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CORPORATE INFORMATION

(as at 17 September 2004)

Board of Directors

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

* *Independent Non-Executive Director*

Company Secretary

HO LAM Lai Ping, Theresa

Auditors

Ernst & Young

Principal Bankers

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

Registered Office

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

Registrar and Share Transfer Office

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

HALF YEAR FINANCIAL HIGHLIGHTS

	Increase (+)/Decrease (-) compared with the same period last year		For the six months ended 30 June 2004
• Group Turnover			
Continuing operations	+ HK\$	374 million	to HK\$ 2,535 million
Discontinued operations	- HK\$	338 million	to HK\$ -
• Profit from Operating Activities (before finance costs and provisions)			
Continuing operations	+ HK\$	122 million	to HK\$ 1,066 million
Discontinued operations	- HK\$	29 million	to HK\$ -
• Finance Costs	+ HK\$	64 million	to HK\$ 399 million
• Provisions, net	- HK\$	83 million	to HK\$ 43 million
• Net Profit Attributable to Shareholders	+ HK\$	148 million	to HK\$ 468 million

KEY FINANCIAL INFORMATION (as at 30 JUNE 2004)

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

Loan maturity profile	Currency	Interest rate
Within 1 year	343 Hong Kong Dollar	15,935 Floating#
In the 2nd year	823 Renminbi	1,428 Fixed
In the 3rd to 5th years	2,965	Non-interest bearing
Over 5 years	13,232	borrowing
	<u>17,363</u>	<u>17,363</u>

Borrowings amounted to HK\$9.7 billion is hedged by certain fixed interest rate swap agreements.

• Balance Sheet Ratios

	As at 30 June 2004	As at 31 December 2003
Gearing ratio	1.88	2.11
Liquidity ratio	1.34	1.47

Note: Gearing represents the ratio of financial indebtedness to net asset values.

Liquidity represents the ratio of current assets to current liabilities.



To the Board of Directors

Guangdong Investment Limited

(Incorporated in Hong Kong with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 5 to 43.

Respective responsibilities of the directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors. It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

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

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2004.

Ernst & Young

Certified Public Accountants

Hong Kong

17 September 2004

UNAUDITED INTERIM FINANCIAL REPORT

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2004

	Notes	For the six months ended 30 June	
		2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
TURNOVER	2		
Continuing operations		2,534,805	2,160,665
Discontinued operations	3	–	338,159
		2,534,805	2,498,824
Cost of sales		(1,328,748)	(1,363,616)
Gross profit		1,206,057	1,135,208
Other revenue and gains		30,035	55,705
Selling and distribution costs		(25,664)	(50,830)
Administrative expenses		(142,554)	(155,639)
Other operating expenses, net		(44,481)	(134,222)
Loss on discontinuation of various operations, net	3	–	(3,738)
PROFIT FROM OPERATING ACTIVITIES	4	1,023,393	846,484
Finance costs	5	(399,143)	(334,520)
		624,250	511,964
Share of profits of jointly-controlled entities		33,869	32,796
Share of profits less losses of associates		35,005	13,684
PROFIT BEFORE TAX			
Continuing operations		693,124	536,466
Discontinued operations	3	–	21,978
		693,124	558,444
Tax	6		
Continuing operations		(97,588)	(101,780)
Discontinued operations	3	–	(1,794)
		(97,588)	(103,574)
PROFIT BEFORE MINORITY INTERESTS		595,536	454,870
Minority interests		(127,060)	(134,787)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		468,476	320,083
DIVIDEND	7	(136,997)	–
EARNINGS PER SHARE	8		
– Basic		8.48 cents	5.28 cents
– Diluted		8.01 cents	5.08 cents

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2004

	Notes	30 June 2004 HK\$'000 (Unaudited)	31 December 2003 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Fixed assets		12,522,208	12,737,077
Investment properties		2,071,675	2,106,139
Property under development		37,315	–
Goodwill:			
Goodwill		477	597
Negative goodwill		(175,300)	(121,364)
Interests in jointly-controlled entities		986,350	961,297
Interests in associates		396,064	371,404
Interest in a contractual joint venture		9,481	–
Other financial assets		18,646	22,988
Operating right		12,888,982	13,134,949
Other long term assets		2,510	53,597
Deferred tax assets		2,762	3,617
		28,761,170	29,270,301
CURRENT ASSETS			
Property under development		–	37,141
Other financial assets		19	199
Loan receivables		18,650	30,949
Due from a related company		1,265	1,334
Due from the immediate holding company		738	–
Due from fellow subsidiaries		2,112	1,826
Inventories		41,702	43,637
Receivables, prepayments and deposits	9	524,939	773,542
Tax recoverable		–	21
Restricted cash and bank balances	10	25,500	34,000
Cash and cash equivalents	10	1,236,153	1,349,413
		1,851,078	2,272,062

UNAUDITED INTERIM FINANCIAL REPORT

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

30 June 2004

	Notes	30 June 2004 HK\$'000 (Unaudited)	31 December 2003 HK\$'000 (Audited)
CURRENT LIABILITIES			
Trade payables	11	82,521	107,215
Tax payable		47,215	37,447
Accruals and other liabilities		652,006	795,265
Bank and other interest-bearing borrowings	12	224,701	237,570
Non-interest-bearing borrowing	13	118,200	118,200
Due to minority shareholders of subsidiaries	14	249,865	248,924
Due to fellow subsidiaries	15	4	544
Due to the immediate holding company	16	260	2,087
Due to the ultimate holding company	17	1,885	–
		1,376,657	1,547,252
NET CURRENT ASSETS			
		474,421	724,810
TOTAL ASSETS LESS CURRENT LIABILITIES			
		29,235,591	29,995,111
NON-CURRENT LIABILITIES			
Bank and other interest-bearing borrowings	12	14,892,531	16,005,452
Non-interest-bearing borrowing	13	2,127,600	2,127,600
Due to minority shareholders of subsidiaries	14	78,912	78,543
Deferred tax liabilities		897,866	881,907
		17,996,909	19,093,502
		11,238,682	10,901,609
MINORITY INTERESTS			
		1,818,717	1,969,304
		9,419,965	8,932,305
CAPITAL AND RESERVES			
Issued capital	18	2,731,691	2,622,261
Reserves	20	6,551,277	6,310,044
Proposed dividend		136,997	–
		9,419,965	8,932,305

CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

	Notes	For the six months ended 30 June	
		2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Total equity at 1 January		8,932,305	8,819,984
Exchange differences on translation of the financial statements of subsidiaries and associates operating in Mainland China and overseas, and net gains not recognised in the condensed consolidated profit and loss account	20	2,558	576
Issue of new shares, including share premium, upon exercise of share options, net of share issue expenses	18	16,626	32,196
Net profit for the period attributable to shareholders	20	468,476	320,083
Release of reserves upon disposals of subsidiaries and associates	20	<u>—</u>	<u>(43,805)</u>
Total equity at 30 June		<u>9,419,965</u>	<u>9,129,034</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2004

	For the six months ended 30 June	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from operations	1,648,557	1,360,894
Interest received	6,428	11,159
Interest paid	(432,756)	(374,382)
Dividends from associates	17,750	–
Dividends paid to minority shareholders	(162,190)	(187,446)
Profits tax paid	(61,848)	(58,085)
Net cash inflow from operating activities	1,015,941	752,140
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(50,464)	(17,672)
Additions to other long term assets	–	(571,049)
Acquisition of additional interest in a subsidiary	(6,276)	(7,196)
Capital injection in an associate	(14,120)	–
Advance to an associate	–	(28,263)
Advance of loan to a contractual joint venture	(6,596)	–
Repayment of a loan advanced to a contractual joint venture	942	135,345
Repayment of loans advanced to a fellow subsidiary	–	994
Disposal of subsidiaries and an associate	–	693,528
Proceeds from disposal of fixed assets	2,800	11,694
Proceeds from disposal of investment properties	1,500	12,670
Proceeds from disposal of a deconsolidated subsidiary	46,895	–
Proceeds from disposal of investment securities	180	–
Decrease in restricted/pledged cash and bank balances	8,500	17,513
Decrease in non-pledged bank deposits with original maturity of more than three months when acquired	3,400	500
Net cash inflow/(outflow) from investing activities	(13,239)	248,064

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (continued)

For the six months ended 30 June 2004

	For the six months ended 30 June	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of new Ordinary Shares	16,631	32,196
Share issue expenses	(5)	–
New bank loans	–	893,340
Repayment of bank loans	(636,931)	(1,154,747)
Loans from the immediate holding company	–	202,157
Repayment of loans to the immediate holding company	–	(158,444)
Repayment of transferable loan instruments	–	(265,034)
Redemption of floating rate notes	–	(245,282)
Repayment of notes payable and GH Holdings debts	–	(174,958)
Repayment of straight bonds	(497,320)	–
Redemption of 2005 guaranteed bonds	–	(417,085)
Repayment of provision for bank loans guaranteed	–	(358,521)
Net cash outflow from financing activities	(1,117,625)	(1,646,378)
NET DECREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of period	1,270,629	1,770,410
Effect of foreign exchange rate changes, net	5,063	340
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,160,769	1,124,576
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	775,673	704,249
Non-pledged bank deposits with original maturity of less than three months when acquired	385,096	420,327
	1,160,769	1,124,576

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2004

1. ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies and basis of presentation adopted in the preparation of these interim financial statements are consistent with those used in the Group's audited financial statements for the year ended 31 December 2003.

2. SEGMENT INFORMATION

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

The Group's operating businesses are organised and managed separately, according to the nature of products and services provided, with each segment representing a strategic business unit which offers different products and 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 in the mainland of the People's Republic of China ("PRC" or "Mainland China") that are held for rental income purposes. This segment also provides property management services for certain residential and commercial properties;
- (ii) The property development segment engages in the development of residential and shopping arcades in Mainland China;
- (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 Mainland China;
- (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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. SEGMENT INFORMATION (continued)

Discontinued:

The following segments were discontinued during the period ended 30 June 2003 upon the completion of the Disposal Transaction as set out in note 3 to the financial statements:

- (i) The Brewery Operation (note 3) segment produced beer in Shenzhen and distributed and sold it in both Mainland China and Hong Kong;
- (ii) The Tannery Operation (note 3) segment processed raw leather to finished leather for use in the leather ware products production industry;
- (iii) The Merchandise Trading Operation (note 3) segment purchased commodities and sold them to customers;
- (iv) The Malting Operation (note 3) segment produced malts for use in the brewing production in Mainland China; and
- (v) The Tours Operation (note 3) segment organised tours in Hong Kong and Mainland China and provided transportation services in Hong Kong and between Hong Kong and Mainland China.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, except that, in respect of the Mainland China segment, the revenue includes mainly the segment revenue derived from the assets of the water distribution segment located in Mainland China, and also the revenue earned from the Hong Kong Special Administrative Region ("SAR") Government in connection with the supply of water. The directors consider this a fairer presentation of information relating to this geographical segment.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. SEGMENT INFORMATION (continued)

