

Notes to Financial Statements

31 December 2004

1. CORPORATE INFORMATION

During the year, the Group was principally engaged in investment holding, property holding and investment, the development of properties for sale, investing in infrastructure and energy projects, water supply to Hong Kong, and Shenzhen and Dongguan in the mainland of the People's Republic of China ("the PRC" or "Mainland China"), hotel ownership and operations, hotel management and department stores operation.

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

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

Investments	Principal activities
900,000,000 shares in the then issued share capital of Kingway Brewery Holdings Limited (formerly known as Guangdong Brewery Holdings Limited) ("Kingway Brewery")	Production of beer (the "Brewery Operation")
375,100,000 shares in the then issued share capital of Guangdong Tannery Limited ("GD Tannery")	The processing and sale of semi-finished leather and merchandise trading (the "Tannery Operation")
100% equity interest in Supertime Development Limited ("Supertime")	The manufacture of malts for the brewing industry (the "Malting Operation")
100% equity interest in Guangdong (H.K.) Tours Company Limited ("GD Tours")	The provision of travel and transportation services (the "Tours Operation")
24.8% interest in 廣州市番禺粵海房地產有限公司 (Guangzhou Panyu Yue Hai Real Estate Limited) ("Guangzhou Panyu")	Property development

Upon the completion of the Disposal Transaction in 2003, the Group discontinued its Brewing Operation, Tannery Operation, Malting Operation and Tours Operation. Accordingly, these operations are disclosed as "Discontinued Operations" and additional disclosures pursuant to SSAP 33 "Discontinuing operations" are set out in notes 5 and 6 to the financial statements.

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2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The following HKFRSs are effective for the first time for the current year’s financial statements and have had no impact on the Group’s financial statements:

- HKFRS 1 “First-time Adoption of Hong Kong Financial Reporting Standards”
- Interpretation 22 “The Appropriate Policies for Infrastructure Facilities”

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on the results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment and hotel properties and other investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intra-group transactions and balances within the Group are eliminated on consolidation.

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

Subsidiaries

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries (continued)

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

Joint venture companies

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

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

A joint venture company is treated as:

- (a) a subsidiary, if the Group directly or indirectly, controls more than half of its voting power or issued share/registered capital or controls the composition of its board of directors;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) an investment security, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities (continued)

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

Goodwill or negative goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's interests in jointly-controlled entities.

Associates

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

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

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

Contractual joint venture

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

Goodwill

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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

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

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

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

Negative goodwill

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

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

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill (continued)

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

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

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

Related parties

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

Impairment of assets

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

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

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

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

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

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

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

Depreciation of a toll road's cost is calculated to write off the carrying amount of the toll road over its estimated remaining useful life and is based on the traffic volume and forecast annual growth rates of the traffic volume throughout the toll road's remaining concession period. The method is more commonly referred to as the "unit of usage" method. This depreciation method was adopted to better reflect the consumption pattern of the expected economic benefits over the remaining concession period of the toll road.

Hotel properties

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

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

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

Investment properties

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

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

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

Properties under development

Properties under development are stated at cost less impairment losses.

Operating right

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

Operating leases

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

Other financial assets

Other financial assets include investment securities and other investments.

Investment securities

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

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairments cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairment previously charged is credited to the profit and loss account to the extent of the amounts previously charged.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other financial assets (continued)

Other investments

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

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

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

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

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

Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

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

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

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

Government grants

Government grants in relation to subsidies for interest expenses for borrowings that are related to the Phase IV Renovation Project (as defined in note 14 to the financial statements) are recognised in the profit and loss account as a deduction of interest expense. The government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with all conditions attaching to it.

Employee benefits

Retirement benefits schemes

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

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share option scheme

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

Revenue recognition

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

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

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4. TURNOVER

Continuing:

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

Discontinued:

Turnover from discontinued operations in 2003 included the net invoiced value of manufactured products sold in the Brewery Operation, the Tannery Operation and the Malting Operation, net of goods returned, trade discounts and value-added tax; income generated from the Tours Operation, after eliminations of all significant intra-group transactions.

Revenue from the following activities has been included in turnover:

	2004 HK\$'000	2003 HK\$'000
Turnover		
<i>Continuing:</i>		
Sale of goods	905,052	773,511
Sale of water and electricity	3,652,877	3,582,067
Hotel and rental income	541,330	458,887
Toll revenue	9,868	8,880
Investment and interest income	—	2,439
	5,109,127	4,825,784
<i>Discontinued:</i>		
Sale of goods	—	276,834
Tours service income	—	61,325
	—	338,159
	5,109,127	5,163,943

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5. SEGMENT INFORMATION

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

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary detail of the business segments are as follows:

Continuing:

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

Notes to Financial Statements

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5. SEGMENT INFORMATION (continued)

Discontinued:

The following segments were discontinued in 2003 upon the completion of the Disposal Transaction as set out in note 6 to the financial statements:

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

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Notes to Financial Statements

31 December 2004

5. SEGMENT INFORMATION (continued)

(a) Business segments

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

Group

	Continuing segments					
	Property Investment		Property Development		Toll Roads and Bridges	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue:						
Sales to external customers	322,341	304,165	—	—	9,868	8,880
Intersegment sales	66,109	60,573	—	—	—	—
Other revenue from external sources (note)	3,669	3,972	2,518	—	126	259
Other revenue from intersegment (note)	—	—	—	—	—	—
Exchange gains/(losses), net	(107)	(114)	—	—	750	(417)
Total	392,012	368,596	2,518	—	10,744	8,722
Segment results	270,584	197,038	12,216	(26,879)	(21,984)	1,122
Interest income						
Unallocated other operating income, net						
Other unallocated gains						
Other unallocated expenses						
Profit from operating activities						
Finance costs						
Share of profits less losses of:						
Jointly-controlled entities	—	—	—	—	36,986	63,359
Associates	—	1,474	—	—	2,715	—
Profit before tax						
Tax						
Profit before minority interests						
Minority interests						
Net profit from ordinary activities attributable to shareholders						

Note: Excluding exchange gains/(losses), net

Notes to Financial Statements

31 December 2004

5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Continuing segments					
	Water Distribution		Electric Power Generation		Hotel Operations and Management	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue:						
Sales to external customers	3,118,627	2,958,281	534,250	623,786	218,989	154,722
Intersegment sales	—	—	—	—	—	4,056
Other revenue from external sources (note)	—	—	—	—	2,401	8,275
Other revenue from intersegment (note)	—	—	—	—	—	—
Exchange gains/(losses), net	(3,185)	(12,265)	(34)	31	610	127
Total	3,115,442	2,946,016	534,216	623,817	222,000	167,180
Segment results	1,594,171	1,621,097	(31,742)	155,884	92,789	102,137
Interest income						
Unallocated other operating income, net						
Other unallocated gains						
Other unallocated expenses						
Profit from operating activities						
Finance costs						
Share of profits less losses of:						
Jointly-controlled entities	—	—	—	—	—	—
Associates	—	—	50,531	47,423	—	—
Profit before tax						
Tax						
Profit before minority interests						
Minority interests						
Net profit from ordinary activities attributable to shareholders						

Note: Excluding exchange gains/(losses), net

Notes to Financial Statements

31 December 2004

5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Continuing segments					
	Department Stores		Others		Subtotal	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue:						
Sales to external customers	905,052	773,511	—	2,439	5,109,127	4,825,784
Intersegment sales	—	—	—	—	66,109	64,629
Other revenue from external sources (note)	5,403	6,425	8,190	11,083	22,307	30,014
Other revenue from intersegment (note)	—	—	5,891	—	5,891	—
Exchange gains/(losses), net	(23)	8	538	(1,132)	(1,451)	(13,762)
Total	910,432	779,944	14,619	12,390	5,201,983	4,906,665
Segment results	59,084	52,572	(23,230)	(57,341)	1,951,888	2,045,630
Interest income						
Unallocated other operating income, net						
Other unallocated gains						
Other unallocated expenses						
Profit from operating activities						
Finance costs						
Share of profits less losses of:						
Jointly-controlled entities	—	—	—	—	36,986	63,359
Associates	—	4,013	—	—	53,246	52,910
Profit before tax						
Tax						
Profit before minority interests						
Minority interests						
Net profit from ordinary activities attributable to shareholders						

Note: Excluding exchange gains/(losses), net

Notes to Financial Statements

31 December 2004

5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Discontinued segments					
	Tours Operation		Brewery Operation		Malting Operation	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue:						
Sales to external customers	—	61,325	—	110,513	—	102,047
Intersegment sales	—	—	—	—	—	19,670
Other revenue from external sources (note)	—	128	—	3,374	—	1,429
Other revenue from intersegment (note)	—	—	—	—	—	—
Exchange gains/(losses), net	—	—	—	(25)	—	378
Total	—	61,453	—	113,862	—	123,524
Segment results	—	(240)	—	11,690	—	15,098
Interest income						
Unallocated other operating income, net						
Other unallocated gains						
Other unallocated expenses						
Profit from operating activities						
Finance costs						
Share of profits less losses of:						
Jointly-controlled entities	—	—	—	—	—	—
Associates	—	803	—	—	—	—
Profit before tax						
Tax						
Profit before minority interests						
Minority interests						
Net profit from ordinary activities attributable to shareholders						

