Hong Kong Government in respect of such loan on the earlier of the commencement of operation of the Phase IV Renovation Project or by the end of 2003.

The loan is repayable by 20 consecutive instalments within 20 years. The first repayment date was in December 2003. The maturities of the loan is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year	118,200	—
In the second year	118,200	—
In the third to fifth years, inclusive	354,600	—
Over five years	1,654,800	—
	2,245,800	—
Less: Portion classified as current liabilities	(118,200)	—
Non-current portion	2,127,600	—

Notes to Financial Statements

31 December 2003

43. Provision for Bank Loans Guaranteed

	Group and Company	
	2003 HK\$'000	2002 HK\$'000
Balance at 1 January	358,521	558,869
Repayment during the year	(358,521)	(200,348)
Balance at 31 December	—	358,521

The balance of provision for bank loans guaranteed outstanding at 31 December 2002 was repayable in the second year from 31 December 2002.

The balance represented the provision for the Group's obligation in respect of certain bank loans of GCM, (a deconsolidated subsidiary), and GD Timber (a previous wholly-owned subsidiary and a fellow subsidiary of the Company since 22 December 2000 as a result of the Acquisition), which were guaranteed by the Group.

In accordance with the Company's bank debt restructuring agreement, these bank loans were treated as direct bank debts of the Company and the Company was obliged to repay these bank loans. Moreover, the creditors of these bank loans might elect at any time to exit the balance sheets of the borrowers and to become the bank creditors of the Company through the issue of notes payable pursuant to the Company's bank debt restructuring agreement.

In light of the financial positions of GCM and GD Timber, the directors opined that the cash inflows from them would be minimal. Therefore, the Group fully provided for these bank loans in prior years.

These bank loans bore interest at rates ranging from LIBOR plus a margin of 2.375% per annum to HIBOR plus a margin of 2.375% per annum with such time as an aggregate principal amount of the direct debt payments of HK\$1,017.5 million had been made, and thereafter, an applicable margin of 2% per annum would be applied. The provision for the Company's obligation in respect of these bank loans were repayable according to the repayment schedule contained in the Company's bank debt restructuring agreement.

These bank loans were transferable under a trading mechanism set out in the Company's bank debt restructuring agreement and as at 31 December 2002, certain bank loans of GCM amounting to HK\$18,408,000 was held by the Company's immediate holding company, GDH Limited.

During the year, all the outstanding bank loans guaranteed were repaid by the Group.

Notes to Financial Statements

31 December 2003

44. Deferred Tax

The movement in deferred tax liabilities and assets during the year is as follows:

Deferred tax liabilities

Group	2003			Total HK\$'000
	Accelerated tax depreciation and amortisation HK\$'000	Revaluation of properties HK\$'000	Others HK\$'000	
At 1 January 2003 As previously reported	2,285	—	—	2,285
Prior year adjustment: SSAP 12 — restatement of deferred tax	309,035	512,173	(4,477)	816,731
As restated	311,320	512,173	(4,477)	819,016
Deferred tax charged/(credited) to the profit and loss account during the year, including a charge of HK\$150,000 due to the effect of a change in tax rates (note 10)	35,284	36,440	(5,438)	66,286
Disposal of subsidiaries	(1,700)	—	—	(1,700)
Exchange adjustments	(275)	(1,420)	—	(1,695)
Gross deferred tax liabilities At 31 December 2003	344,629	547,193	(9,915)	881,907

Notes to Financial Statements

31 December 2003

44. Deferred Tax (continued)

Deferred tax assets

Group

	Decelerated tax depreciation HK\$'000	2003 Losses available for offset against future taxable profit HK\$'000	Total HK\$'000
At 1 January 2003			
As previously reported	—	—	—
Prior year adjustment:			
SSAP 12 — restatement of deferred tax	(1,396)	(36,500)	(37,896)
As restated	(1,396)	(36,500)	(37,896)
Deferred tax charged to the profit and loss account during the year (note 10)	559	3,639	4,198
Disposal of subsidiaries	—	30,072	30,072
Exchange adjustments	9	—	9
Gross deferred tax assets at 31 December 2003	(828)	(2,789)	(3,617)
Net deferred tax liabilities at 31 December 2003			878,290

Notes to Financial Statements

31 December 2003

44. Deferred Tax (continued)

Deferred tax liabilities

Group

	2002			Total HK\$'000
	Accelerated tax depreciation and amortisation HK\$'000	Revaluation of properties HK\$'000	Others HK\$'000	
At 1 January 2002				
As previously reported	2,285	—	—	2,285
Prior year adjustment:				
SSAP 12 — restatement of deferred tax	274,763	419,205	(7,602)	686,366
As restated	277,048	419,205	(7,602)	688,651
Deferred tax charged to the profit and loss account (note 10)	34,272	92,968	3,125	130,365
Gross deferred tax liabilities				
At 31 December 2002	311,320	512,173	(4,477)	819,016

Notes to Financial Statements

31 December 2003

44. Deferred Tax (continued)

Deferred tax assets

<i>Group</i>	Decelerated tax depreciation	2002 Losses available for offset against future taxable profit	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002			
As previously reported	—	—	—
Prior year adjustment:			
SSAP 12 — restatement of deferred tax	(2,450)	(38,695)	(41,145)
As restated	(2,450)	(38,695)	(41,145)
Deferred tax charged to the profit and loss account (note 10)	1,054	2,195	3,249
Gross deferred tax assets at 31 December 2002	(1,396)	(36,500)	(37,896)
Net deferred tax liabilities at 31 December 2002			781,120

The Group has tax losses arising in Hong Kong of HK\$15,937,000 (2002: HK\$59,814,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as the directors considered it is not probable that sufficient taxable profit will be available against which the unused tax losses can be utilised by the Group.

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in prior year adjustments, as detailed in note 56 to the financial statements.

Notes to Financial Statements

31 December 2003

45. Share Capital

Shares

	2003 HK\$'000	2002 HK\$'000
Authorised:		
8,000,000,000 (2002: 8,000,000,000) ordinary shares of HK\$0.50 each ("Ordinary Share")	4,000,000	4,000,000
200,000 (2002: 200,000) 3.25% preference shares of US\$1.00 each ("Preference Shares")	—	1,549
	4,000,000	4,001,549
Issued and fully paid:		
5,244,522,672 (2002: 5,162,382,672) Ordinary Shares	2,622,261	2,581,191
Nil (2002: 85,949) Preference Shares	—	666
	2,622,261	2,581,857

A summary of movements of the Company's issued and fully paid Ordinary Shares and Ordinary Share premium account is as follows:

	Notes	Number of Ordinary Shares in issue	Ordinary Shares HK\$'000	Ordinary Share premium account HK\$'000	Total HK\$'000
At 1 January 2002		5,132,982,672	2,566,491	5,926,972	8,493,463
Share options exercised	(i)	29,400,000	14,700	917	15,617
At 31 December 2002 and 1 January 2003		5,162,382,672	2,581,191	5,927,889	8,509,080
Share options exercised	(i)	82,140,000	41,070	10,748	51,818
Loss Elimination Reduction	47(a)	—	—	(3,879,159)	(3,879,159)
Cancellation of Preference Shares	47(d)	—	—	(328,832)	(328,832)
At 31 December 2003		5,244,522,672	2,622,261	1,730,646	4,352,907

Notes to Financial Statements

31 December 2003

45. Share Capital (continued)

Shares (continued)

Notes:

- (i) The subscription rights attaching to 82,140,000 (2002: 29,400,000) share options were exercised at subscription prices ranging from HK\$0.5312 to HK\$1.22 per Ordinary Share (2002: HK\$0.5312 per Ordinary Share), resulting in the issue of 82,140,000 (2002: 29,400,000) Ordinary Shares for a total consideration, net of expenses, of HK\$51,818,000 (2002: HK\$15,617,000).