(a) Business segments

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

	Continuing segments											
	Property Investment		Property Development		Toll Roads and Bridges		Water Distribution		Electric Power Generation		Hotel Operations and Management	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
Segment revenue:												
Sales to external customers	158,274	151,573	-	-	4,558	4,111	1,555,030	1,289,740	277,680	268,867	95,202	65,475
Intersegment sales	31,205	31,553	-	-	-	-	-	-	-	-	-	337
Other revenue from external sources (note)	3,375	2,315	-	-	25	36	-	1,006	-	-	2,176	421
Other revenue from intersegment (note)	-	-	-	-	-	-	-	-	-	-	-	-
Exchange gains/(losses), net	6	(11)	-	-	(593)	-	(8,992)	-	22	2	243	288
Total	192,860	185,430	-	-	3,990	4,147	1,546,038	1,290,746	277,702	268,869	97,621	66,521
Segment results	127,226	62,555	(95)	-	277	(1,282)	787,474	699,599	29,726	65,128	39,689	(20,113)
Interest income												
Unallocated other operating income/(expenses), net												
Profit from operating activities												
Finance costs												
Share of profits less losses of:												
Jointly-controlled entities	-	-	-	-	33,869	32,796	-	-	-	-	-	-
Associates	-	-	-	-	-	-	-	-	31,144	12,220	-	-
Profit before tax												
Tax												
Profit before minority interests												
Minority interests												
Net profit from ordinary activities attributable to shareholders												
Other financial information:												
Depreciation and amortisation	1,960	2,515	-	-	2,580	2,696	517,238	392,829	23,944	21,265	4,904	5,203
Unallocated amounts												
Impairment losses recognised in the profit and loss account												
Unallocated amounts	-	-	-	-	-	-	-	-	30,000	-	-	-

Note: Excluding exchange gains/(losses), net

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Continuing segments						Discontinued segments					
	Department Stores For the six months ended 30 June		Corporate and other For the six months ended 30 June		Subtotal For the six months ended 30 June		Brewery Operation For the six months ended 30 June		Tannery Operation For the six months ended 30 June		Merchandise Trading Operation For the six months ended 30 June	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HKS'000 (Unaudited)	HKS'000 (Unaudited)	HKS'000 (Unaudited)	HKS'000 (Unaudited)	HKS'000 (Unaudited)	HKS'000 (Unaudited)	HKS'000 (Unaudited)	HKS'000 (Unaudited)	HKS'000 (Unaudited)	HKS'000 (Unaudited)	HKS'000 (Unaudited)	HKS'000 (Unaudited)
Segment revenue:												
Sales to external customers	444,040	378,793	21	2,106	2,534,805	2,160,665	-	110,513	-	64,274	-	-
Intersegment sales	-	-	-	-	31,205	31,890	-	-	-	-	-	-
Other revenue from												
external sources (note)	2,849	3,109	4,856	25,170	13,281	32,057	-	3,374	-	149	-	-
Other revenue from												
intersegment (note)	-	-	2,410	3,643	2,410	3,643	-	-	-	-	-	-
Exchange gains/(losses), net	(5)	308	(1,236)	1,586	(10,555)	2,173	-	(25)	-	105	-	-
Total	446,884	382,210	6,051	32,505	2,571,146	2,230,428	-	113,862	-	64,528	-	-
Segment results	34,740	24,570	(12,398)	36,417	1,006,639	866,874	-	11,690	-	2,350	-	-
Interest income												
Unallocated other operating income/(expenses), net												
Profit from operating activities												
Finance costs												
Share of profits less losses of:												
Jointly-controlled entities	-	-	-	-	33,869	32,796	-	-	-	-	-	-
Associates	3,861	(813)	-	1,474	35,005	12,881	-	-	-	-	-	-
Profit before tax												
Tax												
Profit before minority interests												
Minority interests												
Net profit from ordinary activities attributable to shareholders												
Other financial information:												
Depreciation and amortisation	9,218	11,068	1,354	1,980	561,198	437,556	-	22,055	-	4,162	-	-
Unallocated amounts												
Impairment losses recognised in the profit and loss account												
Unallocated amounts	-	-	-	20,000	30,000	20,000	-	-	-	-	-	-

Note: Excluding exchange gains/(losses), net

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Discontinued segments						Eliminations		Consolidated	
	Malting Operation		Tours Operation		Subtotal		For the six months ended 30 June		For the six months ended 30 June	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
Segment revenue:										
Sales to external customers	-	102,047	-	61,325	-	338,159	-	-	2,534,805	2,498,824
Intersegment sales	-	19,670	-	-	-	19,670	(31,205)	(51,560)	-	-
Other revenue from external sources (note)	-	1,429	-	128	-	5,080	-	-	13,281	37,137
Other revenue from intersegment (note)	-	-	-	-	-	-	(2,410)	(3,643)	-	-
Exchange gains/(losses), net	-	378	-	-	-	458	-	-	(10,555)	2,631
Total	-	123,524	-	61,453	-	363,367	(33,615)	(55,203)	2,537,531	2,538,592
Segment results	-	15,098	-	(240)	-	28,898	-	-	1,006,639	895,772
Interest income								6,428	11,159	
Unallocated other operating income/(expenses), net								10,326	(60,447)	
Profit from operating activities								1,023,393	846,484	
Finance costs								(399,143)	(334,520)	
Share of profits less losses of:								624,250	511,964	
Jointly-controlled entities	-	-	-	-	-	-	-	-	33,869	32,796
Associates	-	-	-	803	-	803	-	-	35,005	13,684
Profit before tax								693,124	558,444	
Tax								(97,588)	(103,574)	
Profit before minority interests								595,536	454,870	
Minority interests								(127,060)	(134,787)	
Net profit from ordinary activities attributable to shareholders								468,476	320,083	
Other financial information:										
Depreciation and amortisation	-	9,494	-	12	-	35,723	-	-	561,198	473,279
Unallocated amounts								120	119	
								561,318	473,398	
Impairment losses recognised in the profit and loss account	-	-	-	-	-	-	-	-	30,000	20,000
Unallocated amounts								-	62,362	
								30,000	82,362	

Note: Excluding exchange gains/(losses), net

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. SEGMENT INFORMATION (continued)

(b) Geographical segments

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

	Hong Kong		Mainland China		Other		Eliminations		Consolidated	
	For the six months		For the six months		For the six months		For the six months		For the six months	
	ended 30 June		ended 30 June		ended 30 June		ended 30 June		ended 30 June	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
Segment revenue:										
Sales to external customers	64,071	115,720	2,470,734	2,382,127	-	977	-	-	2,534,805	2,498,824
Other revenue from external sources (Note)	6,936	4,121	6,345	33,016	-	-	-	-	13,281	37,137
Exchange gains/(losses), net	(966)	1,711	(9,589)	920	-	-	-	-	(10,555)	2,631
Total	70,041	121,552	2,467,490	2,416,063	-	977	-	-	2,537,531	2,538,592

Note: Excluding exchange gains/(losses), net

3. DISCONTINUED OPERATIONS

In February 2003, the Company entered into a conditional agreement (the "Disposal Agreement") with GDH Limited, the Company's immediate holding company, 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 Kingway Brewery Holdings Limited (formerly known as Guangdong Brewery Holdings Limited) ("Kingway Brewery"), which with its subsidiaries carried out the Group's Brewery Operation;
- The Group's entire 375,100,000 shares in the then issued share capital of Guangdong Tannery Limited ("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 Development Limited ("Supertime"), which with its subsidiaries carried out the Group's Malting Operation;
- The Group's entire 100% equity interest in Guangdong (H.K.) Tours Company Limited ("GD Tours"), which with its subsidiaries carried out the Group's Tours Operation;
- The Group's entire 24.8% equity interest in 廣州市番禺粵海房地產有限公司 (Guangzhou Panyu Yue Hai Real Estate Limited) ("Guangzhou Panyu"), 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. DISCONTINUED OPERATIONS (continued)

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, Kingway 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.

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

	Brewery Operation		Tannery Operation		Merchandise Trading Operation	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	-	110,513	-	64,274	-	-
Cost of sales	-	(68,774)	-	(57,984)	-	-
Gross profit	-	41,739	-	6,290	-	-
Other revenue and gains	-	3,794	-	292	-	-
Selling and distribution costs	-	(26,495)	-	(527)	-	-
Administrative expenses	-	(6,903)	-	(3,667)	-	-
Other operating expenses, net	-	-	-	-	-	-
Profit/(loss) from operating activities	-	12,135	-	2,388	-	-
Finance costs	-	-	-	(2,479)	-	-
Share of profits less losses of associates	-	-	-	-	-	-
Profit/(loss) before tax	-	12,135	-	(91)	-	-
Tax	-	(574)	-	-	-	-
Profit/(loss) before minority interests	-	11,561	-	(91)	-	-
Minority interests	-	(5,371)	-	-	-	-
Net profit/(loss) for the period	-	6,190	-	(91)	-	-

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. DISCONTINUED OPERATIONS (continued)

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

	Brewery Operation		Tannery Operation		Merchandise Trading Operation	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Operating	-	7,549	-	(42,864)	-	-
Investing	-	(12,038)	-	9,308	-	-
Financing	-	153	-	(5,930)	-	-
Net cash inflows/(outflows)	-	(4,336)	-	(39,486)	-	-

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	
	As at	As at	As at	As at	As at	As at
	30 June	31 December	30 June	31 December	30 June	31 December
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Total assets	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-
Net assets	-	-	-	-	-	-

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. DISCONTINUED OPERATIONS (continued)

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

	Malting Operation		Tours Operation		Total	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	-	102,047	-	61,325	-	338,159
Cost of sales	-	(76,413)	-	(53,645)	-	(256,816)
Gross profit	-	25,634	-	7,680	-	81,343
Other revenue and gains	-	1,843	-	155	-	6,084
Selling and distribution costs	-	(5,077)	-	(838)	-	(32,937)
Administrative expenses	-	(7,267)	-	(4,926)	-	(22,763)
Other operating expenses, net	-	-	-	(2,283)	-	(2,283)
Profit/(loss) from operating activities	-	15,133	-	(212)	-	29,444
Finance costs	-	(3,972)	-	(1,818)	-	(8,269)
Share of profits less losses of associates	-	-	-	803	-	803
Profit/(loss) before tax	-	11,161	-	(1,227)	-	21,978
Tax	-	(955)	-	(265)	-	(1,794)
Profit/(loss) before minority interests	-	10,206	-	(1,492)	-	20,184
Minority interests	-	(5,570)	-	-	-	(10,941)
Net profit/(loss) for the period	-	4,636	-	(1,492)	-	9,243

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. DISCONTINUED OPERATIONS (continued)

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

	Malting Operation		Tours Operation		Total	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Operating	-	(29,424)	-	(12,835)	-	(77,574)
Investing	-	(341)	-	5,204	-	2,133
Financing	-	95,273	-	-	-	89,496
Net cash inflows/(outflows)	-	65,508	-	(7,631)	-	14,055

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		Total	
	As at 30 June 2004	As at 31 December 2003	As at 30 June 2004	As at 31 December 2003	As at 30 June 2004	As at 31 December 2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Total assets	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-
Net assets	-	-	-	-	-	-