Note: Excluding exchange gains/(losses), net

Notes to Financial Statements

31 December 2004

5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Discontinued segments			
	Tannery Operation		Subtotal	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue:				
Sales to external customers	—	64,274	—	338,159
Intersegment sales	—	—	—	19,670
Other revenue from external sources (note)	—	149	—	5,080
Other revenue from intersegment (note)	—	—	—	—
Exchange gains/(losses), net	—	105	—	458
Total	—	64,528	—	363,367
Segment results	—	2,350	—	28,898
Interest income				
Unallocated other operating income, net				
Other unallocated gains				
Other unallocated expenses				
Profit from operating activities				
Finance costs				
Share of profits less losses of:				
Jointly-controlled entities	—	—	—	—
Associates	—	—	—	803
Profit before tax				
Tax				
Profit before minority interests				
Minority interests				
Net profit from ordinary activities attributable to shareholders				

Note: Excluding exchange gains/(losses), net

Notes to Financial Statements

31 December 2004

5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Eliminations		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue:				
Sales to external customers	—	—	5,109,127	5,163,943
Intersegment sales	(66,109)	(84,299)	—	—
Other revenue from external sources (note)	—	—	22,307	35,094
Other revenue from intersegment (note)	(5,891)	—	—	—
Exchange gains/ (losses), net	(5)	—	(1,456)	(13,304)
Total	(72,005)	(84,299)	5,129,978	5,185,733
Segment results	(5)	—	1,951,883	2,074,528
Interest income			14,032	19,028
Unallocated other operating income, net			24,800	36,927
Other unallocated gains			19,623	41,589
Other unallocated expenses			(259)	—
Profit from operating activities			2,010,079	2,172,072
Finance costs			(786,034)	(616,582)
Share of profits less losses of:				
Jointly-controlled entities	—	—	36,986	63,359
Associates	—	—	53,246	53,713
Profit before tax			1,314,277	1,672,562
Tax			57,387	(223,587)
Profit before minority interests			1,371,664	1,448,975
Minority interests			(221,965)	(342,254)
Net profit from ordinary activities attributable to shareholders			1,149,699	1,106,721

Note: Excluding exchange gains/(losses), net

Notes to Financial Statements

31 December 2004

5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Continuing segments									
	Property Investment		Property Development		Toll Roads and Bridges		Water Distribution		Electric Power Generation	
	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
Segment assets	3,492,947	3,295,856	55,182	43,630	175,277	201,380	21,995,213	23,230,612	470,717	686,651
Interests in associates	—	—	—	—	42,824	—	—	—	382,350	343,818
Interests in jointly-controlled entities	—	—	—	—	1,014,362	961,297	—	—	—	—
Unallocated assets	—	—	—	—	—	—	—	—	—	—
Total assets										
Segment liabilities	260,478	268,632	3,002	4,589	70,217	79,671	276,250	357,654	251,176	244,328
Unallocated liabilities	—	—	—	—	—	—	—	—	—	—
Total liabilities										
Other segment information:										
Depreciation and amortisation	5,673	4,639	—	11	6,202	4,541	995,154	834,127	47,741	62,321
Unallocated amounts	—	—	—	—	—	—	—	—	—	—
Impairment losses recognised in the profit and loss account	25,176	—	—	26,836	23,993	—	—	9,687	64,512	—
Impairment losses reversed in the profit and loss account	—	—	(9,902)	—	—	—	—	—	—	—
Unallocated amounts	—	—	—	—	—	—	—	—	—	—
Other non-cash expenses/ (income), net	(38,214)	89,416	—	—	—	—	(302)	9,275	—	—
Capital expenditure	47,820	1,013	—	—	323	—	13,478	640,168	24,728	15,081

Notes to Financial Statements

31 December 2004

5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Continuing segments							
	Hotel Operations and Management		Department Stores		Others		Subtotal	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	1,872,473	1,826,913	265,621	262,770	700,721	601,011	29,028,151	30,148,823
Interests in associates	—	—	27,505	27,586	—	—	452,679	371,404
Interests in jointly-controlled entities	—	—	—	—	—	—	1,014,362	961,297
Unallocated assets								
Total assets								
Segment liabilities	36,721	30,426	250,821	228,285	43,524	53,155	1,192,189	1,266,740
Unallocated liabilities								
Total liabilities								
Other segment information:								
Depreciation and amortisation	13,675	13,650	22,398	18,004	1,812	3,608	1,092,655	940,901
Unallocated amounts								
Impairment losses recognised in the profit and loss account	—	—	—	13,867	—	—	113,681	50,390
Impairment losses reversed in the profit and loss account	—	—	—	—	—	—	(9,902)	—
Unallocated amounts								
Other non-cash expenses/ (income), net	(11,894)	(59,796)	—	—	6,858	3,283	(43,552)	42,178
Capital expenditure	28,912	10,703	—	879	1	51,374	115,262	719,218

Notes to Financial Statements

31 December 2004

5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Discontinued segments							
	Tours Operation		Brewery Operation		Malting Operation		Tannery Operation	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment assets	—	—	—	—	—	—	—	—
Interests in associates	—	—	—	—	—	—	—	—
Interests in jointly-controlled entities	—	—	—	—	—	—	—	—
Unallocated assets								
Total assets								
Segment liabilities	—	—	—	—	—	—	—	—
Unallocated liabilities								
Total liabilities								
Other segment information:								
Depreciation and amortisation	—	12	—	22,055	—	9,494	—	4,162
Unallocated amounts								
Impairment losses recognised in the profit and loss account	—	—	—	—	—	—	—	—
Impairment losses reversed in the profit and loss account	—	—	—	—	—	—	—	—
Unallocated amounts								
Other non-cash expenses/ (income), net	—	—	—	—	—	—	—	—
Capital expenditure	—	216	—	20,101	—	340	—	1,307

Notes to Financial Statements

31 December 2004

5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Discontinued segments		Eliminations		Consolidated	
	Subtotal					
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment assets	—	—	—	—	29,028,151	30,148,823
Interests in associates	—	—	—	—	452,679	371,404
Interests in jointly-controlled entities	—	—	—	—	1,014,362	961,297
Unallocated assets	—	—	—	—	7,594	60,839
Total assets					30,502,786	31,542,363
Segment liabilities	—	—	—	—	1,192,189	1,266,740
Unallocated liabilities	—	—	—	—	17,462,238	19,374,014
Total liabilities					18,654,427	20,640,754
Other segment information:						
Depreciation and amortisation	—	35,723	—	—	1,092,655	976,624
Unallocated amounts	—	—	—	—	(14,441)	(11,395)
					1,078,214	965,229
Impairment losses recognised in the profit and loss account	—	—	—	—	113,681	50,390
Impairment losses reversed in the profit and loss account	—	—	—	—	(9,902)	—
Unallocated amounts	—	—	—	—	(24,800)	70,256
					78,979	120,646
Other non-cash expenses/ (income), net	—	—	—	—	(43,552)	42,178
Capital expenditure	—	21,964	—	—	115,262	741,182

Notes to Financial Statements

31 December 2004

5. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain asset and capital expenditure information for the Group's geographical segments.

	Hong Kong		Mainland China		Others		Eliminations		Consolidated	
	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
Segment revenue:										
Sales to external customers	139,936	175,860	4,969,191	4,988,083	—	—	—	—	5,109,127	5,163,943
Other segment information:										
Segment assets	2,528,940	2,305,577	26,499,211	27,843,246	—	—	—	—	29,028,151	30,148,823
Capital expenditure	19,649	59,260	95,613	681,922	—	—	—	—	115,262	741,182

6. DISCONTINUED OPERATIONS

During the year ended 31 December 2004, the Group had no discontinued operations.