Preference Shares

A summary of movement of the Company's issued Preference Share and Preference Share premium account is as follows:

	Number of Preference Shares in issue	Preference Shares HK\$'000	Preference Share premium account HK\$'000	Total HK\$'000
At 1 January 2002 and 2003	85,949	666	665,142	665,808
Cancellation of Preference Shares (note 47(d))	(85,949)	(666)	(665,142)	(665,808)
At 31 December 2003	—	—	—	—

The Preference Shares, which were listed on the Luxembourg Stock Exchange, carried a fixed, cumulative dividend of 3.25% per annum by reference to the paid-up value of each Preference Share of US\$1,000 which would increase to 9.6% per annum starting from 8 April 2003 on their redemption amount of 139.564% of their paid-up value. The Preference Shares carried a right to be converted into fully-paid Ordinary Shares at a conversion price of HK\$3.7 per Ordinary Share (as adjusted with effect from 22 December 2000), subject to adjustment, and at the fixed exchange rate of HK\$7.74654 to US\$1.

Unless previously converted, purchased and cancelled or redeemed by the Company in accordance with the terms and conditions of the Preference Shares, the Preference Shares were due to be redeemed at 139.564% of their paid-up value on 7 April 2003 subject to the conditions of the Preference Shares and the provisions of the Companies Ordinance and any other fiscal regulations and other legislations applicable to the Company.

Notes to Financial Statements

31 December 2003

45. Share Capital (continued)

Preference Shares (continued)

Pursuant to the special resolutions passed on 16 September 2002, certain terms of the Preference Shares was amended (the "Amendments" and the "Additional Amendment", respectively). The Amendments were to provide for a put and a call option between the preference shareholders and GDH Limited at a price equal to 135% of their paid-up value. The Additional Amendment was to amend the terms of the Preference Shares such that for the year from 8 April 2003 to 7 April 2004, they would carry a reduced dividend of 6.60% per annum, on their redemption amount. The Additional Amendment was intended to reduce the amount of dividends (declared and/or undeclared) of the Preference Shares by approximately US\$3.6 million for the year from 8 April 2003 to 7 April 2004.

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

During the year, as at 8 February 2003, GDH Limited, under the put option and call option pursuant to the Amendment, acquired all 100% interest in the Company's Preference Shares. Pursuant to the Preference Share Cancellation, as further detailed in note 47(d), the Preference Shares were cancelled on 24 December 2003.

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 46 to the financial statements.

American Depositary Receipt

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

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

The ADR Programme was terminated with effect from 24 February 2003.

Notes to Financial Statements

31 December 2003

46. Share Option Schemes

(a) The share option schemes of the Company

On 31 May 2002, the Company terminated its then share option scheme adopted on 2 February 1994 (the "Old GDI Scheme") and adopted a new share option scheme (the "GDI Scheme"). Thereafter no further options shall be granted under the Old GDI Scheme but in all other aspects the provision of the Old GDI Scheme shall remain in full force and effect and the options which had been granted during its life shall continue to be exercisable in accordance with their terms of issue.

The purpose of the GDI Scheme is to provide incentives to the participants to contribute to the Group, to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis, to maintain a good relationship with its consultants, professional advisers, suppliers of goods or services and customers and to attract human resources that are valuable to the Group. Eligible participants of the GDI Scheme include the Company's directors (including non-executive and independent non-executive directors), employees or executives of the Group, consultants or advisers of the Group, suppliers of goods or services to the Group, customers of the Group, and substantial shareholders of the Group. The GDI Scheme unless otherwise terminated or amended, will remain in force for 10 years from 3 June 2002.

The maximum number of Ordinary Shares which may be issued upon exercise of all outstanding options granted and yet to be granted under the GDI Scheme and any other schemes of the Company must not exceed 30% of the Ordinary Shares in issue from time to time. The total number of Ordinary Shares which may be issued upon exercise of all options to be granted under the GDI Scheme and any other schemes of the Company must not in aggregate exceed 10% of the Ordinary Shares of the Company in issue as at the date of adopting the GDI Scheme, but the Company may seek approval of its shareholders in a general meeting to refresh the 10% limit under the GDI Scheme. At 31 December 2003, the number of Ordinary Shares issuable under share options granted under the GDI Scheme was 317,553,939, which represented approximately 6.05% of the Company's Ordinary Shares in issue as at that date.

The total number of shares issued and to be issued upon exercise of the share options granted and to be granted to each eligible participant (including both exercised and outstanding options) in any 12-month period up to the date of grant must not exceed 1% of the Ordinary Shares in issue at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting of the Company.

Notes to Financial Statements

31 December 2003

46. Share Option Schemes (continued)

(a) The share option schemes of the Company (continued)

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the Ordinary Shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's Ordinary Shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting of the Company.

An offer of the grant of a share option may be accepted within 14 days from the date of the offer upon payment of a consideration of HK\$1.00 by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of grant of the share options.

The exercise price of the share options is determinable by the directors, but must not be less than the higher of (i) the closing price of the Company's Ordinary Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of the share options, which must be a business day; (ii) the average closing price of the Company's Ordinary Shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant of the share options; and (iii) the nominal value of the Ordinary Shares.

Share options do not confer rights on the holders to dividends or to vote in shareholders' meetings.