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Cost of inventories sold*	495,892	547,150
Depreciation	259,861	171,047
Amortisation of deferred expenses*	18	545
Amortisation of reusable packaging materials*	–	2,023
Amortisation of operating right*	245,967	244,616
Amortisation of prepaid rental*	55,352	55,048
Interest income	(6,428)	(11,159)
Gain on disposal of subsidiaries and an associate, net	–	(19,475)
Negative goodwill recognised as income**	(5,825)	(5,784)
Material (profit)/loss items included in other operating expenses, net:		
Amortisation of goodwill	120	119
Investment property revaluation deficit	10,602	72,075
Hotel property revaluation deficit	–	37,000
Impairment of an interest in a jointly-controlled entity	–	60,000
Impairment of investment securities	–	2,362
Impairment of properties under development	–	20,000
Impairment of fixed assets	30,000	–
Loss on disposal of fixed assets	3,210	–
Write-back of provision against an amount due from a fellow subsidiary	–	(994)
Write-back of provision against bad and doubtful debts (Note)	–	(64,041)
Provision for doubtful debts	2,657	–

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

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

Note: In prior period, the balance included an amount of HK\$30,000,000 representing partial recovery of two loans of Yue Sheng Finance Limited ("Yue Sheng Finance"), a wholly-owned subsidiary of the Company, which was involved in certain legal proceedings in both Mainland China and Hong Kong. On 14 July 2003, these legal proceedings against Yue Sheng Finance was discontinued.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. FINANCE COSTS

	For the six months ended 30 June	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Interest on bank loans and other borrowings repayable:		
Within five years*	9,510	58,606
Over five years**	168,678	223,861
Interest on provision for bank loans guaranteed	–	12,714
	178,188	295,181
Less: Interest included in prepaid construction cost	–	(39,862)
	178,188	255,319
Finance charges incurred on interest rate swap agreements, net	220,955	79,201
Total finance costs for the period	399,143	334,520

* Included interest expense on straight bonds and convertible bonds of HK\$4,550,000 (2003: Nil) and HK\$4,946,000 (2003: Nil), respectively.

** Net of government grants of HK\$33,613,000 (2003: Nil) in respect of subsidies for interest expenses.

6. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. 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.

	For the six months ended 30 June	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Group		
Current tax:		
Hong Kong	–	740
Mainland China	73,762	60,530
	73,762	61,270
Deferred tax, net	14,674	36,649
	88,436	97,919
Share of tax attributable to:		
Jointly-controlled entities	1,659	4,315
Associates	7,493	1,340
Total tax charge for the period	97,588	103,574

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. DIVIDEND

	For the six months ended 30 June	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Interim dividend of 2.5 HK cents (2003: Nil) per ordinary share	136,997	–

As at 30 June 2003, the accumulated (but undeclared) fixed dividends on the Company's 3¼% redeemable cumulative preference shares (the "Preference Shares") amounted to HK\$112,445,000. 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 (the "Capital Reduction") on 24 December 2003 (the "Effective Date"), the Preference Shares were cancelled and the Company's obligation to settle the accumulated but undeclared dividends on the Preference Shares up to the Effective Date were waived and in replacement therewith the Company issued the straight bonds (note 12) and the convertible bonds (note 12) to the beneficial owners of the Preference Shares. Further details of the Capital Reduction and the Preference Share cancellation are set out in the Group's audited financial statements for the year ended 31 December 2003.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the six months ended 30 June 2004 and 2003 are based on:

	For the six months ended 30 June	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Earnings:		
Net profit attributable to holders of Ordinary Shares	468,476	320,083
Less: Provision for Preference Share redemption premium*	–	(14,146)
Preference Share dividend*	–	(20,219)
Earnings for the purpose of basic earnings per share	468,476	285,718
Add: Interest saving on convertible bonds	4,946	–
Earnings for the purpose of diluted earnings per share	473,422	285,718

* As a result of the Preference Share cancellation, the Company's obligation to provide for Preference Share redemption premium and to accrue for the Preference Share dividend was waived in December 2003.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. EARNINGS PER SHARE (continued)

	For the six months ended 30 June	
	2004 (Unaudited)	2003 (Unaudited)
Number of shares:		
Weighted average number of Ordinary Shares in issue	5,389,910,199	5,181,919,384
Effect of Additional Shares to be issued arising from the Acquisition from the date when all necessary conditions have been satisfied	132,000,000	231,000,000
For the purpose of basic earnings per share	<u>5,521,910,199</u>	<u>5,412,919,384</u>
Weighted average number of Ordinary Shares in issue	5,389,910,199	5,181,919,384
Assumed issued at no consideration on deemed exercise of share options with dilutive effect outstanding during the period	121,131,210	113,399,165
Assumed issued on deemed conversion of convertible bonds into Ordinary Shares	268,801,460	–
Effect of Additional Shares to be issued arising from the Acquisition from the beginning of period	132,000,000	330,000,000
For the purpose of diluted earnings per share	<u>5,911,842,869</u>	<u>5,625,318,549</u>

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 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 circular of the Company in respect of the Acquisition dated 15 September 2000.

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. EARNINGS PER SHARE (continued)

The effect of the outstanding 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 periods.

The share options expiring on 6 May 2009 (2003: share options expired on 18 August 2003 and 16 September 2003) had anti-dilutive effect on the basic earnings per share and have not been included in the diluted earnings per share calculation for the current period.

In prior period, the Preference Shares had anti-dilutive effect in the calculation of the Company's basic earnings per share.

9. RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 30 June 2004, included in the receivables, prepayments and deposits are trade receivables, net of provisions, of HK\$385,551,000 (31 December 2003: HK\$531,554,000) 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.

As at 30 June 2004, an aged analysis of the Group's trade receivables, based on payment due date, is as follows:

	As at 30 June 2004 HK\$'000 (Unaudited)	As at 31 December 2003 HK\$'000 (Audited)
Within 3 months	312,331	530,455
More than 3 months and less than 6 months	72,404	1,494
More than 6 months and less than 1 year	383	880
More than 1 year	11,101	10,559
	<hr/>	<hr/>
	396,219	543,388
Less: Provision for doubtful debts	(10,668)	(11,834)
	<hr/>	<hr/>
	385,551	531,554

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND BANK BALANCES

	As at 30 June 2004 HK\$'000 (Unaudited)	As at 31 December 2003 HK\$'000 (Audited)
Cash and bank balances (note (a))	775,673	827,758
Time deposits	460,480	521,655
Trust account (note (b))	25,500	34,000
	<hr/>	<hr/>
Less: Restricted cash and bank balances (note (b))	1,261,653 (25,500)	1,383,413 (34,000)
	<hr/>	<hr/>
Cash and cash equivalents	1,236,153	1,349,413

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 30 June 2004, cash and bank balances retained for such purpose amounted to HK\$211,073,000 (31 December 2003: HK\$210,455,000).
- (b) Pursuant to an undertaking given to the court by the Company in its capital reduction application 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 and who have not consented to the Capital 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 30 June 2004, the amount standing to the credit of the Trust Account is HK\$25,500,000 (31 December 2003: 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. TRADE PAYABLES

As at 30 June 2004, an aged analysis of the Group's trade payables, based on payment due date, is as follows:

	As at 30 June 2004 HK\$'000 (Unaudited)	As at 31 December 2003 HK\$'000 (Audited)
Within 3 months	75,394	101,306
More than 3 months and less than 6 months	3,780	2,356
More than 6 months and less than 1 year	1,247	253
More than 1 year	2,100	3,300
	82,521	107,215

12. BANK AND OTHER INTEREST-BEARING BORROWINGS

	As at 30 June 2004			As at 31 December 2003		
	Current liabilities HK\$'000 (Unaudited)	Non-current liabilities HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)	Current liabilities HK\$'000 (Audited)	Non-current liabilities HK\$'000 (Audited)	Total HK\$'000 (Audited)
Bank loans	224,701	13,163,927	13,388,628	237,570	13,779,528	14,017,098
Straight Bonds	-	-	-	-	497,320	497,320
Convertible Bonds	-	497,320	497,320	-	497,320	497,320
GH Holdings Debts	-	1,231,284	1,231,284	-	1,231,284	1,231,284
	224,701	14,892,531	15,117,232	237,570	16,005,452	16,243,022

Pursuant to an entrusted loan agreement dated 17 May 2004, the Company and 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) ("Yue Gang Investment"), the minority shareholder of WaterCo and also the Company's ultimate holding company, advanced entrusted loans of RMB198,000,000 and RMB2,000,000, respectively, to WaterCo through a bank to finance its working capital. Such loans are unsecured, bear interest at the designated rates as published by the People's Bank of China from time to time and are repayable within one year. As at 30 June 2004, portion of the Group's entrusted loans amounting to RMB198,000,000 (equivalent to HK\$186,581,000) and the related interest income and interest expense among the Group companies during the period were eliminated in the condensed consolidated financial statements.

The amount of entrusted loan financed by Yue Gang Investment was included in the condensed consolidated financial statements as the amount due to the ultimate holding company (note 17).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. NON-INTEREST-BEARING BORROWING

The non-interest-bearing borrowing represents a loan facility granted by the Hong Kong SAR Government to the Guangdong Provincial Government for the Dongshen Water Supply Phase IV Renovation Project (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 SAR 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.

14. DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

Except for the amounts of HK\$78,912,000 (31 December 2003: HK\$78,543,000) which are not repayable within the next twelve months, the amounts due to minority shareholders of subsidiaries as at the balance sheet date are unsecured, interest-free, and have no fixed terms of repayment.

15. DUE TO FELLOW SUBSIDIARIES

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

16. DUE TO THE IMMEDIATE HOLDING COMPANY

The amounts due to the immediate holding company are unsecured, interest-free, and have no fixed terms of repayment.

17. DUE TO THE ULTIMATE HOLDING COMPANY

The amount due to the ultimate holding company is unsecured, bears interest at the designated rates as published by the People's Bank of China from time to time and is repayable within one year.

18. SHARE CAPITAL

	As at 30 June 2004 HK\$'000 (Unaudited)	As at 31 December 2003 HK\$'000 (Audited)
Authorised:		
8,000,000,000 (31 December 2003: 8,000,000,000) ordinary shares of HK\$0.50 each ("Ordinary Share")	<u>4,000,000</u>	<u>4,000,000</u>
Issued and fully paid:		
5,463,382,672 (31 December 2003: 5,244,522,672) Ordinary Shares	<u>2,731,691</u>	<u>2,622,261</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. SHARE CAPITAL (continued)

On 27 February 2004, 198,000,000 Additional Shares were issued and credited as fully paid at the price of HK\$0.92 per share to GDH Limited pursuant to the Earnout Agreement.

Regarding the issue price of the Additional Shares, as stated in the circular of the Company in respect of the Acquisition, following the negotiation with GDH Limited, 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 SSAP 30 "Business combinations" becoming effective and applicable commencing for the year ended 31 December 2001, the Company is required under SSAP 30 to record in the financial statements the issue price of each of the Additional Shares that are issued or 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. Further details of the share issue price are set out in the Group's audited financial statements for the year ended 31 December 2003.

During the six months ended 30 June 2004, the subscription rights attaching to 20,860,000 share options were exercised at subscription prices ranging from HK\$0.74 to HK\$1.22 per Ordinary Share (Note 19), resulting in the issue of 20,860,000 Ordinary Shares for a total consideration, net of expenses, of HK\$16,626,000.