As described in note 1 to the financial statements, during the year ended 31 December 2003, on 26 February 2003, the Company entered into a conditional agreement (the "Disposal Agreement") with GDH Limited, for the disposal of the following assets at a total consideration of HK\$1,451,226,000 (the "Disposal Transaction"):

- The Group's entire 900,000,000 shares in the then issued share capital of 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 GD Tannery, which with its subsidiaries carried out the Group's Tannery Operation;
- The Group's entire 100% equity interest in Supertime, which with its subsidiaries carried out the Group's Malting Operation;
- The Group's entire 100% equity interest in GD Tours, which with its subsidiaries carried out the Group's Tours Operation;
- The Group's entire 24.8% equity interest in Guangzhou Panyu, the subsidiaries of which operate a property development project in Guangzhou; and
- Net intercompany 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 Financial Statements

31 December 2004

6. 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 are as follows:

	Brewery Operation		Tannery Operation	
	31 December 2004 HK\$'000	31 December 2003 HK\$'000	31 December 2004 HK\$'000	31 December 2003 HK\$'000
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 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 year	—	6,190	—	(91)

Notes to Financial Statements

31 December 2004

6. DISCONTINUED OPERATIONS (continued)

The net cash flows attributable to the discontinued operations are as follows:

	Brewery Operation		Tannery Operation	
	31 December 2004 HK\$'000	31 December 2003 HK\$'000	31 December 2004 HK\$'000	31 December 2003 HK\$'000
Operating	—	7,549	—	(42,864)
Investing	—	(12,038)	—	9,308
Financing	—	153	—	(5,930)
Net cash outflow	—	(4,336)	—	(39,486)

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

	Malting Operation		Tours Operation	
	31 December 2004 HK\$'000	31 December 2003 HK\$'000	31 December 2004 HK\$'000	31 December 2003 HK\$'000
Turnover	—	102,047	—	61,325
Cost of sales	—	(76,413)	—	(53,645)
Gross profit	—	25,634	—	7,680
Other revenue and gains	—	1,843	—	155
Selling and distribution costs	—	(5,077)	—	(838)
Administrative expenses	—	(7,267)	—	(4,926)
Other operating expenses	—	—	—	(2,283)
Profit/(loss) from operating activities	—	15,133	—	(212)
Finance costs	—	(3,972)	—	(1,818)
Share of profits less losses of associates	—	—	—	803
Profit/(loss) before tax	—	11,161	—	(1,227)
Tax	—	(955)	—	(265)
Profit/(loss) before minority interests	—	10,206	—	(1,492)
Minority interests	—	(5,570)	—	—
Net profit/(loss) for the year	—	4,636	—	(1,492)

Notes to Financial Statements

31 December 2004

6. DISCONTINUED OPERATIONS (continued)

The net cash flows attributable to the discontinued operations are as follows:

	Malting Operation		Tours Operation	
	31 December 2004 HK\$'000	31 December 2003 HK\$'000	31 December 2004 HK\$'000	31 December 2003 HK\$'000
Operating	—	(29,424)	—	(12,835)
Investing	—	(341)	—	5,204
Financing	—	95,273	—	—
Net cash inflow/(outflow)	—	65,508	—	(7,631)

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

	Total	
	31 December 2004 HK\$'000	31 December 2003 HK\$'000
Turnover	—	338,159
Cost of sales	—	(256,816)
Gross profit	—	81,343
Other revenue and gains	—	6,084
Selling and distribution costs	—	(32,937)
Administrative expenses	—	(22,763)
Other operating expenses	—	(2,283)
Profit from operating activities	—	29,444
Finance costs	—	(8,269)
Share of profits less losses of associates	—	803
Profit before tax	—	21,978
Tax	—	(1,794)
Profit before minority interests	—	20,184
Minority interests	—	(10,941)
Net profit for the year	—	9,243

Notes to Financial Statements

31 December 2004

6. DISCONTINUED OPERATIONS (continued)

The net cash flows attributable to the discontinued operations are as follows:

	Total	
	31 December 2004 HK\$'000	31 December 2003 HK\$'000
Operating	—	(77,574)
Investing	—	2,133
Financing	—	89,496
Net cash inflow	—	14,055

As at the balance sheet date, the discontinued operations of the Brewery Operation, Tannery Operation, Malting Operation and Tours Operation had no asset and liability (2003: Nil).

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31 December 2004

7. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2004 HK\$'000	2003 HK\$'000
Cost of inventories sold*		1,051,618	908,049
Depreciation	14	529,685	362,150
Amortisation of deferred expenses*		37	8,154
Amortisation of reusable packaging materials*		—	2,023
Amortisation of the operating right*	23	493,287	493,287
Amortisation of prepaid rental*	24(a)	69,646	111,010
Minimum lease payments under operating leases in respect of land and buildings		370	1,915
Auditors' remuneration		3,088	2,877
Staff costs (excluding directors' remuneration — note 8)			
Wages and salaries		225,237	233,724
Pension scheme contributions		17,081	17,899
Less: Forfeited contributions		(725)	(309)
Net pension scheme contributions#		16,356	17,590
		241,593	251,314
Gross rental income from investment properties		(224,127)	(254,658)
Less: Outgoings		6,024	5,023
Net rental income from investment properties		(218,103)	(249,635)
Negative goodwill recognised as income**	21	(14,700)	(11,633)
Other rental income, net		(28,975)	(29,272)
Gain on disposal of subsidiaries and associates, net	44(b)	—	(19,474)
Interest income		(14,032)	(19,028)
Exchange losses, net		1,456	13,304

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31 December 2004

7. PROFIT FROM OPERATING ACTIVITIES (continued)

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

	Notes	2004 HK\$'000	2003 HK\$'000
Amortisation of goodwill	21	259	238
Investment property revaluation deficit/(surplus), net	16	(38,214)	89,416
Hotel property revaluation surplus, net	14	(11,903)	(62,010)
Impairment of fixed assets	14	113,681	23,554
Provision for/(write-back of provision for) impairment of interests in jointly-controlled entities	18	(24,800)	60,000
Impairment of investment securities		—	10,256
Provision for/(write-back of provision for) impairment of properties under development	15	(9,902)	26,836
Loss on disposal of fixed assets, net		16,805	415
Loss on disposal of investment properties		—	977
Write-back of provision for impairment in a deconsolidated subsidiary	17	—	(46,895)
Write-back of provision for an amount due from a fellow subsidiary		(573)	(994)
Provision/(write-back of provision) against inventories, net		(293)	9,771
Provision for/(write-back of provision for) doubtful debts, net		6,858	(58,031)

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

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

As at 31 December 2003 and 2004, there were no material forfeited pension scheme contributions outstanding and available to reduce the Group's pension scheme contributions in future years.

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8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive directors	—	—
Independent non-executive directors	600	800
Non-executive director	200	—
	800	800
Other emoluments:		
Salaries, allowances and benefits in kind	3,469	3,849
Bonuses paid and payable	1,795	844
Pension scheme contributions	798	720
Less: Forfeited contributions	—	—
Net pension scheme contributions	798	720
Total directors' remuneration	6,862	6,213

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

	Number of directors	
	2004	2003
Nil–HK\$1,000,000	12	13
HK\$1,000,001–HK\$1,500,000	2	—
HK\$1,500,001–HK\$2,000,000	2	2
	16	15

Notes to Financial Statements

31 December 2004

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

During the year, 36,600,000 (2003: 24,000,000) share options of the Company were granted to directors in respect of their services to the Group, further details of which are set out in note 42 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

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

- (b) The five highest paid employees of the Group during the year included three (2003: two) directors, of whom one resigned during the year. Details of the remuneration of the other two (2003: three) highest paid, non-director employees for the year are as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Salaries, allowances and other benefits in kind	1,771	3,162
Bonuses paid and payable	650	454
Pension scheme contributions	208	150
	2,629	3,766

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2004	2003
HK\$1,000,001–HK\$1,500,000	2	2
HK\$1,500,001–HK\$2,000,000	—	1
	2	3

During the year, 6,000,000 (2003: 3,100,000) share options were granted to the above two (2003: all of the above three) non-director, highest paid employees in respect of their services to the Group, further details of which are included in note 42 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above five highest paid employees' remuneration disclosures.

Notes to Financial Statements

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9. FINANCE COSTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Interest on bank loans, and other borrowings repayable:		
Within five years*	64,625	30,903
Over five years**	298,077	453,312
Interest on provision for bank loans guaranteed	—	4,070
	362,702	488,285
Less: Interest included in prepaid construction costs	—	(25,611)
	362,702	462,674
Finance charges incurred on interest rate swap agreements, net	423,332	153,908
Total finance costs for the year	786,034	616,582

* Include interest expenses on the Straight Bonds (as defined in note 36 to financial statements) and Convertible Bonds (as defined in note 37 to financial statements) of HK\$4,550,000 (2003: HK\$556,000) and HK\$9,973,000 (2003: HK\$218,000), respectively.

** Net of government grants of HK\$62,571,000 (2003: HK\$25,992,000) in respect of subsidies for interest expenses.

Notes to Financial Statements

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10. 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 year. 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.

	2004 HK\$'000	2003 HK\$'000
Group:		
Current — Hong Kong		
Charge for the year	139	2,403
Overprovision in prior years	—	(1,643)
Current — Mainland China		
Charge for the year	129,107	128,038
Underprovision in prior years	2,629	1,612
Deferred (note 40)*	(200,948)	70,484
	(69,073)	200,894
Share of tax attributable to:		
Jointly-controlled entities	3,100	10,466
Associates	8,586	12,227
Total tax charge/(credit) for the year	(57,387)	223,587

* The amount included a deferred land appreciation tax credit of approximately HK\$205,287,000 arising from the change in the difference between the estimated open market values and the estimated depreciated replacement costs in respect of the Group's certain properties in Mainland China for deferred tax purpose.