Notes to Financial Statements

31 December 2003

46. Share Option Schemes (continued)

(a) The share option schemes of the Company (continued)

The following share options were outstanding under the share option schemes of the Company during the year:

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\$	Price of the Company's Ordinary Shares***	
	At 1 January 2003	Grant of share options during the year**	Cancelled/lapsed during the year	Exercised during the year	At 31 December 2003				At grant date of options HK\$	At exercise date of options HK\$
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	1.22
	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	1.27
	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	1.57
	1,000,000	—	—	(1,000,000)	—	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81	1.57
	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	—
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	—

Notes to Financial Statements

31 December 2003

46. Share Option Schemes (continued)

(a) The share option schemes of the Company (continued)

Name or category of participant	Number of share options					At 31 December 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\$	Price of the Company's Ordinary Shares***	
	At 1 January 2003	Grant of share options during the year**	Cancelled/lapsed during the year	Exercised during the year	At 31 December 2003					At grant date of options HK\$	At exercise date of options HK\$
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	1.35	
	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 Wai Keung	1,500,000	—	—	(800,000)	700,000	01.11.2001	02.05.2002 to 01.05.2007	0.74	0.73	1.22	
	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	—	

Notes to Financial Statements

31 December 2003

46. Share Option Schemes (continued)

(a) The share option schemes of the Company (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\$	Price of the Company's Ordinary Shares***	
	At 1 January 2003	Grant of share options during the year**	Cancelled/lapsed during the year	Exercised during the year	At 31 December 2003				At grant date of options HK\$	At exercise date of options HK\$
WANG Man Kwan, Paul	1,000,000	—	—	(1,000,000)	—	10.08.2001	11.02.2002 to 10.02.2007	0.5312	0.66	1.21
	1,500,000	—	—	(500,000)	1,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81	1.72
	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	—
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	—
	140,500,000	24,000,000	—	(19,300,000)	145,200,000					
Others										
Employees	2,705,000	—	(2,705,000)	—	—	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	—	—	(48,400,000)	41,800,000	10.08.2001	11.02.2002 to 10.02.2007	0.5312	0.66	1.14
	13,800,000	—	—	(3,700,000)	10,100,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81	1.35
	67,900,000	—	—	(8,040,000)	59,860,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	1.55
	—	31,900,000	—	(2,700,000)	29,200,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	1.59
Consultant	31,393,939	—	—	—	31,393,939	03.06.2002	21.12.2002 to 03.06.2007	0.816	0.81	—
	208,848,939	31,900,000	(5,555,000)	(62,840,000)	172,353,939					
Total	349,348,939	55,900,000	(5,555,000)	(82,140,000)	317,553,939					

Notes to Financial Statements

31 December 2003

46. Share Option Schemes (continued)

(a) The share option schemes of the Company (continued)

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

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

*** The price of the Company's Ordinary Shares disclosed as at the date of grant of the share options is the closing price on the Stock Exchange on the business day prior to which the options were granted.

The price of the Company's Ordinary Shares disclosed as at the date of exercise of the share options is the weighted average of the Stock Exchange closing prices (immediately before the dates on which the options were exercised) over all the exercises of options within the disclosure line.

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.

(b) The share option schemes of GD Brewery and GD Tannery

GD Brewery and GD Tannery were previously two subsidiaries of the Group and are separately listed on the Stock Exchange. Each of GD Brewery and GD Tannery operates their own share option schemes. The Group's entire interests in GD Brewery and GD Tannery were disposed of during the year, as further detailed in note 6(a) to the financial statements and, accordingly, details of the share option schemes of GD Brewery and GD Tannery are not included in these financial statements.

Notes to Financial Statements

31 December 2003

47. Reserves

Group

	Preference Share premium account HK\$'000	Ordinary Share premium account HK\$'000	Ordinary Shares To be Issued HK\$'000 (note 47(c))	Capital reserve HK\$'000	Expansion fund reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Special Reserve HK\$'000 (note 47(b))	Retained earnings/ (accumulated losses) HK\$'000 (note 47(a))	Total HK\$'000
At 1 January 2002:									
As previously reported	665,142	5,926,972	121,440	3,790,383	98,742	(67,772)	—	(3,984,567)	6,550,340
Prior year adjustments (note 56)	—	—	—	(63,079)	—	—	—	(446,116)	(509,195)
As restated	665,142	5,926,972	121,440	3,727,304	98,742	(67,772)	—	(4,430,683)	6,041,145
Share options exercised (note 45(i))	—	917	—	—	—	—	—	—	917
Additional Shares to be issued as a result of the Acquisition	—	—	121,440	(121,440)	—	—	—	—	—
Release on disposal of subsidiaries and associates	—	—	—	—	(3,774)	1,417	—	3,774	1,417
Net profit for the year (as restated)	—	—	—	—	—	—	—	194,904	194,904
Transfer from the profit and loss account	—	—	—	—	50,345	—	—	(50,345)	—
Exchange realignment	—	—	—	—	—	(256)	—	—	(256)
At 31 December 2002	665,142	5,927,889	242,880	3,605,864	145,313	(66,611)	—	(4,282,350)	6,238,127
Reserves retained by:									
Company and subsidiaries, as restated	665,142	5,927,889	242,880	3,605,864	130,309	(61,829)	—	(4,456,649)	6,053,606
Associates	—	—	—	—	10,571	(4,782)	—	99,072	104,861
Jointly-controlled entity, as restated	—	—	—	—	4,433	—	—	75,227	79,660
At 31 December 2002	665,142	5,927,889	242,880	3,605,864	145,313	(66,611)	—	(4,282,350)	6,238,127

Notes to Financial Statements

31 December 2003

47. Reserves (continued)

Group

	Preference Share premium account HK\$'000	Ordinary Share premium account HK\$'000	Ordinary Shares To be Issued HK\$'000	Capital reserve HK\$'000 (note 47(c))	Expansion fund reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Special Reserve HK\$'000 (note 47(b))	Retained earnings/ (accumulated losses) HK\$'000 (notes 47(a)&(b))	Total HK\$'000
At 1 January 2003:									
As previously reported	665,142	5,927,889	242,880	3,668,943	145,313	(66,611)	—	(3,750,030)	6,833,526
Prior year adjustments (note 56)	—	—	—	(63,079)	—	—	—	(532,320)	(595,399)
As restated	665,142	5,927,889	242,880	3,605,864	145,313	(66,611)	—	(4,282,350)	6,238,127
Share options exercised (note 45(i))	—	10,748	—	—	—	—	—	—	10,748
Cancellation of Preference Shares (note 47(d))	(665,142)	(328,832)	—	—	—	—	—	—	(993,974)
Additional Shares to be issued as a result of the Acquisition	—	—	60,720	(60,720)	—	—	—	—	—
Release on disposal of subsidiaries and an associate	—	—	—	(462,527)	(36,336)	18,876	—	436,182	(43,805)
Net profit for the year	—	—	—	—	—	—	—	1,106,721	1,106,721
Loss Elimination Reduction (note 47(a))	—	(3,879,159)	—	—	—	—	—	3,879,159	—
Transfer from the profit and loss account	—	—	—	—	48,734	—	—	(48,734)	—
Exchange realignment	—	—	—	—	—	(7,773)	—	—	(7,773)
Transfer from retained earnings net profit of the Company for the period from 1 July 2003 to the Effective Date and otherwise in accordance with the Undertaking (note 47(b))	—	—	—	—	—	—	127,433	(127,433)	—
Transfer to retained earnings upon issue of new Ordinary Shares for the period from the Effective Date to 31 December 2003 (note 47(b))	—	—	—	—	—	—	(7,712)	7,712	—
At 31 December 2003	—	1,730,646	303,600	3,082,617	157,711	(55,508)	119,721	971,257	6,310,044
Reserves retained by:									
Company and subsidiaries	—	1,730,646	303,600	3,082,617	145,210	(53,498)	119,721	774,826	6,103,122
Associates	—	—	—	—	6,856	(816)	—	68,328	74,368
Jointly-controlled entity	—	—	—	—	5,645	(1,194)	—	128,103	132,554
At 31 December 2003	—	1,730,646	303,600	3,082,617	157,711	(55,508)	119,721	971,257	6,310,044