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

	Number of Ordinary Shares in issue	Ordinary Shares HK\$'000	Ordinary Share premium account HK\$'000	Total HK\$'000
At 1 January 2004	5,244,522,672	2,622,261	1,730,646	4,352,907
Issue of Additional Shares	198,000,000	99,000	83,160	182,160
Share options exercised	20,860,000	10,430	6,201	16,631
Share issue expenses	—	—	(5)	(5)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2004	<u>5,463,382,672</u>	<u>2,731,691</u>	<u>1,820,002</u>	<u>4,551,693</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. SHARE OPTION SCHEMES

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

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 2004	Grant of share options during the period ##	Cancelled/ lapsed during the period	Exercised during the period	At 30 June 2004				At grant date of options HK\$	At exercise date of options HK\$
Directors (Note)										
WU Jiesi	7,000,000	-	-	(7,000,000)	-	01.11.2001	02.05.2002 to 01.05.2007	0.74	0.73	1.38
	9,000,000	-	-	(9,000,000)	-	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81	1.38
	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	-
	-	3,000,000	-	-	3,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	-
	-	2,500,000	-	-	2,500,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	-
LI Wenyue	7,000,000	-	-	-	7,000,000	10.08.2001	11.02.2002 to 10.02.2007	0.5312	0.66	-
	9,000,000	-	-	-	9,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81	-
	6,000,000	-	-	-	6,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	-
	3,000,000	-	-	-	3,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	-
	-	3,000,000	-	-	3,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	-
	-	2,500,000	-	-	2,500,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	-
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	-
	-	3,000,000	-	-	3,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	-
	-	2,500,000	-	-	2,500,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	-

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. SHARE OPTION SCHEMES (continued)

Name or category of participant	Number of share options					Date of grant of share options* (DD.MM.YYYY)	Exercise period of share options (both dates inclusive)# (DD.MM.YYYY)	Exercise price of share options** HK\$	Price of the Company's Ordinary Shares***	
	At 1 January 2004	Grant of share options during the period ##	Cancelled/ lapsed during the period	Exercised during the period	At 30 June 2004				At grant date of options HK\$	At exercise date of options HK\$
CHAN Cho Chak, John	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	-
	-	1,000,000	-	-	1,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	-
	-	450,000	-	-	450,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	-
LI Kwok Po, David	1,000,000	-	-	(1,000,000)	-	01.11.2001	02.05.2002 to 01.05.2007	0.74	0.73	1.57
	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	-
	-	1,000,000	-	-	1,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	-
	-	450,000	-	-	450,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	-
CHENG Mo Chi, Moses	1,000,000	-	-	(1,000,000)	-	01.11.2001	02.05.2002 to 01.05.2007	0.74	0.73	1.37
	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	-
	-	1,000,000	-	-	1,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	-
	-	450,000	-	-	450,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	-
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	-
	-	1,000,000	-	-	1,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	-
	-	450,000	-	-	450,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	-

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. SHARE OPTION SCHEMES (continued)

Name or category of participant	Number of share options					Date of grant of share options* (DD.MM.YYYY)	Exercise period of share options (both dates inclusive)# (DD.MM.YYYY)	Exercise price of share options** HK\$	Price of the Company's Ordinary Shares***	
	At 1 January 2004	Grant of share options during the period ##	Cancelled/ lapsed during the period	Exercised during the period	At 30 June 2004				At grant date of options HK\$	At exercise date of options HK\$
LI Wai Keung	700,000	-	-	-	700,000	01.11.2001	02.05.2002 to 01.05.2007	0.74	0.73	-
	1,500,000	-	-	-	1,500,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81	-
	1,500,000	-	-	-	1,500,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	-
	1,500,000	-	-	-	1,500,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	-
	-	1,500,000	-	-	1,500,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	-
	-	1,000,000	-	-	1,000,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	-
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	-
	-	1,000,000	-	-	1,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	-
WANG Man Kwan, Paul	1,000,000	-	-	-	1,000,000	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	-
	-	1,500,000	-	-	1,500,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	-
	-	1,000,000	-	-	1,000,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	-
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	-
	-	1,000,000	-	-	1,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	-
	-	650,000	-	-	650,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	-

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. SHARE OPTION SCHEMES (continued)

Name or category of participant	Number of share options					Date of grant of share options* (DD.MM.YYYY)	Exercise period of share options (both dates inclusive)# (DD.MM.YYYY)	Exercise price of share options** HK\$	Price of the Company's Ordinary Shares***	
	At 1 January 2004	Grant of share options during the period ##	Cancelled/ lapsed during the period	Exercised during the period	At 30 June 2004				At grant date of options HK\$	At exercise date of options HK\$
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	-
	-	1,000,000	-	-	1,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	-
	-	650,000	-	-	650,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	-
	<u>91,200,000</u>	<u>31,600,000</u>	<u>-</u>	<u>(19,000,000)</u>	<u>103,800,000</u>					
Others										
Former Directors (Note)	19,000,000	-	-	-	19,000,000	10.08.2001	11.02.2002 to 10.02.2007	0.5312	0.66	-
	18,000,000	-	-	-	18,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81	-
	12,000,000	-	-	-	12,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	-
	5,000,000	-	-	-	5,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	-
	-	5,000,000	-	-	5,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	-
Employees	41,800,000	-	-	-	41,800,000	10.08.2001	11.02.2002 to 10.02.2007	0.5312	0.66	-
	10,100,000	-	-	(400,000)	9,700,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81	1.21
	59,860,000	-	-	(1,060,000)	58,800,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	1.46
	29,200,000	-	-	(400,000)	28,800,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	1.29
	-	39,600,000	-	-	39,600,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	-
	-	49,460,000	-	-	49,460,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	-
Consultant	31,393,939	-	-	-	31,393,939	03.06.2002	21.12.2002 to 03.06.2007	0.816	0.81	-
	<u>226,353,939</u>	<u>94,060,000</u>	<u>-</u>	<u>(1,860,000)</u>	<u>318,553,939</u>					
Total	<u>317,553,939</u>	<u>125,660,000</u>	<u>-</u>	<u>(20,860,000)</u>	<u>422,353,939</u>					

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. SHARE OPTION SCHEMES (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 of Hong Kong Limited (the "Stock Exchange") on the business day prior to the date on 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 options granted during the period, on 6 February 2004 and 24 May 2004.

Note: As at 1 January 2004, a total of 54,000,000 options were granted to YE Xuquan, ZHANG Yaping and YU Lai, directors of the Company who resigned during the period. A total of 5,000,000 options were granted to these directors during the period prior to their respective dates of resignation and none of the options granted to these directors were exercised, cancelled or lapsed during the period up to their respective dates of resignation. These options were reclassified and included in the "Former Directors" category in the above movement schedule.

Subsequent to the balance sheet date, a total of 16,500,000 share options, with subscription prices ranging from HK\$0.5312 to HK\$1.22 per Ordinary Share, were exercised by certain directors and employees of the Group. The exercise of these options resulted in the issue of 16,500,000 Ordinary Shares and new share capital of HK\$8,250,000 and share premium of HK\$2,639,000 (before share issue expenses).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. RESERVES

	Ordinary Share premium account HK\$'000 (Unaudited)	Preference Share premium account HK\$'000 (Unaudited)	Ordinary Shares to be issued HK\$'000 (Unaudited)	Capital reserve HK\$'000 (Unaudited)	Expansion fund reserve HK\$'000 (Unaudited)	Exchange fluctuation reserve HK\$'000 (Unaudited)	Special reserve HK\$'000 (Unaudited)	Retained earnings/ accumulated losses) HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
At 1 January 2004	1,730,646	-	303,600	3,082,617	157,711	(55,508)	119,721	971,257	6,310,044
Share options exercised	6,201	-	-	-	-	-	-	-	6,201
Issue of Additional Shares (note 18)	83,160	-	(182,160)	-	-	-	-	-	(99,000)
Share issue expenses	(5)	-	-	-	-	-	-	-	(5)
Net profit for the period	-	-	-	-	-	-	-	468,476	468,476
Transfer from the profit and loss account	-	-	-	-	1,123	-	-	(1,123)	-
Interim dividend declared	-	-	-	-	-	-	-	(136,997)	(136,997)
Transfer from retained earnings during the period in accordance with the Undertaking	-	-	-	-	-	-	366,071	(366,071)	-
Transfer to retained earnings upon issue of new Ordinary Shares during the period	-	-	-	-	-	-	(198,791)	198,791	-
Exchange realignment	-	-	-	-	-	2,558	-	-	2,558
At 30 June 2004	1,820,002	-	121,440	3,082,617	158,834	(52,950)	287,001	1,134,333	6,551,277
At 1 January 2003	5,927,889	665,142	242,880	3,605,864	145,313	(66,611)	-	(4,282,350)	6,238,127
Share options exercised	4,046	-	-	-	-	-	-	-	4,046
Release on disposal of subsidiaries and an associate	-	-	-	(462,527)	(36,336)	18,876	-	436,182	(43,805)
Net profit for the period	-	-	-	-	-	-	-	320,083	320,083
Exchange realignment	-	-	-	-	-	576	-	-	576
Additional Shares to be issued as a result of the Acquisition	-	-	60,720	(60,720)	-	-	-	-	-
At 30 June 2003	5,931,935	665,142	303,600	3,082,617	108,977	(47,159)	-	(3,526,085)	6,519,027

(Note)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. RESERVES (continued)

Note: 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.

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 30 June 2004, the Limit of the Special Reserve, as adjusted, is HK\$2,778,173,317 (31 December 2003: HK\$2,976,964,517) and the amount standing to the credit of the Special Reserve is HK\$287,001,021 (31 December 2003: HK\$119,721,532).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. NOTES TO CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

- (i) As at 31 December 2003, the Group recorded a long term deposit of RMB54,450,000 (equivalent to HK\$51,069,000) paid for the acquisition of additional 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 acquisition was completed in June 2004, as further detailed in note (b) (ii) below. The acquisition has no cash flow impact to the Group during the period.
- (ii) Pursuant to a deed of settlement entered into by the Group, its jointly-controlled entity, Guangdong Transport Investment (BVI) Company Limited ("GD Transport"), its co-shareholder ("the Co-Shareholder") in GD Transport and Xin Yue Qinglian Company Limited ("Xin Yue Qinglian"), the Group and the Co-Shareholder accepted the transfer by GD Transport of the respective pro-rata portion of both (1) GD Transport's 100% interest in Xin Yue Qinglian and (2) GD Transport's shareholder loan to Xin Yue Qinglian to respectively the Group and the Co-Shareholder in full and final settlement of the sums of approximately HK\$198 million and HK\$190 million due by GD Transport to the Group and the Co-Shareholder respectively.

Xin Yue Qinglian is an investment holding company which beneficially owned 14.18% interest in 廣東清連公路發展有限公司 (Guangdong Qinglian Highway Development Company Ltd.), a joint venture company established in the PRC and operating the Qinglian Highway.

The transaction was completed in January 2004 and Xin Yue Qinglian has become another jointly-controlled entity of the Group. The transaction has no cash flow impact to the Group during the period.