Notes to Financial Statements

31 December 2004

10. TAX (continued)

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

	Hong Kong		2004 Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	84,865		1,229,412		1,314,277	
Tax at the statutory or applicable tax rate	14,851	17.5	405,706	33.0	420,557	32.0
Lower tax rate for specific provinces or local authority and as a result of tax holidays	—	—	(218,104)	(17.7)	(218,104)	(16.6)
Adjustments in respect of current tax of previous periods	—	—	2,629	0.2	2,629	0.2
Income not subject to tax	(48,305)	(56.9)	(41,964)	(3.4)	(90,269)	(6.9)
Expenses not deductible for tax	26,367	31.0	13,257	1.1	39,624	3.0
Effect on unused tax losses for the year not recognised	3,446	4.1	531	—	3,977	0.3
Tax losses utilised from previous periods	(3,485)	(4.1)	(4,416)	(0.4)	(7,901)	(0.6)
Reduction of deferred land appreciation tax, pursuant to reassessment of notional gain of the Group's properties in Mainland China for deferred tax purpose	—	—	(205,287)	(16.7)	(205,287)	(15.6)
Others	88	0.1	(2,701)	(0.2)	(2,613)	(0.2)
Tax credit at the Group's effective rate	(7,038)	(8.3)	(50,349)	(4.1)	(57,387)	(4.4)

Notes to Financial Statements

31 December 2004

10. TAX (continued)

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

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

In addition, certain subsidiaries of the Group were entitled to tax holidays in the Guangdong Province, the PRC, during 2003 and 2004.

Notes to Financial Statements

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11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company, was HK\$853,028,000 (2003: net loss of HK\$7,432,000).

12. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim — 2.5 HK cents (2003: Nil) per ordinary share	136,997	—
Proposed final — 3.5 HK cents (2003: Nil) per ordinary share	194,990	—
	331,987	—

Upon the completion of the Company's Capital Reduction Proposal (as defined in note 43(a) to the financial statements) on 24 December 2003 (the "Effective Date"), the Preference Shares (as defined in note 41 to the financial statements) were cancelled and the Company's obligation to settle the accumulated but undeclared dividends on the Preference Shares up to the Effective Date was waived and in replacement therewith the Company issued the Straight Bonds (as defined in note 36 to the financial statements) and the Convertible Bonds (as defined in note 37 to the financial statements) to the beneficial owners of the Preference Shares. Further details of the Capital Reduction Proposal and the Preference Share Cancellation (as defined in note 43(a) to the financial statements) are included respectively in notes 43(a) and (d) to the financial statements.

The proposed final dividend for the year, if approved at the forthcoming Annual General Meeting of the Company to be held on 10 June 2005, is expected to be paid on 28 June 2005 to shareholders whose names appear on the register of members of the Company on 10 June 2005.

The total final dividend payable is based on total number of shares as at the approval date of these financial statements by the board of directors which includes the shares issued after the year end.

Notes to Financial Statements

31 December 2004

13. EARNINGS PER SHARE

The calculations of the basic and diluted earnings per share are based on:

	2004 HK\$'000	2003 HK\$'000
Earnings:		
Net profit attributable to holders of ordinary shares	1,149,699	1,106,721
Add: Interest saving on the Convertible Bonds from date of issue	9,973	218
Earnings for the purpose of diluted earnings per share	1,159,672	1,106,939
	2004	2003
Number of shares:		
Weighted average number of ordinary shares in issue	5,438,492,014	5,214,533,083
Effect of Additional Shares (as defined in note 43(c) to the financial statements) to be issued arising from the Acquisition from the date after all necessary conditions have been satisfied	160,389,041	280,500,000
For the purpose of basic earnings per share	5,598,881,055	5,495,033,083
Weighted average number of ordinary shares in issue	5,438,492,014	5,214,533,083
Assumed issued at no consideration on deemed exercise of all share options outstanding during the year	124,733,865	151,284,000
Assumed issued on deemed conversion of the Convertible Bonds into ordinary shares on date of issue	268,801,460	5,891,538
Effect of Additional Shares to be issued arising from the Acquisition from the beginning of year	160,389,041	330,000,000
For the purpose of diluted earnings per share	5,992,416,380	5,701,708,621

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 shareholders' circular of the Company in respect of the Acquisition dated 15 September 2000 (the "Acquisition Circular").

Notes to Financial Statements

31 December 2004

13. EARNINGS PER SHARE (continued)

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 and 21 December 2004, 198,000,000 Additional Shares and 66,000,000 Additional Shares, respectively, were issued to GDH Limited in accordance with the Earnout Agreement. Another 66,000,000 Additional Shares will be issued on 21 December 2005.

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 years.

The share options expiring on 6 May 2009 had an anti-dilutive effect on the basic earnings per share and have not been included in the diluted earnings per share calculation for the year ended 31 December 2004.

In 2003, the share options that expired on 18 August 2003 and 16 September 2003 had an anti-dilutive effect on the basic earnings per share and had not been included in the diluted earnings per share calculation for the year ended 31 December 2003.

Notes to Financial Statements

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14. FIXED ASSETS

Group

	Hotel properties HK\$'000	Land and buildings HK\$'000	Tunnels, dams, water mains and reservoirs HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Toll road HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost or valuation:										
At beginning of year	1,698,640	4,825,663	4,911,402	1,722,344	250,974	91,889	22,702	224,252	444,581	14,192,447
Additions	423	9,372	325	24,810	5,744	24,164	1,489	—	48,179	114,506
Transfer from investment properties (note 16)	—	96,054	—	—	—	—	—	—	—	96,054
Transfer to investment properties (note 16)	—	(66,321)	—	—	—	—	—	—	—	(66,321)
Reclassifications	—	—	221	1,059	710	169	—	—	(2,159)	—
Disposals and write-offs	—	(13,998)	(1,653)	(25,476)	(23,179)	(643)	(1,944)	—	—	(66,893)
Revaluation surplus, net	32,292	—	—	—	—	—	—	—	—	32,292
Exchange adjustments	(33)	543	—	540	(146)	86	17	287	517	1,811
At 31 December 2004	1,731,322	4,851,313	4,910,295	1,723,277	234,103	115,665	22,264	224,539	491,118	14,303,896
Analysis of cost or valuation:										
At cost	—	4,851,313	4,910,295	1,723,277	234,103	115,665	22,264	224,539	491,118	12,572,574
At 31 December 2004 valuation	1,731,322	—	—	—	—	—	—	—	—	1,731,322
	1,731,322	4,851,313	4,910,295	1,723,277	234,103	115,665	22,264	224,539	491,118	14,303,896
Accumulated depreciation and impairment:										
At beginning of year	—	599,661	171,953	328,340	213,453	80,260	15,523	36,493	9,687	1,455,370
Provided during the year	—	166,680	177,859	157,840	10,184	8,893	2,091	6,138	—	529,685
Impairments (note 7)	—	25,176	—	64,512	—	—	—	23,993	—	113,681
Transfer to investment properties (note 16)	—	(29,484)	—	—	—	—	—	—	—	(29,484)
Reclassifications	—	—	—	—	(11)	11	—	—	—	—
Disposals and write-offs	—	(4,879)	(518)	(18,666)	(22,281)	(635)	(1,306)	—	—	(48,285)
Exchange adjustments	—	185	—	115	(114)	75	18	47	—	326
At 31 December 2004	—	757,339	349,294	532,141	201,231	88,604	16,326	66,671	9,687	2,021,293
Net book value:										
At 31 December 2004	1,731,322	4,093,974	4,561,001	1,191,136	32,872	27,061	5,938	157,868	481,431	12,282,603
At 31 December 2003	1,698,640	4,226,002	4,739,449	1,394,004	37,521	11,629	7,179	187,759	434,894	12,737,077

At 31 December 2004, all temporary land use rights certificates for the existing water supply operation issued from the Shenzhen and Dongguan Land Authorities have been received. The procedures for the conversion from temporary land use rights certificates to land use rights certificates of these land use rights are in progress. For Dongshen Water Supply Phase IV Renovation Project (the "Phase IV Renovation Project") transferred to fixed assets in October 2003, the applications for land use rights certificates have been commenced and these land use rights certificates have not yet been issued by the relevant offices of the Land Authority in the PRC as at the balance sheet date. Notwithstanding this, the directors are of the opinion that the Group has obtained beneficial title to these assets as at 31 December 2004 and the land use rights certificates can be received.

Notes to Financial Statements

31 December 2004

14. FIXED ASSETS (continued)

The net book values the Group's hotel properties and land and buildings at the balance sheet date are analysed as follows:

	Hotel properties		Land and buildings	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Long term leases in Hong Kong	692,374	692,700	141,801	235,612
Medium term leases in Hong Kong	401,380	399,266	71,166	41,268
Medium term leases in Mainland China	637,568	606,674	3,881,007	3,949,122
	1,731,322	1,698,640	4,093,974	4,226,002

The hotel properties were revalued individually on 31 December 2004 by Vigers Appraisal & Consulting Limited, independent professional qualified valuers, at an aggregate amount of HK\$1,731,322,000 on an open market existing use basis.

Out of the net revaluation surplus of HK\$32,292,000 (2003: HK\$62,010,000), HK\$11,903,000 (2003: HK\$62,010,000) has been credited to the consolidated profit and loss account, to offset the revaluation deficit previously charged, and HK\$20,389,000 (2003: Nil) has been credited to hotel property revaluation reserve.