Notes to Financial Statements

31 December 2003

47. Reserves (continued)

Company	Preference Share premium account HK\$'000	Ordinary Share premium account HK\$'000	Ordinary Shares To be Issued HK\$'000 (note 47(c))	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Special Reserve HK\$'000 (note 47 (b))	Retained earnings/ (accumulated losses) HK\$'000 (notes 47(a)&(b))	Total HK\$'000
At 1 January 2002	665,142	5,926,972	121,440	1,733,711	(14,813)	—	(3,887,495)	4,544,957
Share options exercised (note 45(i))	—	917	—	—	—	—	—	917
Additional Shares to be issued as a result of the Acquisition	—	—	121,440	—	—	—	—	121,440
Net profit for the year	—	—	—	—	—	—	143,201	143,201
At 31 December 2002 and 1 January 2003	665,142	5,927,889	242,880	1,733,711	(14,813)	—	(3,744,294)	4,810,515
Share options exercised (note 45(i))	—	10,748	—	—	—	—	—	10,748
Cancellation of Preference Shares (note 47(d))	(665,142)	(328,832)	—	—	—	—	—	(993,974)
Additional Shares to be issued as a result of the Acquisition	—	—	60,720	—	—	—	—	60,720
Net loss for the year	—	—	—	—	—	—	(7,432)	(7,432)
Loss Elimination Reduction (note 47(a))	—	(3,879,159)	—	—	—	—	3,879,159	—
Transfer from retained earnings net profit of the Company for the period from 1 July 2003 to the Effective Date and otherwise in accordance with the Undertaking (note 47(b))	—	—	—	—	—	127,433	(127,433)	—
Transfer to retained earnings upon issue of new Ordinary Shares for the period from the Effective Date to 31 December 2003 (note 47(b))	—	—	—	—	—	(7,712)	7,712	—
At 31 December 2003	—	1,730,646	303,600	1,733,711	(14,813)	119,721	7,712	3,880,577

Notes to Financial Statements

31 December 2003

47. Reserves (continued)

- (a) By the Company's 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\$3,879,159,000, 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 Company's Preference Shares and their replacement with the Straight Bonds (note 37) and the Convertible Bonds (note 38), 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 purpose of Capital Reduction Proposal is to place the Company in a position to resume payment of dividends to its ordinary shareholders on 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. On 29 September 2003, the Capital Reduction Proposal was approved by the shareholders in an extraordinary general meeting. On 24 December 2003, a copy of the order of the High Court of the Hong Kong Special Administrative Region of the People's Republic of China (the "Court") confirming the Capital Reduction Proposal, and the minutes of the reduction of capital of the Company resulting from the Preference Share Cancellation, were registered with the Registrar of Companies in accordance with Section 61 of the Companies Ordinance. Accordingly, the Capital Reduction Proposal became effective on 24 December 2003 (the "Effective Date") and accumulated losses of the Company of HK\$3,879,159,000 were eliminated against the Company's Ordinary Share premium account.

- (b) One of the undertakings given to the Court by the Company in its capital reduction application (the "Undertaking") relates to the setting up of a special reserve on the terms that for so long as there shall remain outstanding any debt of or claim against the Company which would be admissible to proof in a notional winding up of the Company on the Effective Date and the person entitled to the benefit thereof shall not have consented to the said reduction of capital or agreed otherwise, the Company shall credit to a special reserve in the books of the Company (the "Special Reserve"): (a) any amount arising by reason of a release of any provision taken into account in establishing the accumulated losses of the Company as at 30 June 2003; or (b) any amount received by the Company as profit by way of distribution from a corporation which was a subsidiary of the Company at the Effective Date (a "subsidiary") which is made by such subsidiary out of profit available for distribution prior to the Effective Date or any dividend paid to the Company in respect of any liquidation of a subsidiary commencing prior to that date.

Notes to Financial Statements

31 December 2003

47. Reserves (continued)

The Special Reserve shall not be treated as realised profits of the Company and shall, for so long as the Company shall remain a limited company, be treated as an undistributable reserve of the Company for the purpose of the Companies Ordinance. Further, the Special Reserve may be applied for the same purposes as a share premium account may lawfully be applied and the amount standing to the credit of the Special Reserve may be reduced by an amount equal to any increase, after the Effective Date, in the paid-up share capital or share premium account of the Company which results from an issue of shares (other than for the purposes of any redemption or purchase by the Company of its own shares) for cash or other consideration or by way of the capitalisation of distributable profits or reserves. The Company shall be at liberty to transfer the amount so reduced to the general reserves of the Company and the same shall become available for distribution.

The amount credited to the Special Reserve shall not at any time exceed HK\$2,984,676,517 (the "Limit"). The Limit may be reduced by the amount of any increase, after the Effective Date, in the paid-up share capital or share premium account of the Company which results from an issue of shares as referred to above. The Limit may also be reduced by the amount of any non-permanent loss of the Company as at 30 June 2003 which subsequently turns into a permanent loss. In the event that the amount standing to the credit of the Special Reserve at any time exceeds the Limit, the Company shall be at liberty to transfer the amount of any such excess to the general reserves of the Company and the same shall become available for distribution. All profits and write-backs of provisions made by the Company between 1 July 2003 and the Effective Date are subject to an undertaking in similar terms. As at 31 December 2003, the Limit of the Special Reserve, as adjusted, is HK\$2,976,964,517 and the amount standing to the credit of the Special Reserve is HK\$119,721,532.

- (c) As part of the consideration for the Acquisition of GH Holdings (as referred to in note 13 to the financial statements), the Company issued 2.3 billion Ordinary Shares (the "Consideration Shares") to GDH Limited and is committed to issue 66 million Ordinary Shares (the "Additional Shares") for each year of the five years commencing from 22 December 2000 (the "Earnout Period") to GDH Limited subject to the performance of WaterCo meeting the milestones as set out in the Earnout Agreement. Further details of this obligation are set out in the Acquisition Circular.

Since WaterCo had already met the performance milestones under the Earnout Agreement for the first, second, third, fourth, and fifth years of the Earnout Period in September 2001, March 2002, September 2002, March 2003, and June 2003 respectively, the Company has an obligation to issue a total of 330 million Additional Shares to GDH Limited in accordance with the Earnout Agreement. As further detailed in note 55(b) to the financial statements, 198,000,000 Additional Shares were issued to GDH Limited on 27 February 2004. Another 66,000,000 Additional Shares will be issued on 21 December 2004 and the remaining 66,000,000 Additional Shares will be issued on 21 December 2005.