- (iii) As at 31 December 2003, an advance of RMB65,000,000 (equivalent to HK\$61,139,000) was made by the Group to its associate as the Group's capital contribution in that associate. During the period, upon the completion of the capital injection verification process, the advance was recognised by the associate as a capital contribution and accordingly, increased the Group's share of net assets in the associate. The transaction has no cash flow impact to the Group during the period.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. NOTES TO CONDENSED CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Acquisition of additional interests in subsidiaries

- (i) During the six months ended 30 June 2004, the Company acquired an additional 0.12% interest in GH Holdings by exercising its right of first refusal as set out in the shareholders' agreement of GH Holdings. The aggregate consideration for the acquisitions was HK\$6,276,000. As a result of these acquisitions, the Company increased its interests in GH Holdings to 82.78% and recognised negative goodwill of HK\$427,000.
- (ii) In June 2004, the Group completed its acquisition of additional equity interests of 5.76% and 0.915% in Teem Holdings Limited and 廣東天貿(集團)股份有限公司 (Guang Dong Teem (Holdings) Ltd.), respectively. The respective consideration for the acquisitions amounted to RMB45,879,000 (equivalent to HK\$43,035,000) and RMB8,571,000 (equivalent to HK\$8,039,000). As a result of these acquisitions, the Group recognised negative goodwill of HK\$59,334,000.

(c) Disposal of subsidiaries and an associate

- (i) In January 2004, the Group completed the disposal of its entire 70% equity interest in Guang Dong Nanhua Cement Limited ("Nanhua Cement"), together with the debt owed by Nanhua Cement to the Group, for an aggregate cash consideration of RMB50,000,000 (equivalent to HK\$46,895,000). The disposal resulted in no material gain or loss to the Group.
- (ii) In March 2003, the Disposal Transaction was completed and certain subsidiaries and an associate were sold to GDH Limited. Details of the Disposal Transaction were set out in note 3 to the condensed consolidated financial statements.
- (iii) In May 2003, the Group completed the disposal of its entire 60% interest in Guangdong Parking Limited ("GD Parking"), together with an assignment of the Group's receivables from it, to an independent third party (the "Purchaser") at a nominal value of HK\$1. As an integral part of this transaction, the Group and the purchaser advanced approximately HK\$7.9 million and HK\$13 million, respectively, to GD Parking for the repayment of its then outstanding bank loan and, thereafter, the Group was released from all obligations under its guarantee for GD Parking's bank loan.
- (iv) In May 2003, the Group completed the disposal of its entire interest in Suzhou Yuehai Real Estate Development Co., Ltd. at a consideration of RMB4,500,000 (equivalent to HK\$4,240,000).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. NOTES TO CONDENSED CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Cash and cash equivalents

	As at 30 June 2004 HK\$'000 (Unaudited)	As at 30 June 2003 HK\$'000 (Unaudited)
Cash and cash equivalents in the condensed consolidated balance sheet (Note 10)	1,236,153	1,124,576
Non-pledged time deposits with original maturity of three months or more when acquired	(75,384)	–
Cash and cash equivalents in the condensed consolidated cash flow statement	<u>1,160,769</u>	<u>1,124,576</u>

22. COMMITMENTS

- (a) The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for term of one year.

At 30 June 2004, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	As at 30 June 2004 HK\$'000 (Unaudited)	As at 31 December 2003 HK\$'000 (Audited)
Within one year	145	312
In the second to fifth years, inclusive	–	890
After five years	–	17,363
	<u>145</u>	<u>18,565</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. COMMITMENTS (continued)

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

	As at 30 June 2004 HK\$'000 (Unaudited)	As at 31 December 2003 HK\$'000 (Audited)
(i) Capital commitments in respect of property, plant and equipment:		
Contracted for	34,835	11,490
Authorised, but not contracted for	804,438	536,460
	839,273	547,950

(ii) Pursuant to WaterCo's Articles of Association, Yue Gang Investment, which directly holds 1% equity 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 operation, 1.01% of the distributed profits of WaterCo for the first 15 years of operation plus simple interest of 8% per annum on the unpaid amount of the distributed profits shall be made to Yue Gang Investment (collectively referred to as the "Deferred Dividend"). Once Yue Gang Investment has received the Deferred Dividend in full, all of the WaterCo's distributable profits are to be distributed to GH Holdings and Yue Gang Investment according to their respective equity interests in WaterCo during the remaining operating period.

(iii) As at 30 June 2004, the Group had certain outstanding interest rate swap agreements to effectively convert the interest of a total notional principal of HK\$11.7 billion (31 December 2003: HK\$11.1 billion) from floating rate of HIBOR to a range of fixed interest rates or floating rate of LIBOR per annum for the respective period up to various maturity dates ranging from 2008 to 2012 (31 December 2003: from 2008 to 2012).

(iv) 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 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. CONTINGENT LIABILITIES

	As at 30 June 2004 HK\$'000 (Unaudited)	As at 31 December 2003 HK\$'000 (Audited)
Guarantee given in respect of a bank loan of the Group's contractual joint venture	<u>78,000</u>	<u>81,900</u>

24. RELATED PARTY TRANSACTIONS

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

	Notes	For the six months ended 30 June 2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Rental income from GDH Limited and certain of its subsidiaries	(i)	(1,944)	(2,986)
Interest income from:			
– a fellow subsidiary	(ii)	–	(706)
– a contractual joint venture	(iii)	(96)	–
General computer and SAP financial system maintenance service fees from GDH Limited and certain of its subsidiaries	(iv)	–	(978)
Management fees from:			
– a contractual joint venture	(v)	(1,688)	–
– a jointly-controlled entity	(vi)	(1,726)	(1,573)
Hotel management fees received from fellow subsidiaries	(vii)	(468)	(183)
Property management service fees paid to fellow subsidiaries	(viii)	915	1,951
Interest expenses to GDH Limited and certain of its subsidiaries	(ix)	12,552	5,402
General computer and SAP financial system maintenance service fees paid to GDH Limited	(x)	313	138
Finance lease charge paid to a fellow subsidiary	(xi)	51	–
Engineering facilities construction costs paid to a fellow subsidiary	(xii)	–	407
Repairs and maintenance service fees paid to a fellow subsidiary	(xiii)	–	<u>9</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. RELATED PARTY TRANSACTIONS (continued)

Notes:

- (i) The rental income arose from the letting of certain of the Group's office premises to GDH Limited and certain of its subsidiaries in accordance with their respective tenancy agreements.
- (ii) In 2003, the interest income arose from unsecured loans advanced to Guangdong Finance Co., Limited ("GD Finance"), which 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 loans have become interest-free since 30 June 2003.
- (iii) The interest income arose from an unsecured loan advanced to a contractual joint venture, which bears interest at a fixed rate of 3.8% per annum and the loan is repayable on demand.
- (iv) In 2003, the Company provided certain general computer and SAP financial system maintenance services to GDH Limited and certain of its subsidiaries in accordance with the respective agreements between the Company and GDH Limited and these fellow subsidiaries. The agreements were terminated on 30 April 2003.
- (v) 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 period.
- (vi) The management fee income arose from the administrative services provided by the Group to a jointly-controlled entity. The fee charged is based on the amount of services rendered by the Group during the period.
- (vii) The management fee 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.
- (viii) The management fees arose from the property management services rendered by certain fellow subsidiaries of the Company to the Group under the respective contracts entered into in accordance with the terms of agreements made between the Group and the fellow subsidiaries.
- (ix) The interest expense arose from (a) the GH Holdings debts amounting to HK\$76,262,000 as at 30 June 2004 (31 December 2003: HK\$76,262,000) held by GDH Limited and (b) the straight bonds and convertible bonds issued by the Group to GDH Limited on 12 December 2003, the outstanding balance of which as at 30 June 2004, in aggregate, was HK\$497,320,000 (31 December 2003: HK\$994,640,000). The straight bonds and convertible bonds bear interest at 5.1% and 2.0% per annum, respectively.
- (x) GDH Limited provided the Group with certain general computer and SAP financial system maintenance services commencing from May 2003 in accordance with the agreement between the Group and GDH Limited.
- (xi) The charge arose from the leasing of a motor vehicle by the Company's fellow subsidiary to the Group in accordance with the agreement entered into between the Group and the fellow subsidiary.
- (xii) In 2003, 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. RELATED PARTY TRANSACTIONS (continued)

Notes: (continued)

- (xiii) In 2003, 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.
- (xiv) As further detailed in note 21(a)(ii), the pro-rata portion of GD Transport's interest in Xin Yue Qinglian and shareholder loan to Xin Yue Qinglian were transferred by GD Transport to the Group in full and final settlement of the sum of approximately HK\$198 million due by GD Transport to the Group.
- (xv) 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 19 to the financial statements.

- (xvi) During the period, the cash distribution made by GH Holdings out of its capital contribution reserve and its distributable profits, amounting to HK\$28,351,000 (2003: HK\$36,737,000), 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.

25. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Company under the terms of the shareholders agreement of GH Holdings had exercised its right of first 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 0.08% interest in GH Holdings at a total consideration of HK\$5,005,000. As a result of these acquisitions, the Company increased its holdings in GH Holdings from 82.78% at the balance sheet date to 82.86% and recognised a positive goodwill of HK\$1,045,000.

26. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements were approved and authorised for issue by the board of directors on 17 September 2004.

I am pleased to present to you our results for the first six months of 2004. December 2003 marked the completion of our numerous balance sheet restructuring exercises. Beginning this January, GDI has entered into a new era of growth and development. For the first six months of 2004, our businesses in (1) water distribution; (2) electric power generation; (3) toll roads and bridges; (4) property investment; (5) hotel operations and management and; (6) retail have all made progress in turnover, which has contributed to better overall operating results.

The combination of our strong operating results and restructured balance sheet allows us to pay a dividend on our ordinary shares for the first time in six years. I am pleased to announce that we propose to pay an interim dividend of 2.5 HK cents per share on 25 October 2004.

Review of Group Results

The Group's turnover for the first six months amounted to HK\$2,534,805,000 (2003: HK\$2,498,824,000, of which HK\$2,160,665,000 related to the Group's continuing operations). The increase in turnover was due to a full six months of water sales to Hong Kong (last year, the annual one-month suspension of water supply to Hong Kong was moved forward to June 2003), a significant growth of revenue in our hotel business, increased rental income at Guangzhou Teemall Plaza and satisfactory growth in our retail business at Guangdong Teemall Department Stores.

The Group's consolidated net profit attributable to shareholders amounted to HK\$468,476,000, an increase of 46.4%, compared to HK\$320,083,000 for the same period in 2003.

We have made provisions of HK\$43,259,000 to the Group for the six-month period. The provisions are related to impairment of the Group's two old power units at Shaoguan Power Plant D (HK\$30,000,000), impairment of investment properties (HK\$10,602,000) and a provision against a receivable (HK\$2,657,000).

Basic earnings per share increased from HK¢5.28 to HK¢8.48, up 60.6% from same period last year.

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

Water Distribution

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

Due to the dry season and a full six months of water supply to Hong Kong, water sales to Hong Kong, Shenzhen and Dongguan enjoyed healthy year on year growth, amounting to 968 million m³, an increase of 31.5% over same period last year. For the first six months of 2004, the volume of water supplied to these three areas amounted to 415 million m³, 270 million m³, and 283 million m³ respectively. Operating profit (before finance costs and tax) from our water distribution business amounted to HK\$789,430,000 (2003: HK\$703,437,000).