Had the carrying values of the Group's hotel properties been stated at historical cost less accumulated depreciation and impairment losses in accordance with the Group's accounting policies, their carrying amounts would have been HK\$1,710,933,000 (2003: HK\$1,698,640,000).

Notes to Financial Statements

31 December 2004

14. FIXED ASSETS (continued)

Company

	Furniture, fixtures and equipment HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:				
At beginning of year	11,332	8,526	612	20,470
Additions	1	—	—	1
At 31 December 2004	11,333	8,526	612	20,471
Accumulated depreciation:				
At beginning of year	10,880	7,020	612	18,512
Provided during the year	416	1,396	—	1,812
At 31 December 2004	11,296	8,416	612	20,324
Net book value:				
At 31 December 2004	37	110	—	147
At 31 December 2003	452	1,506	—	1,958

15. PROPERTIES UNDER DEVELOPMENT

	Group 2004 HK\$'000	2003 HK\$'000
Balance at beginning of year	37,141	69,600
Additions	756	—
Write-back of provision/(provision) for impairment (note 7)	9,902	(26,836)
Disposal of subsidiaries (note 44(b))	—	(5,600)
Exchange realignment	34	(23)
Balance at 31 December	47,833	37,141

Notes to Financial Statements

31 December 2004

15. PROPERTIES UNDER DEVELOPMENT (continued)

The Group's properties under development are located in Mainland China and are held under long term leases as at 31 December 2004 and 31 December 2003.

During the year, the Group commenced the redevelopment of the properties and the expected redevelopment time will be over one year and accordingly, the properties under development are reclassified under non-current assets as at 31 December 2004.

16. INVESTMENT PROPERTIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Balance at beginning of year, at valuation	2,106,139	2,289,280
Transfer from/(to) fixed assets, net (note 14)	(59,217)	67,875
Revaluation surplus/(deficit), net (note 7)	38,214	(89,416)
Disposals	(1,500)	(12,670)
Disposal of subsidiaries (note 44(b))	—	(147,731)
Exchange adjustments	1,656	(1,199)
Balance at 31 December, at valuation	2,085,292	2,106,139

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

	2004 HK\$'000	2003 HK\$'000
Analysed by geographical location:		
Long term leases in Hong Kong	351,200	287,400
Medium term leases in Hong Kong	—	1,500
Medium term leases in Mainland China	1,734,092	1,817,239
Total	2,085,292	2,106,139

The Group's investment properties were revalued on 31 December 2004 by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, at an aggregate amount of HK\$2,085,292,000 on an open market existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 45(a) to the financial statements.

Further particulars of the Group's investment properties are included on page 166.

Notes to Financial Statements

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17. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at cost	4,980,603	4,908,120
Due from subsidiaries	4,618,516	4,453,672
Due to subsidiaries	(937,287)	(1,425,460)
	8,661,832	7,936,332
Provision for impairment	(2,160,562)	(2,137,655)
	6,501,270	5,798,677
Portion classified as current assets	(185,950)	—
	6,315,320	5,798,677

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

Included in the amounts due from subsidiaries are (i) unsecured loans in an aggregate amount of HK\$441,502,000 (2003: HK\$445,000,000), which bear interest at Hong Kong Dollar Prime Rate plus 1% to a fixed rate of 9% (2003: Hong Kong Dollar Prime Rate plus 1% to a fixed rate of 9%) per annum and are repayable within five years; and (ii) an unsecured entrusted loan of RMB198,000,000 (HK\$185,950,000) (2003: Nil) which 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.

Included in the amounts due to subsidiaries are unsecured loans in an aggregate amount of HK\$497,320,000 (2003: HK\$994,640,000), which bear interest at a rate of 2% (2003: rates ranging from 2% to 5.1%) per annum. The balances are repayable in accordance with the terms and conditions of the Convertible Bonds as set out in note 37 to the financial statements as agreed by the Company and its subsidiary.

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31 December 2004

17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Company	Place of incorporation/ registration and operations	Nominal value of issued share capital, registered/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Global Head Developments Limited	British Virgin Islands/ Hong Kong	US\$1	100%	—	Property investment
Fill Success Investments Limited	Hong Kong	HK\$2 ordinary HK\$2 non-voting deferred	—	100%	Hotel ownership
GH Water Supply (Holdings) Limited *	Cayman Islands/ Mainland China	HK\$1,000,000 ordinary HK\$100 Class A special shares HK\$10 Class B special shares	82.86%	—	Investment holding
廣東天質(集團)股份有限公司 (Guang Dong Teem (Holdings) Ltd.) ⁽¹⁾	Mainland China	RMB840,000,000	9.68%	58.90%	Property investment and investment holding
Guangdong Hotel Limited	Hong Kong	HK\$2 ordinary HK\$5,000,000 non-voting deferred	—	100%	Hotel ownership and operations
Guangdong (International) Hotel Management Limited	Hong Kong	HK\$10,000,000	100%	—	Hotel management
GDI Finance (Cayman) 2003 Limited	Cayman Islands/ Hong Kong	US\$1	100%	—	Provision of finance to the Group
Guangdong Nan Fang (Holdings) Co. Ltd.	British Virgin Islands/ Mainland China	US\$10,000	56.34%	—	Property investment
Guangdong Power (International) Limited	British Virgin Islands/ Hong Kong	US\$44,078,850	51%	—	Investment holding
Guangdong Properties Holdings Limited	Hong Kong	HK\$2	100%	—	Investment holding
廣東天河城百貨有限公司 (Guangdong Teemall Department Stores Ltd.) (Formerly 廣東天質南大百貨有限公司 (Guangdong Teem Nanda Department Stores Ltd.)) ⁽⁴⁾	Mainland China	RMB8,000,000	—	80.52%	Department stores operations
廣東粵港供水有限公司 (Guangdong Yue Gang Water Supply Company Limited) ^{(2)*}	Mainland China	HK\$6,116,000,000	—	82.03%	Water supply business
Guangdong Yingde Highway Ltd. ⁽²⁾	Mainland China	RMB93,200,000	—	70%	Highway operations

Notes to Financial Statements

31 December 2004

17. INTERESTS IN SUBSIDIARIES (continued)

Company	Place of incorporation/ registration and operations	Nominal value of issued share capital, registered/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
惠陽粵海房產發展有限公司 (Hui Yang Yue Hai Real Estate Development Ltd.) ⁽²⁾	Mainland China	RMB75,000,000	—	80%	Property development
Sen International Ventures Corporation (Hong Kong) Limited	Hong Kong	HK\$2	—	100%	Hotel operations
Shaoguan Power Plant (D) Ltd. ⁽¹⁾	Mainland China	US\$51,500,000	—	45.9%	Power plant operations
深圳粵海酒店企業有限公司 (Shenzhen Guangdong Hotel Enterprise Ltd.) ⁽²⁾	Mainland China	HK\$114,787,016	99%	—	Hotel ownership and operations
Yue Hai Hotel, Zhuhai ⁽³⁾	Mainland China	US\$10,000,000	—	100%	Hotel ownership and operations
Yue Sheng Finance Limited	Hong Kong	HK\$2	100%	—	Finance and investment
Zhongshan Power (Hong Kong) Limited	Hong Kong	HK\$100	95%	—	Investment holding

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

Notes:

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

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

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17. INTERESTS IN SUBSIDIARIES (continued)

Due to the disengagement arrangements regarding a subsidiary in prior years and its significant accumulated losses, the Group's interest in this subsidiary was deconsolidated. The details are set out below.

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	—	—	—	—
Net liabilities deconsolidated	—	(483,888)	—	—
Amounts due from deconsolidated subsidiaries	—	209,731	—	—
	—	(274,157)	—	—
Provision for guarantees granted to banks of deconsolidated subsidiaries	—	582,885	—	582,885
	—	308,728	—	582,885
Provision for impairment	—	(261,833)	—	(535,990)
	—	46,895	—	46,895
Included in the receivables, prepayments and deposits balance	—	(46,895)	—	(46,895)
	—	—	—	—

Notes to Financial Statements

31 December 2004

17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the deconsolidated subsidiary at the balance sheet date were as follows:

Company	Place of incorporation/ registration and operations	Nominal value of issued share capital, registered/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangdong Construction Materials (International) Limited ("GCM")	Hong Kong	HK\$2	—	100%	Investment holding

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

Pursuant to a share sale agreement and a debt assignment, both dated 22 December 2003, entered into between GCM and an independent party, GCM's entire 70% equity interest in Guang Dong Nanhua Cement Limited ("Nanhua Cement") together with the debt owed by Nanhua Cement to GCM were transferred to the independent party at an aggregate cash consideration of RMB50,000,000 (approximately HK\$46,895,000). Such transaction was completed and the consideration was received by the Group in January 2004. Accordingly, the Company reversed the impairment provision previously made against its interest in GCM by RMB50,000,000 (approximately HK\$46,895,000) during the year ended 31 December 2003 and the related consideration receivable was included in the Company's and the Group's "Receivables, prepayments and deposits" as at 31 December 2003. The aforesaid amount of RMB50,000,000 (HK\$46,895,000) was received in the current year.