Notes to Financial Statements

31 December 2003

47. Reserves (continued)

As pointed out in the Acquisition Circular, following negotiation with GDH Limited, the Company's board of directors (the "Board") had determined the issue price of each of the Additional Shares which might be issued to be HK\$1.20, which is the same as the issue price for each of the Consideration Shares issued to GDH Limited upon the completion of the Acquisition. The issue price of HK\$1.20 as aforesaid (the "Circular Price") which was determined by reference to, in particular, the value of the Dongshen Water Supply Project was considered by both the independent financial adviser advising on the Acquisition and the Board (including the independent non-executive directors) to be fair and reasonable and approved by the shareholders of the Company in a general meeting on 19 October 2000. Further details of the Circular Price determination and the valuation of Dongshen Water Supply Project were set out in the Acquisition Circular.

As a result of the SSAP 30 becoming effective and applicable for the year ended 31 December 2001, the Group and the Company are required to record each of the Additional Shares as shares that are to be issued at the prevailing market price of HK\$0.92 per Ordinary Share on the date of the completion of the Acquisition (the "Market Price") instead of the Circular Price which also was the price adopted for the recording of the issue of all the Consideration Shares in 2000. Accordingly, an amount of HK\$303,600,000 (being the value of the aforesaid 330 million Additional Shares to be issued at the Market Price) was credited to the Group's and the Company's reserves as "Ordinary Shares To Be Issued" to reflect the respective obligation of the Group and the Company in respect of those 330 million Additional Shares to be issued by a reduction of the Group's capital reserve on the acquisition of GH Holdings and an increase in the Company's investment cost in GH Holdings both of the same amount as certain contingencies that would affect the amount of the Group's and the Company's purchase consideration for GH Holdings have become probable. It is solely because of the new requirements under SSAP 30 that the above accounting treatment becomes necessary. All the rights and obligations under the Earnout Agreement remain unchanged. The compliance by the Company with all the obligations under the Earnout Agreement to be observed and performed on its part also remains unaffected.

- (d) As further detailed in Company's announcement dated 29 December 2003, both the Straight Bonds and the Convertible Bonds were issued by GDI Finance (Cayman) 2003 Limited, a wholly-owned subsidiary of the Company, to GDH Limited, on 24 December 2003 pursuant to the Preference Share Cancellation. The aggregate principal amount of the Straight Bonds and the Convertible Bonds issued is HK\$994,640,000. As at the date of issue of the Straight Bonds and the Convertible Bonds, the redemption amount, as further explained under note 45, including the accumulated dividends of the Preference Shares, amounted to US\$138,175,730 (approximately HK\$1,077,771,000). Therefore, the amount which GDH Limited would have waived under the Preference Share Cancellation is equivalent to approximately HK\$83,131,000. Upon the completion of the Preference Share Cancellation, all of the 85,949 Preference Shares in issue were cancelled. The excess of the aggregate principal amount of Straight Bonds and the Convertible Bonds issued over the value of the Preference Shares of HK\$666,000 amounted to HK\$993,974,000 and such balance was eliminated to the Company's Ordinary Share premium account and Preference Shares premium account in the amount of HK\$328,832,000 and HK\$665,142,000, respectively.

Notes to Financial Statements

31 December 2003

48. Notes to the Consolidated Cash Flow Statement

(a) Major non-cash transactions

- (i) During the year, the Group incurred a non-interest-bearing borrowing of HK\$2,364 million for the construction of the Phase IV Renovation Project. In addition, the Group settled the first repayment of the non-interest-bearing borrowing of HK\$118.2 million by offsetting it against the water revenue receivable of WaterCo in accordance with the terms of the concession agreement. For details of non-interest-bearing borrowing, please refer to note 42 to the financial statements.
- (ii) The issue of the Straight Bonds and the Convertible Bonds and the Preference Share Cancellation, as further detailed in notes 37, 38 and 47(d), respectively, to the financial statements, are major non-cash transactions of the Group.

Notes to Financial Statements

31 December 2003

48. Notes to the Consolidated Cash Flow Statement (continued)

(b) Disposal of subsidiaries and associates

	2003 HK\$'000	2002 HK\$'000 (Restated)
Net assets disposed of:		
Fixed assets	1,627,546	4,260
Investment properties	147,731	—
Interest in associates	100,371	40,916
Trademarks	—	800
Deferred tax assets	30,072	—
Other long term assets	26,187	—
Properties under development	5,600	—
Due from minority shareholders of subsidiaries	9,055	—
Inventories	619,859	4,155
Receivables, prepayments and deposits	248,404	4,409
Cash and bank balances	346,786	1,945
Trade payables	(290,276)	(4,783)
Accruals and other liabilities	(228,454)	—
Tax payable	(2,654)	—
Due to the immediate holding company	(85,653)	—
Due to fellow subsidiaries	(1,319)	—
Due to minority shareholders of subsidiaries	(326,463)	—
Bank and other interest-bearing borrowings	(311,327)	—
Deferred tax liabilities	(1,700)	—
Minority interests	(434,084)	(3,994)
	1,479,681	47,708
Release of goodwill remaining in consolidated capital reserve	2,354	—
Release of negative goodwill remaining in consolidated capital reserve	(65,035)	—
Release of exchange fluctuation reserve	18,876	1,417
	1,435,876	49,125
Gain on disposal of Leather Ware Operation	—	636
Gain on disposal of subsidiaries and associates, net	19,474	37,386
	1,455,350	87,147

Notes to Financial Statements

31 December 2003

48. Notes to the Consolidated Cash Flow Statement (continued)

(b) Disposal of subsidiaries and associates (continued)

	2003 HK\$'000	2002 HK\$'000 (Restated)
Satisfied by:		
Cash, net of expenses	1,040,314	67,147
Increase in other receivables	—	20,000
Decrease in a loan due to the immediate holding company	415,036	—
	1,455,350	87,147

An analysis of the net cash inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2003 HK\$'000	2002 HK\$'000 (Restated)
Cash, net of expenses	1,040,314	67,147
Cash and bank balances disposed of	(346,786)	(1,945)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	693,528	65,202

The results of subsidiaries disposed of during the year ended 31 December 2003, are detailed in note 6 to the financial statements.

In the prior year, the results of subsidiaries disposed of for the year ended 31 December 2002 had no significant impact on the Group's consolidated turnover or profit after tax for the year.

(c) Cash and cash equivalents

	2003 HK\$'000	2002 HK\$'000
Cash and cash equivalents in the consolidated balance sheet as at 31 December (note 27)	1,349,413	1,770,910
Non-pledged time deposits with original maturity of three months or more when acquired	(78,784)	(500)
Cash and cash equivalents in the consolidated cash flow statement as at 31 December	1,270,629	1,770,410

Notes to Financial Statements

31 December 2003

49. Operating Lease Arrangements

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from one to seven years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year	235,310	292,354
In the second to fifth years, inclusive	242,534	318,659
After five years	732	82,150
	478,576	693,163

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to forty-one years.