The continuous economic growth of Shenzhen and Dongguan helped the Group to achieve a significant increase in water sales to these two areas. In addition, as a result of better water quality following the completion of the Phase IV Renovation Project, tariffs were increased which helped the Group to secure a steady growth of water income.

The increase in water supply and revenue during the first six months of 2004 was offset by increases in electricity costs, depreciation charges on the Phase IV Renovation Project and a full period hedging cost. The combined result was a profit contribution of HK\$310,136,000 (2003: HK\$320,120,000) to the Group from the water distribution business for the six-month period ended 30 June 2004, 3.1%, lower than same period last year. Earnings before interest, tax, depreciation and amortisation ("EBITDA") from our water distribution business during the period amounted to HK\$1,305,623,000 (2003: HK\$1,095,259,000), 19.2% higher than same period last year.

Electric Power Generation

Shaoguan Power Plant D ("Shaoguan PPD")

In the first six months of 2004, despite the successful efforts by management to secure increased sales of electricity (2004: 840 million kwh; 2003: 827 million kwh) and the on-going strong demand for electricity in China, the high cost of coal eroded the gross profit of our power business. In the first six months of 2004, the total sales of electricity amounted to HK\$277,680,000 (2003: HK\$268,867,000), a slight increase of 3.3%. A profit (before the impairment provision of old power units) of HK\$28,987,000 (2003: HK\$27,196,000) was contributed to the Group's result for the current period.

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

The associate of Shaoguan PPD, 廣東省韶關粵江發電有限責任公司 (Guangdong Shaoguan Yue Jiang Power Supply Limited), achieved a substantial increase in sales of electricity during the first six months of 2004 (2004: 846 million kwh; 2003: 534 million kwh). The Group's share of profit from this associate amounted to HK\$5,602,000 (2003: HK\$909,000).

Meixian Power Plant

Sale of electricity by the power plant in Meixian, Mainland China, an investment of the Group's associate, amounted to 956 million kwh (2003: 600 million kwh), an increase of 59.3%. Sales revenue of the plant for the period reached HK\$325,125,000 (2003: HK\$200,677,000), an increase of 62.0%. During the first six months of 2004, the operating profit before taxation of the plant was HK\$148,280,000 (2003: HK\$60,827,000), an increase of 143.8%.

Toll Roads and Bridges

In the first six months of 2004, aggregate before-tax profits of HK\$66,410,000 (2003: HK\$64,305,000) were generated by the Group's jointly controlled entities (the "JCEs") which hold interests in the "2 Roads and 2 Bridges" project. The 3.2% increase in the JCEs's profits was largely driven by year on year growth in traffic of the two bridges and lower interest expense that arose as a result of the early repayment of bank debt. As at 30 June 2004, the balance of the loan was US\$16,500,000 (31 December 2003: US\$26,900,000).

Humen Bridge recorded a 16.4% growth in traffic flow. The average daily traffic for the first six months of 2004 increased to 37,322 vehicle trips (2003: 32,068 vehicle trips). Revenue for the six-month period reached HK\$274,938,000 (2003: HK\$198,108,000), an increase of 38.8%. The Company's effective interest in this project is 15.3%.

Shantou Haiwan Bridge recorded a 5.8% growth in traffic flow. The average daily traffic for the first six months of 2004 was 13,889 vehicle trips (2003: 13,133 vehicle trips). Revenue for the six-month period reached HK\$72,814,000 (2003: HK\$59,254,000), an increase of 22.9%. The Company's effective interest in this project is 15.3%.

Due to the commencement of the new Guangzhou-Huizhou Expressway in December 2003, the Guangzhou-Shantou Highway (Huizhou Section) suffered a drop of 17.9% in its traffic flow. The average daily traffic for the first six months of 2004 was 19,907 vehicle trips (2003: 24,250 vehicle trips). Revenue for the six-month period was HK\$36,958,000 (2003: HK\$58,409,000), a decrease of 36.7%. The Company's effective interest in this project is 26.01%.

Toll Roads and Bridges (continued)

Due to the commencement of Jingzhu North and South Highways, the traffic flow of Qinglian Highway for the first six months of 2004 dropped by 31.9%. The average daily traffic was 20,024 vehicle trips (2003: 29,410 vehicle trips). Revenue for the six-month period was HK\$61,176,000 (2003: HK\$111,736,000), a decrease of 45.2%. The Company's effective interest in this project is 7.23%.

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

The Yingkeng Highway recorded a growth of 13.0% in traffic flow. The average daily traffic for first six months of 2004 was 4,397 vehicle trips (2003: 3,890 vehicle trips). The Company's effective interest in this project is 70%.

Property Investment*Mainland China*

Guangzhou Teemall Plaza

Guangzhou Teemall Plaza continued to enjoy high occupancy rates (99%) and increasing rental income. Relocation of rental spaces among existing tenants, additional rental areas, renewal of leases in advertising spaces through open-tender, and entry of brand-name tenants all helped to increase the total revenue at the Plaza. Total rental and management income for the six months of 2004 grew 8.6% and reached HK\$144,222,000 (2003: HK\$132,847,000).

Hong Kong

Guangdong Investment Tower

The average occupancy rate at the Guangdong Investment Tower for the six months of 2004 was 86.7% (2003: 83.0%), 3.7% better than last year. However the total rental income for the period of HK\$9,055,000 (2003: HK\$9,981,000) was down 9.3%, due to a slight drop in average rent rate upon the renewal of tenancies.

Hotel Operations and Management

By the end of August 2004, our hotel management team was managing 10 hotels (31 December 2003: 9) in Hong Kong, Macau and Mainland China, of which four were owned by the Group.

All the four hotels owned by the Group enjoyed high occupancy rates in the first half of 2004. Despite keen competition, Guangdong Hotel and Wharney Hotel in Hong Kong continue to rank first in occupancy rate and second in room rates among hotels of the same class in the same area.

Last year, the outbreak of SARS caused an adverse impact on the hotel group's second quarter results. With the subsidence of SARS, dramatically higher average occupancy rates were achieved in the first half year of 2004 as compared to the same period 2003 (2004: 82.2%; 2003: 53.7%). In addition, average room rates increased by 10.9%. These two factors drove total turnover for the half year of 2004 up 44.7% to HK\$95,202,000 (2003: HK\$65,811,000).

Retail

廣東天河城百貨有限公司 (Guangdong Teemall Department Stores Ltd.) enjoyed record high turnover of HK\$444,040,000 (2003: HK\$378,793,000). The Spring Trade Fair and May Golden Week, coupled with new sport outlets and trendy fashion corners, all helped to increase the traffic and turnover of the department store.

Liquidity, Gearing and Financial Resources

As at 30 June 2004, the cash and bank balances of the Group fell by HK\$122 million to HK\$1,261 million (31 December 2003: HK\$1,383 million), mostly denominated in Hong Kong dollars (HK\$383 million), Renminbi (equivalent to HK\$828 million) and US dollars (equivalent to HK\$50 million). This is mainly due to the repayment and prepayment of part of the bank debts in our water distribution business and the full redemption of the straight bonds issued to GDH Limited of HK\$497.32 million.

As at 30 June 2004, the level of the Group's financial borrowing decreased by HK\$1,125 million. The decrease is mainly due to (1) the full redemption of the straight bonds issued to GDH Limited of HK\$497.32 million, (2) the repayment of interest-bearing debts of approximately HK\$628.47 million (of which HK\$368 million equivalent related to the bank borrowings in Mainland China). As at 30 June 2004, the Group had financial borrowings amounting to HK\$17,363 million (31 December 2003: HK\$18,489 million). Of the Group's total financial borrowings, HK\$343 million was repayable within one year while the remaining balance of HK\$3,788 million and HK\$13,232 million are repayable within two to five years and beyond five years from the balance sheet date, respectively.

Save for the refinancing of bank debts incurred in our water distribution business, the Group maintained nil credit facilities as at 30 June 2004 (31 December 2003: nil).

The gearing for the Group as at 30 June 2004 was 1.88 times (31 December 2003: 2.11 times). The improvement mostly reflected the reduction in the level of the Group's financial indebtedness, together with an increase in net asset value of the Group.

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

Pledge of Assets

At 30 June 2004, none of the Group's fixed assets, investment properties and bank deposits were pledged to secure general banking facilities granted to the Group (31 December 2003: nil)

Capital Expenditure

The Group's total capital expenditure for fixed assets was HK\$50,464,000 in the first half of 2004, an increase of HK\$32,798,000 from HK\$17,666,000 for the same period last year. The Group's half-year capital expenditure related principally to the additions of plant and machinery for the power plant at our electric power generating facilities, renovation works for our hotels and the construction in progress of the East Tower at Guangzhou Teemall Plaza.

Exposure to Fluctuations in Exchange and Interest Rates and Related Hedges

As at 30 June 2004, total Renminbi borrowings amounted to HK\$1,428 million (31 December 2003: HK\$1,796 million).

As at 30 June 2004, the Group's total floating rate borrowings amounted to HK\$13,389 million (31 December 2003: HK\$14,017 million), of which HK\$11,700 million (31 December 2003: HK\$11,100 million) were hedged by fixed and floating interest rate swap agreements with an average remaining life ranging from 3¹/₂-8¹/₂ years.

Litigation

As at 30 June 2004, there were no material contingent liabilities in respect of outstanding litigation or legal proceedings that need to be disclosed.

Employee and Remuneration Policy

As at 30 June 2004, the Group had a total of 3,645 employees. Among the employees, 3,421 were employed by subsidiaries in Mainland China and 224 were employed by the head office and subsidiaries in Hong Kong. Out of the total number, 681 were managerial employees of the head office and its subsidiaries. Total remuneration paid for the period under review was approximately HK\$99,750,000.

The Group recruits and promotes individuals based on merit and their development potential for the positions offered. Performance of staff is reviewed at least annually and employees' compensation is performance driven. The Group's remuneration and benefit policies are based on the business performance of the relevant employer company. Year-end bonuses will be granted to those employees with outstanding performance. The Group adopts a share option scheme which aims to provide incentives to participants who contribute to the success of the Group and to enable it to recruit and retain good quality employees for the long term. People are the Company's key assets and key to success. The Group encourages employees to participate in external training programs to develop themselves on a continuous basis. For existing employees' career development, the Group provides opportunities through on-the-job training by regular job rotation, so as to improve staff quality to meet future challenges and gain a competitive edge.

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

Prospects

In the second half of the year, we will continue to focus on improving the performance of existing businesses and look for acquisitions in our core businesses.

Operating Improvement

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

For the water distribution business, we will continue to expand our water supply sales volume in and around Dongguan and Shenzhen.

Upgrading works have been commenced at the Yan Tien Reservoir, which upon completion will further enhance the water supply market around the area.

In our electric power generation business, we will continue to manage costs effectively, reduce the frequency of shutdowns and maximize the capacity utilization of at our plants.

Prospects (continued)

Operating Improvement (continued)

The management team at Guangzhou Teemall Plaza has developed new strategies to combat the expected competition from a neighbouring new plaza. The Plaza is now under different phases of renovation. With the successful launch of the new corporate logo and the entry of international brand name tenants, the overall image of the Guangzhou Teemall Plaza as a whole has been upgraded.