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18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	936,611	777,407
Due from jointly-controlled entities	112,951	243,890
	1,049,562	1,021,297
Provision for impairment (note 7)	(35,200)	(60,000)
	1,014,362	961,297

Except for the balance of HK\$38,636,000 (2003: HK\$243,890,000) which bears interest at LIBOR per annum, amounts due from jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the jointly-controlled entities, which are corporations, are as follows:

Company	Place of incorporation/ registration and operations	Percentage of attributable equity interest held by the Group	Principal activities
Guangdong Transport Investment (BVI) Company Limited ("GTI")	British Virgin Islands/ Mainland China	51%	Investments in highway and bridge projects
Xin Yue Qinglian Company Limited ("XYQL")*	British Virgin Islands/ Mainland China	51%	Investment in a highway project

* During the year, pursuant to a group restructure, XYQL became a jointly-controlled entity of the Group.

Notes to Financial Statements

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19. INTERESTS IN ASSOCIATES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at cost	—	—	115,062	115,062
Share of net assets	456,665	314,121	—	—
Due from associates	—	61,139	—	—
Due to associates	(3,986)	(3,856)	—	—
	452,679	371,404	115,062	115,062

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

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

Company	Place of incorporation/ registration and operations	Percentage of attributable equity interest held by		Principal activities
		Company	Group	
Guangdong Jusco Teem Stores Co. Ltd	Mainland China	—	24%	Department stores operation
Guangdong Power Investment Limited	British Virgin Islands/ Hong Kong	49%	49%	Investment holding
廣東省韶關粵江發電有限責任公司 (Guangdong Shaoguan Yue Jiang Power Supply Limited)	Mainland China	—	11.48%	Power plant operations
廣東番禺大橋有限公司 (Guangdong Pan Yu Bridge Company Limited)*	Mainland China	—	20%	Toll bridge operations

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

* In October 2004, the Group acquired a 20% interest in Guangdong Pan Yu Bridge Company Limited through the acquisition of a 100% interest in Guangdong Assets Management (BVI) No. 3 Limited ("GAM3"). Further details of the transaction are included in notes 44(c) and 50(f) to the financial statements.

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20. CONTRACTUAL JOINT VENTURE

	Group	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at cost	271,152	271,152
Less: Accumulated amortisation and impairment	(271,152)	(271,152)
Due from a contractual joint venture	70,227	70,227
Less: Provision	(70,227)	(70,227)
At 31 December	—	—

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

As at the balance sheet date, a bank loan of US\$10 million (2003: US\$10.5 million) drawn by Zhongshan Power Plant is secured by all land, buildings and equipment of Zhongshan Power Plant and is also guaranteed by the Company (note 47).

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21. GOODWILL AND NEGATIVE GOODWILL

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

	Group	
	Goodwill	Negative goodwill
	HK\$'000	HK\$'000
Cost:		
At beginning of year	1,192	(154,286)
Acquisition of interests in subsidiaries	1,061	(70,805)
At 31 December 2004	2,253	(225,091)
Accumulated amortisation/(recognition as income):		
At beginning of year	595	(32,922)
Amortisation provided/(recognised as income) during the year (note 7)	259	(14,700)
At 31 December 2004	854	(47,622)
Net book value:		
At 31 December 2004	1,399	(177,469)
At 31 December 2003	597	(121,364)

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

Notes to Financial Statements

31 December 2004

21. GOODWILL AND NEGATIVE GOODWILL (continued)

The net amounts of the goodwill and negative goodwill remaining in consolidated capital reserve as at 31 December 2004, arising from the acquisition of subsidiaries, associates and jointly-controlled entities prior to the adoption of SSAP 30 in 2001 are as follows:

	Group	
	Goodwill eliminated against consolidated capital reserve HK\$'000	Negative goodwill credited to consolidated capital reserve HK\$'000
Net amount:		
At 1 January 2004 and at 31 December 2004	303,703	(1,652,608)

The net amount of goodwill eliminated against consolidated capital reserve as at 31 December 2004 included a gross amount of HK\$367,599,000 less accumulated impairment of HK\$63,896,000.

22. OTHER FINANCIAL ASSETS

	Note	Group	
		2004 HK\$'000	2003 HK\$'000
Investment securities, at cost			
Unlisted:			
Outside Hong Kong		96,325	115,153
Less: Impairment		(77,679)	(92,165)
	(i)	18,646	22,988
Other equity investments, at fair value			
Listed:			
Hong Kong		—	180
Unlisted:			
Outside Hong Kong		19	19
		19	199

Notes to Financial Statements

31 December 2004

22. OTHER FINANCIAL ASSETS (continued)

	Note	Group	
		2004 HK\$'000	2003 HK\$'000
Other debt investments:			
Outside Hong Kong, at fair value		102,975	—
Total other financial assets at 31 December		121,640	23,187
Less: Other investments classified as current assets, at fair value		(102,994)	(199)
Non-current portion		18,646	22,988
Market value of listed investment at 31 December		—	180

Note:

- (i) As at 31 December 2004, included in the unlisted investment securities was a 24.5% interest in Pak Kong Transco Limited, a company established in Mainland China with an investment in the Pak Kong Bridges in Qingyuan, Mainland China, of HK\$18,646,000 (2003: HK\$18,646,000). In the opinion of the directors, the Group does not exercise significant influence over the financial and operating policies of Pak Kong Transco Limited and accordingly, this investment has not been equity accounted for as an associate.

Notes to Financial Statements

31 December 2004

23. OPERATING RIGHT

Group

HK\$'000

Cost:

At beginning of year and at 31 December 2004	14,798,611
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Accumulated amortisation:

At beginning of year	1,663,662
Amortisation during the year (note 7)	493,287

At 31 December 2004	2,156,949
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Net book value:

At 31 December 2004	12,641,662
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At 31 December 2003	13,134,949
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Prior to the Acquisition, WaterCo acquired the operating right from Yue Gang Investment to operate a water supply business, which supplies natural water to Hong Kong, and Shenzhen and Dongguan in Mainland China, for a period of 30 years commencing from 18 August 2000. The operating right also grants WaterCo a right and licence to take up to 2.423 billion cubic metres of natural water annually from the Dongjiang River at Qiaotou Township in Dongguan, the exclusive right to supply natural water to Hong Kong and the non-exclusive right to supply natural water to Shenzhen and Dongguan for a period of 30 years commencing from 18 August 2000.

Notes to Financial Statements

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24. OTHER LONG TERM ASSETS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Prepaid rental (note (a))	—	69,646	—	—
Prepayment for land use rights	2,370	2,370	—	—
Deposit for acquisition of additional interests in subsidiaries (note (b))	—	51,069	—	51,069
Other deferred expenses	121	158	—	—
	2,491	123,243	—	51,069
Less: Current portion of prepaid rental included in the receivables, prepayments and deposits balance (note (a))	—	(69,646)	—	—
	2,491	53,597	—	51,069

Notes:

- (a) Prior to the establishment of WaterCo on 18 August 2000, all fixed assets used for the exposed water supply channels and canals were owned by Yue Gang Investment. The amount as at 31 December 2003 represented unamortised prepaid rental for leasing certain fixed assets, including land, which are used for the exposed water supply channels and canals, from Yue Gang Investment. During the year ended 31 December 2004, an amortisation of the remaining prepaid rental of HK\$69,646,000 (note 7) (2003: HK\$111,010,000) was charged to the consolidated profit and loss account.
- (b) In 2003, the balance represented a deposit paid to an independent third party for the acquisition of further equity interests in the Group's subsidiaries, Teem Holdings Limited and 廣東天贊(集團)股份有限公司 (Guang Dong Teem (Holdings) Ltd.). The Group completed the acquisition in June 2004, further details of which are set out in note 44(a)(ii) to the financial statements.

25. INVENTORIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials	6,944	4,023
Finished goods	36,656	39,614
At 31 December	43,600	43,637

As at 31 December 2004, no inventories were carried at net realisable value (2003: Nil).