At 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year	312	5,388
In the second to fifth years, inclusive	890	5,080
After five years	17,363	17,549
	18,565	28,017

The Company did not have significant operating lease arrangements at the balance sheet date.

Notes to Financial Statements

31 December 2003

50. Commitments

In addition to the operating lease arrangements detailed in note 49 to the financial statements, the Group had the following commitments at the balance sheet date:

	Group	
	2003	2002
	HK\$'000	HK\$'000
(a) Capital commitments in respect of property, plant and equipment:		
Contracted for	11,490	8,666
Authorised, but not contracted for	536,460	5,623
	547,950	14,289
(b) Other capital commitments:		
Contracted for	—	—
Authorised, but not contracted for	—	76,992
	—	76,992

(c) Pursuant to WaterCo's Article of Association, the minority shareholder (also the Company's ultimate holding company, Yue Gang Investment, which directly holds 1% interest in WaterCo) is not entitled to any distributed profits of WaterCo for the first 15 years of operation and 100% of the distributed profits for that period shall be made to GH Holdings. Starting from the 16th year of operations, 1.01% of the distributed profits of WaterCo for the first 15 years of operations 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 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.

(d) During the year, the Company entered into certain interest rate swap transactions to effectively convert the interest of a total notional principal of HK\$9.1 billion from floating rate of HIBOR to a range of fixed interest rates per annum up to a range of periods from 2008 to 2012. Amounts payable under the swap guarantee in respect of these interest rate swap transactions are senior in right of payment to the Tranche B Credit, Refinancing Loan A and Refinancing Loan B.

Notes to Financial Statements

31 December 2003

50. Commitments (continued)

- (e) The Company, at a consideration of US\$16.76 million, entered into a conditional sale and purchase agreement on 13 February 2001 for the Company's disposal of its entire 95% interest in and its shareholders' loans to Zhongshan Power (Hong Kong) Limited, ("ZPHK"). As part of the consideration, the compensation for the discontinuation of certain guaranteed profits in an amount of US\$2.97 million was received in August 2001. In addition, as a condition precedent to the completion of the sale, Zhongshan Power Plant, the contractual joint venture held by ZPHK, is required to fully repay all its indebtedness to Yue Sheng Finance Limited, a wholly-owned subsidiary of the Company, together with interest, in respect of which the loan principal of US\$17.5 million was received in January 2003. Up to the date of these financial statements being approved and authorised for issue by the Company's board of directors, this transaction had not yet been completed.

51. Contingent Liabilities

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Guarantees given for banking facilities granted and utilised by:				
— wholly-owned subsidiaries	—	—	—	451,960
— non wholly-owned subsidiaries	—	—	—	103,195
Guarantee given to a subsidiary for repayment of Straight Bonds and Convertible Bonds (notes 37 and 38)	—	—	994,960	—
Guarantees given for banking facilities granted to a fellow subsidiary	—	395	—	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 purchaser of properties	—	685	—	—
Guarantee given in respect of a bank loan of the Group's contractual joint venture (note 20)	81,900	—	81,900	—
	81,900	2,297	1,076,860	555,550

52. Pledge of Assets

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

Notes to Financial Statements

31 December 2003

53. Related Party Transactions

In addition to the transactions and balances set out elsewhere in the financial statements, the Group had the following significant related party transactions during the year.

	Notes	2003 HK\$'000	2002 HK\$'000
Sale of electricity to a minority shareholder of a subsidiary		—	(464,371)
Rental income from GDH Limited and certain of its subsidiaries	(i)	(5,621)	(7,195)
Interest income from a fellow subsidiary, GD Finance	(ii)	(670)	(1,766)
General computer and SAP financial system maintenance service fees from GDH Limited and certain of its subsidiaries	(iii)	(1,487)	(2,575)
Management fee from a contractual joint venture	(iv)	(4,427)	—
Hotel management fees received from fellow subsidiaries	(v)	(1,399)	(1,429)
Annual fees to minority shareholders of subsidiaries		—	183
Property management service fees paid to a fellow subsidiary	(vi)	1,103	1,887
Interest expenses to:			
— Minority shareholders of subsidiaries	(vii)	—	1,679
— GDH Limited and certain of its subsidiaries	(viii)	11,069	157,894
Engineering facilities construction costs paid to a fellow subsidiary	(ix)	802	1,679
Repairs and maintenance service fees paid to a fellow subsidiary	(x)	9	613
Computer operation systems maintenance services fees paid to a fellow subsidiary	(xi)	1,476	—
General computer and SAP financial system maintenance service fees paid to GDH Limited	(xii)	526	—

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.
- (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. Further details of which, including the terms of the loan, are set out in note 30 to the financial statements.

Notes to Financial Statements

31 December 2003

53. Related Party Transactions (continued)

- (iii) The Company provided certain general computer and SAP financial system maintenance services to GDH Limited and certain of its subsidiaries during the year in accordance with the respective agreements between the Company and GDH Limited and these fellow subsidiaries. The agreements were terminated on 30 April 2003.
- (iv) The management fee income arose from the accounting and administrative services provided by the Group to a contractual joint venture. The fee charged is calculated with reference to the revenue of the contractual joint venture earned in the year.
- (v) The management fees income arose from the hotel management services rendered by a subsidiary of the Group to certain fellow subsidiaries of the Company in accordance with the terms of agreements entered into between that subsidiary and these fellow subsidiaries.
- (vi) The management fees arose from the property management services rendered by a fellow subsidiary of the Company to WaterCo under contracts entered into in accordance with the terms of an agreement made between WaterCo and the fellow subsidiary.
- (vii) The interest expense in the prior year arose from unsecured balances advanced by minority shareholders of the Company's subsidiaries, which bore interest at 2% above LIBOR per annum. During the year, these subsidiaries were disposed of by the Group.
- (viii) The interest expense arose from (a) an unsecured loan of HK\$170,000,000 advanced by GDH Limited to the Group which was fully repaid on 12 December 2003 (2002: HK\$626,623,000), further details of which are set out in note 31 to the financial statements; (b) certain bank indebtedness of the Group and GH Holdings Debts amounting to HK\$76,262,000 as at 31 December 2003 (2002: HK\$44,721,000) held by GDH Limited and certain of its subsidiaries, further details of which are set out in notes 35, 40(b) and 43 to the financial statements; and (c) the Straight Bonds and Convertible Bonds amounting to HK\$994,640,000 issued by the Group to GDH Limited on 12 December 2003, further details of which are set out in notes 37 and 38 to the financial statement, respectively.
- (ix) 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 pursuant to an existing agreement between WaterCo and the fellow subsidiary.
- (x) The service fees arose from the repairs and maintenance works rendered by a fellow subsidiary of the Company on certain of WaterCo's plant and machinery. Such services were rendered in accordance with contracts entered into as required under existing contractual arrangements between WaterCo and the fellow subsidiary.
- (xi) The Company's fellow subsidiary provided the Group with certain computer operation systems maintenance services in accordance with the respective agreements between them.
- (xii) GDH Limited provided the Group with certain general computer and SAP financial system maintenance services commencing from May 2003 in accordance with the respective agreements between the Group and GDH Limited.
- (xiii) On 3 June 2002, the Company engaged AMRI Financial Group Limited ("AMRI") for the provision of consultancy services in a project at an aggregate consideration of the grant of 31,393,939 share options of the Company. According to the service contract, additional fees may be paid where the outcome of the project exceeds an agreed target. A director of the Company's immediate holding company is also a director and shareholder of AMRI.