In the hotel business, I am pleased to announce that our hotel management team successfully secured a 5-star hotel management contract in Northern China in July 2004. The hotel, upon completion of all phases, will become a landmark hotel in North-East China. Two new hotel management contracts at Shanghai and Guangzhou are at the final stages of negotiation. Since human resources are key to successful expansion of the hotel management business, more quality staff are being hired and trained for future new assignments. Phase by phase renovation of guest rooms of the hotels owned by the Group has been and will continue to be carried out. The overall strategy to secure stable growth from high yield business guests is in good progress and ahead of schedule.

In conclusion, we will continue to strive to increase the value of the Group's assets and our return on capital and assets.

New Business Opportunities

The development of the East Tower at Guangzhou Teemall Plaza duly commenced in July 2004. It is expected that the new 45 storey, 113,370 square meter Grade A Office Tower will be completed by 2006 and will become a landmark building in Guangzhou.

The West Tower, a 33 storey, 50,000 square meter hotel and serviced apartment building, is under the initial stage of architectural design. Management is preparing to negotiate with an international hotel group to manage the hotel and serviced apartments.

Management is still actively exploring new business opportunities in road and bridge acquisitions.

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

The Board of Directors has resolved to declare the payment of an interim dividend of 2.5 HK cents (2003: Nil) per share for the six months ended 30 June 2004. The interim dividend will be paid to the shareholders whose names appear on the Register of Members on Thursday, 7 October 2004. The interim dividend will be paid on Monday, 25 October 2004.

Closure of Register of Members

The Registers of Members of the Company will be closed from Tuesday, 5 October 2004 to Thursday, 7 October 2004 (both dates inclusive), during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrar, Tengis Limited, of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 4 October 2004.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 30 June 2004, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which a Director is taken or deemed to have taken under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Interests and short positions in the Company

(i) Interests in Ordinary Shares

Name of Directors	Capacity/ nature of interest	Number of Ordinary Shares held	Long/short position	Approximate percentage of holding
WU Jiesi	Personal	16,000,000	Long position	0.2929%
CHAN Cho Chak, John	Personal	2,000,000	Long position	0.0366%
LI Kwok Po, David	Personal	2,000,000	Long position	0.0366%
CHENG Mo Chi, Moses	Personal	1,000,000	Long position	0.0183%
WANG Man Kwan, Paul	Personal	500,000	Long position	0.0092%
GU Shunan	Personal	76,000	Long position	0.0014%
WANG Xiaofeng	Personal	100,000	Long position	0.0018%

Note: The number of Ordinary Shares of the Company in issue as at 30 June 2004 was 5,463,382,672.

(ii) Interests in options relating to Ordinary Shares

Name of Directors	Number of options held as at 1 January 2004	Options granted during the period Date (dd.mm.yyyy)	Number	Period during which share options is exercisable (dd.mm.yyyy)	Total consideration paid for share options HK\$	Price per Ordinary Share payable on exercise of options HK\$	Number of options exercised during the period	Number of options held as at 30 June 2004
WU Jiesi	7,000,000	-	-	02.05.2002 – 01.05.2007	-	0.74	7,000,000	-
	9,000,000	-	-	08.11.2002 – 07.11.2007	-	0.814	9,000,000	-
	6,000,000	-	-	05.03.2003 – 04.03.2008	1	0.96	-	6,000,000
	3,000,000	-	-	08.08.2003 – 07.08.2008	1	1.22	-	3,000,000
	-	06.02.2004	3,000,000	07.05.2004 – 06.05.2009	1	1.59	-	3,000,000
	-	24.05.2004	2,500,000	25.08.2004 – 24.08.2009	1	1.25	-	2,500,000

DIRECTORS' INTERESTS IN SECURITIES

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (continued)

Interests and short positions in the Company (continued)

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

Name of Directors	Number of options held as at 1 January 2004	Options granted during the period		Period during which share options is exercisable (dd.mm.yyyy)	Total consideration paid for share options HK\$	Price per Ordinary Share payable on exercise of options HK\$	Number of options exercised during the period	Number of options held as at 30 June 2004
		Date (dd.mm.yyyy)	Number					
LI Wenyue	7,000,000	-	-	11.02.2002 – 10.02.2007	-	0.5312	-	7,000,000
	9,000,000	-	-	08.11.2002 – 07.11.2007	-	0.814	-	9,000,000
	6,000,000	-	-	05.03.2003 – 04.03.2008	1	0.96	-	6,000,000
	3,000,000	-	-	08.08.2003 – 07.08.2008	1	1.22	-	3,000,000
	-	06.02.2004	3,000,000	07.05.2004 – 06.05.2009	1	1.59	-	3,000,000
	-	24.05.2004	2,500,000	25.08.2004 – 24.08.2009	1	1.25	-	2,500,000
ZHANG Hui	5,000,000	-	-	05.03.2003 – 04.03.2008	1	0.96	-	5,000,000
	3,000,000	-	-	08.08.2003 – 07.08.2008	1	1.22	-	3,000,000
	-	06.02.2004	3,000,000	07.05.2004 – 06.05.2009	1	1.59	-	3,000,000
	-	24.05.2004	2,500,000	25.08.2004 – 24.08.2009	1	1.25	-	2,500,000
CHAN Cho Chak, John	1,000,000	-	-	05.03.2003 – 04.03.2008	1	0.96	-	1,000,000
	1,000,000	-	-	08.08.2003 – 07.08.2008	1	1.22	-	1,000,000
	-	06.02.2004	1,000,000	07.05.2004 – 06.05.2009	1	1.59	-	1,000,000
	-	24.05.2004	450,000	25.08.2004 – 24.08.2009	1	1.25	-	450,000

DIRECTORS' INTERESTS IN SECURITIES

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (continued)

Interests and short positions in the Company (continued)

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

Name of Directors	Number of options held as at 1 January 2004	Options granted during the period		Period during which share options is exercisable (dd.mm.yyyy)	Total consideration paid for share options HK\$	Price per Ordinary Share payable on exercise of options HK\$	Number of options exercised during the period	Number of options held as at 30 June 2004
		Date (dd.mm.yyyy)	Number					
LI Kwok Po, David	1,000,000	-	-	02.05.2002 – 01.05.2007	-	0.74	1,000,000	-
	1,000,000	-	-	08.11.2002 – 07.11.2007	-	0.814	1,000,000	-
	1,000,000	-	-	05.03.2003 – 04.03.2008	1	0.96	-	1,000,000
	1,000,000	-	-	08.08.2003 – 07.08.2008	1	1.22	-	1,000,000
	-	06.02.2004	1,000,000	07.05.2004 – 06.05.2009	1	1.59	-	1,000,000
	-	24.05.2004	450,000	25.08.2004 – 24.08.2009	1	1.25	-	450,000
CHENG Mo Chi, Moses	1,000,000	-	-	02.05.2002 – 01.05.2007	-	0.74	1,000,000	-
	1,000,000	-	-	08.11.2002 – 07.11.2007	-	0.814	-	1,000,000
	1,000,000	-	-	05.03.2003 – 04.03.2008	1	0.96	-	1,000,000
	1,000,000	-	-	08.08.2003 – 07.08.2008	1	1.22	-	1,000,000
	-	06.02.2004	1,000,000	07.05.2004 – 06.05.2009	1	1.59	-	1,000,000
	-	24.05.2004	450,000	25.08.2004 – 24.08.2009	1	1.25	-	450,000
FUNG, Daniel R.	1,000,000	-	-	02.05.2002 – 01.05.2007	-	0.74	-	1,000,000
	1,000,000	-	-	08.11.2002 – 07.11.2007	-	0.814	-	1,000,000
	1,000,000	-	-	05.03.2003 – 04.03.2008	1	0.96	-	1,000,000
	1,000,000	-	-	08.08.2003 – 07.08.2008	1	1.22	-	1,000,000
	-	06.02.2004	1,000,000	07.05.2004 – 06.05.2009	1	1.59	-	1,000,000
	-	24.05.2004	450,000	25.08.2004 – 24.08.2009	1	1.25	-	450,000

DIRECTORS' INTERESTS IN SECURITIES

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (continued)

Interests and short positions in the Company (continued)

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

Name of Directors	Number of options held as at 1 January 2004	Options granted during the period		Period during which share options is exercisable (dd.mm.yyyy)	Total consideration paid for share options HK\$	Price per Ordinary Share payable on exercise of options HK\$	Number of options exercised during the period	Number of options held as at 30 June 2004
		Date (dd.mm.yyyy)	Number					
LI Wai Keung	700,000	-	-	02.05.2002 – 01.05.2007	-	0.74	-	700,000
	1,500,000	-	-	08.11.2002 – 07.11.2007	-	0.814	-	1,500,000
	1,500,000	-	-	05.03.2003 – 04.03.2008	1	0.96	-	1,500,000
	1,500,000	-	-	08.08.2003 – 07.08.2008	1	1.22	-	1,500,000
	-	06.02.2004	1,500,000	07.05.2004 – 06.05.2009	1	1.59	-	1,500,000
	-	24.05.2004	1,000,000	25.08.2004 – 24.08.2009	1	1.25	-	1,000,000
ZHAI Zhiming	1,000,000	-	-	08.11.2002 – 07.11.2007	-	0.814	-	1,000,000
	1,000,000	-	-	05.03.2003 – 04.03.2008	1	0.96	-	1,000,000
	1,000,000	-	-	08.08.2003 – 07.08.2008	1	1.22	-	1,000,000
	-	06.02.2004	1,000,000	07.05.2004 – 06.05.2009	1	1.59	-	1,000,000
WANG Man Kwan, Paul	1,000,000	-	-	08.11.2002 – 07.11.2007	-	0.814	-	1,000,000
	1,500,000	-	-	05.03.2003 – 04.03.2008	1	0.96	-	1,500,000
	1,500,000	-	-	08.08.2003 – 07.08.2008	1	1.22	-	1,500,000
	-	06.02.2004	1,500,000	07.05.2004 – 06.05.2009	1	1.59	-	1,500,000
	-	24.05.2004	1,000,000	25.08.2004 – 24.08.2009	1	1.25	-	1,000,000

DIRECTORS' INTERESTS IN SECURITIES

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (continued)

Interests and short positions in the Company (continued)

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

Name of Directors	Number of options held as at 1 January 2004	Options granted during the period		Period during which share options is exercisable (dd.mm.yyyy)	Total consideration paid for share options HK\$	Price per Ordinary Share payable on exercise of options HK\$	Number of options exercised during the period	Number of options held as at 30 June 2004
		Date (dd.mm.yyyy)	Number					
GU Shunan	1,000,000	-	-	02.05.2002 – 01.05.2007	-	0.74	-	1,000,000
	1,000,000	-	-	08.11.2002 – 07.11.2007	-	0.814	-	1,000,000
	1,000,000	-	-	05.03.2003 – 04.03.2008	1	0.96	-	1,000,000
	1,000,000	-	-	08.08.2003 – 07.08.2008	1	1.22	-	1,000,000
	-	06.02.2004	1,000,000	07.05.2004 – 06.05.2009	1	1.59	-	1,000,000
	-	24.05.2004	650,000	25.08.2004 – 24.08.2009	1	1.25	-	650,000
WANG Xiaofeng	1,000,000	-	-	08.11.2002 – 07.11.2007	-	0.814	-	1,000,000
	1,000,000	-	-	05.03.2003 – 04.03.2008	1	0.96	-	1,000,000
	1,000,000	-	-	08.08.2003 – 07.08.2008	1	1.22	-	1,000,000
	-	06.02.2004	1,000,000	07.05.2004 – 06.05.2009	1	1.59	-	1,000,000
	-	24.05.2004	650,000	25.08.2004 – 24.08.2009	1	1.25	-	650,000

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (continued)

Interests and short positions in Kingway Brewery Holdings Limited (formerly known as Guangdong Brewery Holdings Limited)

Interests in options relating to shares

Name of Directors	Number of options held as at 1 January 2004	Options granted during the period		Period during which share options is exercisable (dd.mm.yyyy)	Total consideration paid for share options HK\$	Price per share payable on exercise of options HK\$	Number of options exercised during the period	Number of options held as at 30 June 2004
		Date (dd.mm.yyyy)	Number					
CHENG Mo Chi, Moses	300,000	-	-	27.08.2003 – 26.08.2008	1	0.84	-	300,000
	-	06.02.2004	300,000	07.05.2004 – 06.05.2009	1	1.93	-	300,000

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

Interests and short positions in Guangnan (Holdings) Limited

Interests in shares

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

Note: The number of ordinary shares of Guangnan (Holdings) Limited in issue as at 30 June 2004 was 9,015,832,859.