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26. RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Trade receivables, net (note)	172,130	531,554
Other receivables, prepayments and deposits	131,248	241,988
	303,378	773,542

Note:

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

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within 3 months	171,424	530,455
More than 3 months and less than 6 months	276	1,494
More than 6 months and less than 1 year	201	880
More than 1 year	10,705	10,559
	182,606	543,388
Less: Provision for doubtful debts	(10,476)	(11,834)
	172,130	531,554

Notes to Financial Statements

31 December 2004

27. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND BANK BALANCES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances (note (a))	569,805	827,758	16,161	156,669
Time deposits	1,072,883	521,655	655,816	371,097
Trust account (note (b))	25,509	34,000	—	—
	1,668,197	1,383,413	671,977	527,766
Less: Restricted cash and bank balances (note (b))	(25,509)	(34,000)	—	—
Cash and cash equivalents at 31 December (note 44(d))	1,642,688	1,349,413	671,977	527,766

Notes:

- (a) A subsidiary of the Company is required to reserve certain cash and bank balances for, amongst other things, payment of interest, repayment of debts and distribution to shareholders of that subsidiary pursuant to an agreement entered into between the subsidiary and other parties. As at 31 December 2004, cash and bank balances retained for such purpose amounted to HK\$6,512,000 (2003: HK\$210,455,000).
- (b) Pursuant to an undertaking given to the court by the Company in its capital reduction application as further detailed in note 43(a) to the financial statements, on 17 December 2003, the Company set up a separate bank account with a local reputable bank in the name of Guangdong Investment (Nominees) Limited, as trustee and designated such bank account as "Guangdong Investment Limited Capital Reduction Trust Account" (the "Trust Account"). A sum of HK\$34,000,000 was deposited into the Trust Account in accordance with the terms of the trust deed in the form approved by the court (the "Trust Deed"). Unless and until all amounts due to those creditors of the Company who would be entitled to prove in a notional winding-up of the Company were one to commence on the Effective Date (as defined in note 43(a) to the financial statements) and who have not consented to the proposed reduction shall have been paid or satisfied or otherwise extinguished, or such creditors shall subsequently give their consent, or any period of limitation shall have expired, the Company shall retain to the credit of the Trust Account a sum in cash equal to the amount due to such non-consenting creditors for the time being unpaid. As at 31 December 2004, the amount standing to the credit of the Trust Account was HK\$25,509,167 (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 Financial Statements

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28. DUE FROM A RELATED COMPANY

Name	31 December 2004 HK\$'000	Maximum amount outstanding during the year HK\$'000	1 January 2004 HK\$'000
Eken Development Limited ("Eken"), owned by Tang Zhen*	1,265	1,334	1,334
Less: Reclassified to "Receivables, prepayments and deposits"	(1,265)		—
	—		1,334

* Former senior executive of the Company

The balance as at 31 December 2003 was secured by a leasehold property, bears interest at Hong Kong Dollar Prime Rate less 2% per annum and was repayable monthly over a maximum period of nine years from 31 December 2003. The advance was made to facilitate the senior executive's purchase of a residential premise as his main residence and was made in accordance with the Company's employee home purchase scheme.

During the year ended 31 December 2004, Mr. Tang Zhen deceased and Eken has become a non-related company.

29. DUE FROM/TO FELLOW SUBSIDIARIES

Group

The balances with fellow subsidiaries as at 31 December 2004 are unsecured, interest-free and have no fixed terms of repayment, except for a loan from a fellow subsidiary of HK\$1,261,000 (2003: Nil) which bears interest at a rate of 4.5% per annum and is repayable within three months.

Company

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

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30. DUE TO THE ULTIMATE HOLDING COMPANY

Group

Included in the amount due to the ultimate holding company is an entrusted loan amounting to RMB2,000,000 (approximately equivalent to HK\$1,878,000) which is unsecured, bears interest at the designated rate as published by the People's Bank of China from time to time and is repayable within one year. The details of which are set out in note 34 to the financial statements.

The remaining amount due to the ultimate holding company is unsecured, interest-free and has no fixed terms of repayment.

Company

The amount due to the ultimate holding company is unsecured, interest-free and has no fixed terms of repayment.

31. DUE FROM/TO THE IMMEDIATE HOLDING COMPANY

Group and Company

The Group's and the Company's balance with the immediate holding company is unsecured, interest-free and has no fixed terms of repayment.

32. DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Non-interest-bearing borrowings:		
Current portion	288,032	248,924
Non-current portion	34,512	78,543
	322,544	327,467

Notes to Financial Statements

31 December 2004

32. DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES (continued)

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year or no fixed terms of repayment	288,032	248,924
In the second year	6,070	44,075
In the third to fifth years, inclusive	18,210	18,187
Over five years	10,232	16,281
	322,544	327,467

33. TRADE PAYABLES

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 3 months	107,155	101,306
More than 3 months and less than 6 months	4,257	2,356
More than 6 months and less than 1 year	499	253
More than 1 year	2,312	3,300
	114,223	107,215

Notes to Financial Statements

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34. BANK AND OTHER INTEREST-BEARING BORROWINGS

Group

	Notes	2004			2003		
		Current liabilities	Non-current liabilities	Total	Current liabilities	Non-current liabilities	Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans — secured	35	41,742	12,912,060	12,953,802	237,570	13,779,528	14,017,098
Straight bonds	36	—	—	—	—	497,320	497,320
Convertible bonds	37	—	497,320	497,320	—	497,320	497,320
The Tranche B Credit	38	—	1,231,284	1,231,284	—	1,231,284	1,231,284
At 31 December		41,742	14,640,664	14,682,406	237,570	16,005,452	16,243,022

Pursuant to an entrusted loan agreement dated 17 May 2004 (the “Agreement”), the Company and the Company’s ultimate holding company (collectively the “Lenders”), advanced entrusted loans of RMB198,000,000 (approximately equivalent to HK\$185,950,000) and RMB2,000,000 (approximately equivalent to HK\$1,878,000), respectively, to WaterCo through a bank to finance its working capital. Pursuant to the Agreement, amongst other terms, the bank (i) does not bear any default risk; (ii) cannot enforce the repayment of loans without the consent of the Lenders; and (iii) does not receive any interest rate differential but only entitles bank handling charges. The Lenders deposited the same amounts as the entrusted loans to the bank which further advanced the entrusted loans to WaterCo. Such entrusted 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 31 December 2004, the entrusted loan of RMB198,000,000 (approximately equivalent to HK\$185,950,000) and the related interest expense so arising during the year were eliminated against the corresponding amount due from a subsidiary and interest income of the Company on consolidation. The entrusted loan is reflected in the Company’s balance sheet under interests in subsidiaries (note 17).

The amount of the entrusted loan of RMB2,000,000 (approximately equivalent to HK\$1,878,000) was included in the consolidated financial statements as an amount due to the ultimate holding company (note 30).

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35. BANK LOANS — SECURED

The maturities of the secured bank loans are as follows:

	Note	Group	
		2004 HK\$'000	2003 HK\$'000
Within one year or on demand		41,742	237,570
In the second year		537,590	750,834
In the third to fifth years, inclusive		2,158,500	2,062,472
Over five years		10,215,970	10,966,222
		12,953,802	14,017,098
Less: Portion classified as current liabilities	34	(41,742)	(237,570)
Non-current portion	34	12,912,060	13,779,528

Pursuant to a facility agreement entered into by the Group and certain parties dated 27 November 2002 (the "Refinancing Agreement"), the Group obtained two credit facilities of HK\$12,800 million (the "Refinancing Facility A") and HK\$2,000 million (the "Refinancing Facility B"). The Refinancing Facility A was used to refinance all of the Group's Tranche A Credits and Tranche C Notes; and 75.88% of the Tranche B Credit (further details are included in note 38 to the financial statements).

As at 31 December 2004, included in bank loans, the Group had an outstanding bank loan of HK\$10,731 million (2003: HK\$11,421 million) under the Refinancing Facility A which bears interest at 3-month HIBOR plus 1.339% (2003: 3-month HIBOR plus 1.339%) per annum and is repayable in 18 consecutive instalments commencing from December 2003 within 10 years.

As at 31 December 2004, the Group had another bank loan of HK\$800 million (2003: HK\$800 million) drawn under the Refinancing Facility B which bears interest at 3-month or 6-month HIBOR plus 1% (2003: 3-month or 6-month HIBOR plus 1%) per annum with the first repayment date in 2013.

In addition, there are bank loans of HK\$1,422,802,000 (2003: HK\$1,796,098,000) which are secured by a charge over the designated debt service accounts for the Phase IV Renovation Project. These outstanding loans are repayable over 7 years in seven equal consecutive instalments. The first repayment date is to be 22 August 2005. They are interest-bearing at an annual rate equal to 90% of interest rate for over 5-year term loan published by the People's Bank of China.

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

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35. BANK LOANS — SECURED (continued)

The Group entered into certain interest rate swap transactions to hedge the interest rate risk, arising from the Refinancing Facility A and the Refinancing Facility B (“Refinancing Facilities”). As at 31 December 2004, the outstanding interest rate swap contracts with a total notional principal of HK\$11,700 million converted the interest obligation arising from the Refinancing Facilities from a floating rate, with reference to HIBOR, to a range of fixed interest rates or a floating rate, with reference to LIBOR, per annum for the period from the effective dates of respective contracts to various maturity dates ranging from 2008 to 2012. Amounts payable under the swap guarantee in respect of the swap agreements are senior in right of the payment to the bank loans as detailed above and the Tranche B Credit as detailed in note 38 to the financial statements.

36. STRAIGHT BONDS

Pursuant to the Preference Share Cancellation (as defined in note 43(a) to the financial statements), on 24 December 2003, GDI Finance (Cayman) 2003 Limited (“GDI Cayman”), a wholly-owned subsidiary of the Company, issued the HK\$497,320,000 5.1% five-year straight bonds (the “Straight Bonds”) to GDH Limited as partial consideration for the cancellation of all of the Company’s Preference Shares (as defined in note 41 to the financial statements), at the issue price of HK\$497,320,000.

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

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

During the year, Straight Bonds of HK\$497,320,000 in principal amount, with the consent of the holders of the Straight Bonds, were redeemed in whole by GDI Cayman.