Each share option granted to AMRI is exercisable to subscribe for an Ordinary Share at an exercise price of HK\$0.816 commencing from the date of successful completion of the project to 3 June 2007. The project was completed in 2002 and none of the share options has been exercised. Further details of the share options are also set out in note 46 to the financial statements.

Notes to Financial Statements

31 December 2003

53. Related Party Transactions (continued)

- (xiv) The cash distribution made by GH Holdings out of its capital contribution reserve and its distributable profits, amounted to HK\$47,238,000 (2002: HK\$22,795,000), was paid or payable to GDH Limited and certain of its subsidiaries as shareholders of GH Holdings. The distribution is made in accordance with their respective interests in GH Holdings.

54. Connected Transactions

In addition to the disclosures set out in notes 37, 38, 47(a), 47(c), 47(d), 53(i), 53(ii), 53(iii), 53(iv), 53(v), 53(vi), 53(viii), 53(ix), 53(x), 53(xi), 53(xii), 53(xiv) above and 55(b) below, the other connected transactions disclosed in accordance with Chapter 14 of the Listing Rules are as follows:

- (a) The GD Brewery group made advances to Shenzhen Kingway Brewery Co., Ltd. ("SKB") and Shenzhen Kingway Brewing Co., Ltd. ("SBL"), 95% and 97% owned subsidiaries of GD Brewery, respectively, to finance the construction of plants and purchases of machinery and equipment for their brewing operations.

At 31 December 2002, the amount due from SKB to the GD Brewery group amounted to HK\$178,721,000. Included in the amount due from SKB to the GD Brewery group was an unsecured loan of HK\$56,063,000 which bore interest at six-month LIBOR plus 0.75% per annum and was repayable within five years. The remaining balance of HK\$122,658,000 was unsecured, interest-free and was not repayable within one year.

At 31 December 2002, the amount due from SBL to the GD Brewery group amounted to HK\$315,227,000. Included in the amounts due from SBL to the GD Brewery group were unsecured loans of HK\$168,566,000 which bore interest at six months' LIBOR plus 0.75% per annum and were repayable within five years. The remaining balance of HK\$146,661,000 was unsecured, interest-free and was not repayable within one year.

The Group's interest in GD Brewery was disposed of in March 2003.

- (b) At 31 December 2002, outstanding advances of RMB58,000,000 and HK\$917,000 were made by the Company to 廣東天質(集團)股份有限公司 (Guang Dong Teem (Holdings) Ltd.) ("GD Teem"), a 62.77% owned subsidiary, to finance GD Teem's working capital. Included in the amount due from GD Teem to the Company was an unsecured loan of RMB38,000,000 which bore interest at 3.8% per annum. The remaining balance is unsecured, interest free and has no fixed terms of repayment.

The unsecured loan of RMB38,000,000 was fully repaid in January and February 2003. The outstanding advances at the balance sheet date amounted to HK\$19,707,250, and was unsecured, interest-free and had no fixed terms of repayment.

Notes to Financial Statements

31 December 2003

54. Connected Transactions (continued)

- (c) At 31 December 2002, outstanding advances of HK\$1,359,000 were made by the Company to Honour Million Industries Limited ("HMI"), a 83.6% owned subsidiary, to finance HMI's working capital. Included in the amount due from HMI to the Company was an unsecured loan of HK\$1,066,000 which bore interest at 1.8% above LIBOR per annum and was repayable in accordance with the terms contained in certain bank debt restructuring agreement. The remaining balance of HK\$293,000 was unsecured, interest-free and had no fixed terms of repayment.

The Group's interest in HMI was disposed of in March 2003.

- (d) At 31 December 2002, outstanding advances of HK\$34,354,000 were made by the Company to Prospect Top Developments Limited ("PTD"), a 51% owned subsidiary, to finance PTD's working capital. Included in the amounts due from PTD to the Company were unsecured loans of HK\$32,865,000, which bore interest at 1.8% above LIBOR per annum and were repayable in accordance with the terms contained in the bank debt restructuring agreement of PTD. The remaining balance of HK\$1,489,000 was unsecured, interest-free and had no fixed terms of repayment.

The Group's interest in PTD was disposed of in March 2003.

- (e) At 31 December 2002, advances of HK\$203,427,000 were made by the Group to finance the working capital of Ningbo Malting Co., Ltd. ("NBM"), a 51% owned subsidiary of PTD. Included in the loans to NBM were unsecured loans of HK\$110,224,000 which were repayable in March 2008 and bore interest at 4% per annum up to September 2002 and, thereafter, the applicable interest rate was the average bank lending rate and deposit rate in Mainland China. The remaining balance was unsecured, interest-free and had no fixed terms of repayment.

The Group's interest in NBM was disposed of in March 2003.

- (f) At the balance sheet date, outstanding advances of HK\$227,040,000 (2002: HK\$219,567,000) were made by the Company to Nan Fang Holdings to finance its working capital. Included in the amount due from Nan Fang Holdings is an unsecured loan of HK\$81,184,000 (2002: HK\$81,184,000) which bears interest at 9% per annum and is repayable on demand. The remaining balance of HK\$145,856,000 (2002: HK\$138,383,000) is unsecured, interest-free and has no fixed terms of repayment.

- (g) At 31 December 2002, outstanding advances of HK\$46,226,415 were made by the Company to GD Tannery to finance its working capital. The loans were unsecured, bore interest at 3.8% per annum and were repayable within one year.

The Group's interest in GD Tannery was disposed of in March 2003.

Notes to Financial Statements

31 December 2003

54. Connected Transactions (continued)

- (h) The Group made advances to Guang Dong Nanhua Cement Limited ("Nanhua Cement"), a 70% owned subsidiary of GCM, to finance its expansion projects. At the balance sheet date, the outstanding loan balance, amounted to HK\$423,974,000 (2002: HK\$423,974,000), which was unsecured, interest-free and had no fixed terms of repayment. Provision of HK\$404,278,000 was made against the advances (full provision was made in 2002).

The Group's interest in and advance to Nanhua Cement was disposed to an independent party in January 2004 at an aggregate consideration of RMB50,000,000.