Save as disclosed above, as at 30 June 2004, none of the Directors or chief executive of the Company had registered any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which are required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which a Director is taken or deemed to have taken under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Save as disclosed above, at no time during the year was the Company, its holding companies or any of its subsidiaries or associated corporations a party to any arrangements to enable the Directors of the Company or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2004, so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) have an interest or short position in the Ordinary Shares or underlying Ordinary Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholders	Capacity/ nature of interest	Number of Ordinary Shares held	Long/short position	Approximate percentage of issued Ordinary Share capital
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) (Note 1)	Beneficial owner/ Interest of controlled corporation	3,660,686,781	Long position	67%
GDH Limited (Note 2)	Beneficial owner/ Interest of controlled corporation	3,660,686,781	Long position	67%
Guangdong Trust Ltd.	Beneficial owner/ Interest of controlled corporation	576,404,918	Long position	10.55%

Notes:

1. The attributable interest which 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) has in the Company is held through its 100% direct interest in GDH Limited. Of the 67% interest in Ordinary Shares referred to in the fifth column, 7.33% is derived from derivative interests. The remaining 59.67% is derived from interests in issued Ordinary Shares.
2. The interest of GDH Limited set out above includes attributable interest held through its wholly-owned subsidiary, Guangdong Trust Ltd. Of the 67% interest in Ordinary Shares referred to in the fifth column, 7.33% is derived from derivative interests. The remaining 59.67% is derived from interests in issued Ordinary Shares.

Save as disclosed above, no other person (other than a Director or chief executive of the Company) known to any Director or chief executive of the Company as at 30 June 2004 had an interest or short position in the Ordinary Shares or underlying Ordinary Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

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

Share options granted during the period ended 30 June 2004:

(l)	Date of Grant	:	06/02/2004
	Vesting Period	:	06/02/2004 – 06/05/2004
	Exercise Period	:	07/05/2004 – 06/05/2009
	Exercise Price	:	HK\$1.59 per share

	Number of Options At 06/02/04	Options Value At 06/02/04 <i>(Note (2))</i> HK\$	Number of Options At 30/06/04	Options Value At 30/06/04 <i>(Note (3))</i> HK\$
Grantee:				
Directors				
WU Jiesi	3,000,000	1,860,000	3,000,000	1,410,000
LI Wenyue	3,000,000	1,860,000	3,000,000	1,410,000
ZHANG Hui	3,000,000	1,860,000	3,000,000	1,410,000
CHAN Cho Chak, John	1,000,000	620,000	1,000,000	470,000
LI Kwok Po, David	1,000,000	620,000	1,000,000	470,000
CHENG Mo Chi, Moses	1,000,000	620,000	1,000,000	470,000
FUNG, Daniel R.	1,000,000	620,000	1,000,000	470,000
LI Wai Keung	1,500,000	930,000	1,500,000	705,000
ZHAI Zhiming	1,000,000	620,000	1,000,000	470,000
WANG Man Kwan, Paul	1,500,000	930,000	1,500,000	705,000
GU Shunan	1,000,000	620,000	1,000,000	470,000
WANG Xiaofeng	1,000,000	620,000	1,000,000	470,000
Former Directors	5,000,000	3,100,000	5,000,000	2,350,000
Aggregate total of employees	39,600,000	24,552,000	39,600,000	18,612,000
Total	<u>63,600,000</u>	<u>39,432,000</u>	<u>63,600,000</u>	<u>29,892,000</u>

Notes:

(1) The closing price of the Ordinary Shares of the Company immediately before the date on which the options were granted was HK\$1.57.

(2) According to the Black-Scholes model[#], the total value of the options was estimated at HK\$39,432,000 as at 6 February 2004 (when the options were granted) with the following variables and assumptions:

Risk Free Rate : 2.83%, being the approximate yield of the 5-year Exchange Fund Note traded on 06/02/2004

Expected Volatility : 40.2%, being the annualised volatility of the closing price of the Ordinary Shares of the Company from 06/02/2003 – 06/02/2004

Expected Dividend Yield : Nil

Expected Life of the Options : 5 years

Assumptions : There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the Ordinary Shares of the Company over the period from 06/02/2003 to 06/02/2004.

(3) According to the Black-Scholes model[#], the total value of the options was estimated at HK\$29,892,000 as at 30 June 2004 with the following variables and assumptions:

Risk Free Rate : 3.72%, being the approximate yield of the 5-year Exchange Fund Note traded on 30/06/2004

Expected Volatility : 37.6%, being the annualised volatility of the closing price of the Ordinary Shares of the Company from 30/06/2003 to 30/06/2004

Expected Dividend Yield : Nil

Expected Life of the Options : 4.85 years

Assumptions : There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the Ordinary Shares of the Company over the period from 30/06/2003 to 30/06/2004.

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

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

SHARE OPTION SCHEME

(II)	Date of Grant	:	24/05/2004
	Vesting Period	:	24/05/2004 – 24/08/2004
	Exercise Period	:	25/08/2004 – 24/08/2009
	Exercise Price	:	HK\$1.25 per share

	Number of Options At 24/05/04	Options Value At 24/05/04 (Note (2)) HK\$	Number of Options At 30/06/04	Options Value At 30/06/04 (Note (3)) HK\$
Grantee:				
Directors				
WU Jiesi	2,500,000	1,225,000	2,500,000	1,500,000
LI Wenyue	2,500,000	1,225,000	2,500,000	1,500,000
ZHANG Hui	2,500,000	1,225,000	2,500,000	1,500,000
CHAN Cho Chak, John	450,000	220,500	450,000	270,000
LI Kwok Po, David	450,000	220,500	450,000	270,000
CHENG Mo Chi, Moses	450,000	220,500	450,000	270,000
FUNG, Daniel R.	450,000	220,500	450,000	270,000
LI Wai Keung	1,000,000	490,000	1,000,000	600,000
WANG Man Kwan, Paul	1,000,000	490,000	1,000,000	600,000
GU Shunan	650,000	318,500	650,000	390,000
WANG Xiaofeng	650,000	318,500	650,000	390,000
Aggregate total of employees	<u>49,460,000</u>	<u>24,235,400</u>	<u>49,460,000</u>	<u>29,676,000</u>
Total	<u>62,060,000</u>	<u>30,409,400</u>	<u>62,060,000</u>	<u>37,236,000</u>

Notes:

(1) The closing price of the Ordinary Shares of the Company immediately before the date on which the options were granted was HK\$1.25.

(2) According to the Black-Scholes model[#], the total value of the options was estimated at HK\$30,409,400 as at 24 May 2004 (when the options were granted) with the following variables and assumptions:

Risk Free Rate : 3.85%, being the approximate yield of the 5-year Exchange Fund Note traded on 24/05/2004

Expected Volatility : 38.3%, being the annualised volatility of the closing price of the Ordinary Shares of the Company from 24/05/2003 – 24/05/2004

Expected Dividend Yield : Nil

Expected Life of the Options : 5 years

Assumptions : There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the Ordinary Shares of the Company over the period from 24/05/2003 to 24/05/2004.

(3) According to the Black-Scholes model[#], the total value of the options was estimated at HK\$37,236,000 as at 30 June 2004 with the following variables and assumptions:

Risk Free Rate : 3.72%, being the approximate yield of the 5-year Exchange Fund Note traded on 30/06/2004

Expected Volatility : 37.6%, being the annualised volatility of the closing price of the Ordinary Shares of the Company from 30/06/2003 to 30/06/2004

Expected Dividend Yield : Nil

Expected Life of the Options : 5 years

Assumptions : There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the Ordinary Shares of the Company over the period from 30/06/2003 to 30/06/2004.

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

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

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2004, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities listed on the The Stock Exchange of Hong Kong Limited save and except:-

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

	No. of new Ordinary Shares issued	Exercise price per Ordinary Share HK\$	Cash consideration HK\$
	9,000,000	0.74	6,660,000
	10,400,000	0.814	8,465,600
	1,060,000	0.96	1,017,600
	400,000	1.22	488,000
	<u>20,860,000</u>		<u>16,631,200</u>
Total			

- (ii) under the Earnout Agreement, the Company has agreed to allot and issue to GDH Limited, 66,000,000 Ordinary Shares, for each of the five years commencing from 22 December 2000 (the "Earnout Period") (subject to adjustment, up to a total of 330,000,000 Ordinary Shares) upon the performance of 廣東粵港供水有限公司 (Guangdong Yue Gang Water Supply Company Limited) ("WaterCo") meeting the milestones as set out in the Earnout Agreement. As WaterCo has 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 330,000,000 Ordinary Shares to GDH Limited in accordance with the Earnout Agreement. 198,000,000 Ordinary Shares were issued to GDH Limited on 27 February 2004. Another 66,000,000 Ordinary Shares will be issued to GDH Limited on 21 December 2004 and the remaining 66,000,000 Ordinary Shares will be issued on 21 December 2005.

Board

The Board of Directors now comprises eleven Directors, and among them, four are Independent Non-Executive Directors the independent status of all of whom is strictly in accordance with the Listing Rules. There were two full Board meetings held during the period, and the average attendance rate of the Directors stood at about 66.7%.

In accordance with the Articles of Association of the Company, all the Directors are subject to retirement and re-election at the annual general meeting in their first year of appointment and the further requirement for one-third of them (or the nearest number but not exceeding one-third) to retire by rotation and to offer themselves for re-election at each annual general meeting thereafter. Each of the Non-Executive Directors is appointed for a specific term.

Audit Committee

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

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

Internal Audit

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

Supervision of Management and Operation

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

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

Code of Best Practice

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by this interim report, in compliance with Appendix 14 to the Listing Rules.

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding Director's securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the period under review.

The Group's interim financial report for the six months ended 30 June 2004 has not been audited, but has been reviewed by the Audit Committee of the Company and the Company's auditors Messrs. Ernst & Young.

By order of the Board

LI Wenyue

Chairman

Hong Kong, 17 September 2004