- (i) The Company made an advance to Zhongshan Power (Hong Kong) Limited ("ZPHK"), a 95% owned subsidiary of the Company, to finance its investment in a power plant project. At the balance sheet date, the outstanding balance of HK\$162,639,000 (2002: HK\$162,620,000) was unsecured, interest-free and had no fixed terms of repayment. In 2001, the Company and a minority shareholder of ZPHK entered into a conditional agreement in respect of the Company's disposal of its entire interest in ZPHK. Pursuant to the agreement, ZPHK's amount due to the Company will be assigned to a minority shareholder of ZPHK as this forms part of the terms and conditions for the disposal of the Company's interest in ZPHK, details of which are set out in note 50(e). The transaction has not yet been completed at the date of this report.
- (j) The Company's wholly-owned subsidiary made a loan to Zhongshan Power Plant, a contractual joint venture of ZPHK, to finance its expansion of the power plant project. At 31 December 2002, the outstanding balance, amounted to US\$17,500,000, was secured, bore interest at 14.25% per annum and was repayable by 10 equal annual instalments commencing from April 1998. As a condition precedent for the disposal of the Company's interest in ZPHK, details of which are set out in note 50(e), the aforesaid indebtedness of the Zhongshan Power Plant due to the Group will be repaid in full together with interest.

The balance of US\$17,500,000 was fully repaid in January 2003, and the outstanding loan interest has not yet been settled at the date of this report.

- (k) At 31 December 2002, the Company executed certain guarantees for banking facilities granted to certain of its non wholly-owned subsidiaries for their operations and expansion projects. The tenures of the guarantees ranged from one to three years from the respective dates of granting, details of the guarantees were as follows:
- (i) HK\$70,904,000 for banking facilities granted to and utilised by Guangdong Parking Limited, a 60% owned subsidiary of the Group;
- (ii) HK\$32,291,000 for banking facilities granted to and utilised by PTD.

The above guarantees were released in 2003.

Notes to Financial Statements

31 December 2003

54. Connected Transactions (continued)

- (l) In 2001, 深圳粵海酒店企業有限公司 (Shenzhen Guangdong Hotel Enterprise Ltd.) ("Shenzhen Hotel"), a 99% owned subsidiary of the Company, pursuant to an entrusted loan agreement, advanced an unsecured loan of RMB23,000,000 to GD Teem to finance its working capital. Such loan which bore interest at 4% per annum matured in April 2002. Upon maturity, the loan was extended to October 2003 and bore interest at 3.8% per annum. The loan was fully repaid in March 2003.

In 2002, Shenzhen Hotel, pursuant to an entrusted loan agreement, further advanced an unsecured loan of RMB7,000,000 to GD Teem to finance its working capital. The unsecured loan bore interest at 3.8% and was fully repaid in April 2003.

- (m) In 2001, Tiannan, a 76.92% owned subsidiary of the Group, pursuant to an entrusted loan agreement, advanced an unsecured loan of RMB40,000,000 to GD Teem to finance its working capital. The unsecured loan which bore interest at 4% per annum matured in April 2002. The loan was then extended to October 2003 and carried interest at 3.8% per annum. The loan amount of RMB10,000,000 was repaid in March 2003.
- (n) In November 2002, Tiannan, pursuant to entrusted loan agreements, advanced unsecured loans, in an aggregate sum of RMB45,000,000 to GD Teem to finance working capital. The unsecured loans to GD Teem bore interest at 3.8% per annum. The loan amount of RMB20,000,000 was settled in 2002, while the remaining balance was repaid in November 2003.
- (o) At 31 December 2002, Yue Hai Hotel, Zhuhai, a wholly-owned subsidiary, pursuant to certain entrusted loan agreements, advanced unsecured loans of RMB10,000,000 and RMB7,000,000 to Nanhai Tannery and GD Teem, respectively, to finance their working capital.

The loan to GD Teem bore interest at 3.8% per annum was fully repaid in April 2003.

The loan to Nanhai Tannery bore interest at 4.2% per annum and was fully repaid in January 2003.

- (p) In January and February, 2003, Tiannan, pursuant to an entrusted loan agreement, advanced unsecured loans, in an aggregate sum of RMB30,000,000 to GD Teem to finance its working capital. The unsecured loans to GD Teem bore interest at 3.8% per annum and was fully repaid in January 2004.

Notes to Financial Statements

31 December 2003

55. Post Balance Sheet Events

Other than those as detailed in notes 17 and 37, respectively, subsequent to the balance sheet date, the Group had the following significant post balance sheet events:

- (a) The Company under the terms of the shareholders agreement of GH Holdings had exercised its first right of refusal in respect of certain GH Holdings shares which certain existing holders wished to transfer. Subsequent to the balance sheet date, the Company further acquired 0.11% interest in GH Holdings at a total consideration of HK\$5,553,650. As a result of these acquisitions, the Group increased its holdings in GH Holdings from 82.68% at the balance sheet date to 82.79% and recognised a negative goodwill of HK\$422,000.
- (b) 198,000,000 ordinary shares (the "Additional Shares") in the share capital of the Company were allotted, credited as fully paid at the price of HK\$1.20 per share on 27 February 2004 to GDH Limited ("GDH") pursuant to the earn-out agreement (the "Earn-Out Agreement") dated 22 December 2000 entered into between the Company and GDH.

Regarding the issue price of the Additional Shares, as stated in the shareholders' circular of the Company dated 15 September 2000 in relation to the acquisition by the Company of 81,000,000 ordinary shares in the ordinary share capital of GH Water Supply (Holdings) Limited in 2000 (the "Acquisition"), following the negotiation with GDH, the Company's board of directors had determined the issue price of each of the Additional Shares, which may be issued, to be HK\$1.20 (the "Circular Price"). However, as a result of the Statement of Standard Accounting Practice 30 "Business Combinations" (SSAP 30), issued by the Hong Kong Society of Accountants, becoming effective and applicable commencing for the year ended 31 December 2001, the Company is required under the requirements of SSAP 30 to record in the financial statements the issue price of each of the Additional Shares that are to be issued, at the market price of the Company prevailing on the date of completion of the Acquisition, which in this case was HK\$0.92 per ordinary share, instead of the Circular Price.

Notes to Financial Statements

31 December 2003

56. Comparative Amounts and Prior Year Adjustments

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.

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

	Increase/(decrease)	
	As at 1 January 2003 HK\$'000	As at 1 January 2002 HK\$'000
Balance sheet		
Deferred tax assets	37,896	41,145
Deferred tax liabilities	816,731	686,366
Interest in a jointly-controlled entity	(50,934)	(59,922)
Minority interests	(234,370)	(195,948)
Accumulated losses	532,320	446,116
Goodwill classified under capital reserve	63,079	63,079
		Increase/ (decrease) For the year ended 31 December 2002 HK\$'000
Profit and loss account		
Deferred tax expenses, net (including share of net deferred tax expenses attributable to a jointly-controlled entity)		124,626
Minority interests, share of profit		(38,422)
Net profit attributable to shareholders		(86,204)

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the presentation of certain items and balances in the financial statements has been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

57. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 16 April 2004.