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37. CONVERTIBLE BONDS

Pursuant to the Preference Share Cancellation (as defined in note 43(a) to the financial statements), on 24 December 2003, GDI Cayman issued the HK\$497,320,000 2% five-year convertible bonds (the "Convertible Bonds") (note 34) to GDH Limited as partial consideration for the cancellation of all of the Company's Preference Shares (as defined in note 41 to the financial statements), at the issue price of HK\$497,320,000.

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

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

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

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

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38. THE TRANCHE B CREDIT

The Tranche B Credit, which was issued by GH Holdings, is Hong Kong dollar-denominated with an original principal amount of HK\$5,448,300,000. It bears interest at a rate of 8% per annum (2003: 8%) and is repayable in full in 2010. Amounts of HK\$4,134,475,000 of the Tranche B Credit had been repaid in 2002. During the year ended 31 December 2003, an aggregate amount of HK\$82,541,000 had been repaid. As at 31 December 2004, the outstanding amount of the Tranche B Credit amounted to HK\$1,231,284,000 (2003: HK\$1,231,284,000) (note 34).

The Tranche B Credit is guaranteed by WaterCo on a subordinated basis and secured by pledging the water revenue of WaterCo under the Hong Kong Water Supply Agreement entered into by the Guangdong Provincial Government and the Government of the HKSAR, which has been assigned to WaterCo under the WaterCo Water Supply Contract entered into between WaterCo and the Guangdong Provincial Government.

As at 31 December 2004, GDH Limited and certain of its subsidiaries held HK\$76,262,000 (2003: HK\$76,262,000) of the Tranche B Credit.

39. NON-INTEREST-BEARING BORROWING

The non-interest-bearing borrowing represents a loan facility granted by the Government of the HKSAR to the Guangdong Provincial Government for the Phase IV Renovation Project with a principal amount of HK\$2,364 million. 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 Government of the HKSAR in respect of such loan on the earlier of the commencement of operation of the Phase IV Renovation Project and the end of 2003.

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39. NON-INTEREST-BEARING BORROWING (continued)

The loan is repayable by 20 consecutive instalments within 20 years. The maturities of the loan are as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	118,200	118,200
In the second year	118,200	118,200
In the third to fifth years, inclusive	354,600	354,600
Over five years	1,536,600	1,654,800
	2,127,600	2,245,800
Less: Portion classified as current liabilities	(118,200)	(118,200)
Non-current portion	2,009,400	2,127,600

40. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group

	2004			
	Accelerated tax depreciation and amortisation HK\$'000	Revaluation of properties HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2004	344,629	547,193	(9,915)	881,907
Deferred tax credited to the profit and loss account during the year (note 10)	(144,605)	(55,364)	(41)	(200,010)
Deferred tax debited to reserve during the year	—	8,084	—	8,084
Exchange differences	453	744	—	1,197
Gross deferred tax liabilities at 31 December 2004	200,477	500,657	(9,956)	691,178

Notes to Financial Statements

31 December 2004

40. DEFERRED TAX (continued)

Deferred tax assets

Group

	Decelerated tax depreciation HK\$'000	2004 Losses available for offset against future taxable profit HK\$'000	Total HK\$'000
At 1 January 2004	(828)	(2,789)	(3,617)
Deferred tax credited to the profit and loss account (note 10)	—	(938)	(938)
Exchange differences	(7)	—	(7)
Gross deferred tax assets at 31 December 2004	(835)	(3,727)	(4,562)
Net deferred tax liabilities at 31 December 2004			686,616

Deferred tax liabilities

Group

	Accelerated tax depreciation and amortisation HK\$'000	2003 Revaluation of properties HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2003	311,320	512,173	(4,477)	819,016
Deferred tax (credited) to the profit and loss account during the year, including a charge of HK\$150,000 due to the effect of a change in tax rates (note 10)	35,284	36,440	(5,438)	66,286
Disposal of subsidiaries	(1,700)	—	—	(1,700)
Exchange differences	(275)	(1,420)	—	(1,695)
Gross deferred tax liabilities at 31 December 2003	344,629	547,193	(9,915)	881,907

Notes to Financial Statements

31 December 2004

40. DEFERRED TAX (continued)

Deferred tax assets

Group

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

The Group has tax losses of approximately HK\$805,000,000 (2003: HK\$831,275,000) arising in Hong Kong and Mainland China that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as the directors considered that it is not probable that sufficient taxable profit will be available against which the unused tax losses can be utilised by the Group.

At 31 December 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates, or jointly-controlled entities as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

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41. SHARE CAPITAL

Shares

	2004 HK\$'000	2003 HK\$'000
Authorised: 8,000,000,000 (2003: 8,000,000,000) ordinary shares of HK\$0.50 each	4,000,000	4,000,000
Issued and fully paid: 5,561,612,672 (2003: 5,244,522,672) ordinary shares	2,780,806	2,622,261

A summary of movements of the Company's issued and fully paid ordinary shares and ordinary share premium account is as follows:

	Notes	Number of ordinary shares in issue	Ordinary shares HK\$'000	Ordinary share premium account HK\$'000	Total HK\$'000
At 1 January 2003		5,162,382,672	2,581,191	5,927,889	8,509,080
Share options exercised	(i)	82,140,000	41,070	10,748	51,818
Loss elimination reduction	43(a)	—	—	(3,879,159)	(3,879,159)
Cancellation of Preference Shares	43(d)/(ii)	—	—	(328,832)	(328,832)
At 31 December 2003 and 1 January 2004		5,244,522,672	2,622,261	1,730,646	4,352,907
Issue of shares	43(c)	264,000,000	132,000	110,880	242,880
Share options exercised	(i)	53,090,000	26,545	16,190	42,735
At 31 December 2004		5,561,612,672	2,780,806	1,857,716	4,638,522

Notes:

- (i) The subscription rights attaching to 53,090,000 (2003: 82,140,000) share options were exercised at subscription prices ranging from HK\$0.5312 to HK\$1.59 per ordinary share (2003: from HK\$0.5312 to HK\$1.22 per ordinary share), resulting in the issue of 53,090,000 (2003: 82,140,000) ordinary shares for a total consideration, net of expenses, of HK\$42,735,000 (2003: HK\$51,818,000).

Notes to Financial Statements

31 December 2004

41. SHARE CAPITAL (continued)

Shares (continued)

Notes: (continued)

(ii) Preference Shares

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

	Number of Preference Shares in issue	Preference Shares HK\$'000	Preference Share premium account HK\$'000	Total HK\$'000
At 1 January 2003	85,949	666	665,142	665,808
Cancellation of Preference Shares (note 43(d))	(85,949)	(666)	(665,142)	(665,808)
At 31 December 2003 and 2004	—	—	—	—

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

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

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

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

During the year ended 31 December 2003, GDH Limited, under the put option and call option pursuant to the Amendment, acquired all 100% interest in the Company's Preference Shares. Pursuant to the Preference Share Cancellation, as further detailed in note 43(d), the Preference Shares were cancelled on 24 December 2003.

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 42 to the financial statements.

Notes to Financial Statements

31 December 2004

42. SHARE OPTION SCHEME

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

The maximum number of ordinary shares which may be issued upon exercise of all outstanding options granted and yet to be granted under the GDI Scheme and any other schemes of the Company must not exceed 30% of the ordinary shares in issue from time to time. The total number of ordinary shares which may be issued upon exercise of all options to be granted under the GDI Scheme and any other schemes of the Company must not in aggregate exceed 10% of the ordinary shares of the Company in issue as at the date of adopting the GDI Scheme, but the Company may seek approval of its shareholders in a general meeting to refresh the 10% limit under the GDI Scheme.

At 31 December 2004, the number of ordinary shares issuable under share options granted under the GDI Scheme was 389,123,939 (2003: 317,553,939), which represented approximately 7.0% (2003: 6.05%) of the Company’s ordinary shares in issue as at that date.

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

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

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

Notes to Financial Statements

31 December 2004

42. SHARE OPTION SCHEME (continued)

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

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

Subsequent to the balance sheet date, a total of 9,530,000 share options were exercised, which resulted in the issue of 9,530,000 shares of the Company.

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

Name or category of participant	Number of share options					At 31 December 2004	Date of grant of share options* (DD.MM.YYYY)	Exercise period of share options (both dates inclusive)* (DD.MM.YYYY)	Price of the Company's ordinary shares***		
	At 1 January 2004	Granted during the year**	Exercised during the year	Cancelled/lapsed during the year	At 31 December 2004				Exercise price of share options** (HK\$)	At grant date of options (HK\$)	At exercise date of options (HK\$)
Directors											
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	—	
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	—	

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42. SHARE OPTION SCHEME (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)	Price of the Company's ordinary shares***		
	At 1 January 2004	Granted during the year**	Exercised during the year	Cancelled/lapsed during the year	At 31 December 2004			Exercise price of share options** HK\$	At grant date of options HK\$	At exercise date of options HK\$
FUNG, Daniel R.	1,000,000	—	(1,000,000)	—	—	01.11.2001	02.05.2002 to 01.05.2007	0.74	0.73	1.35
	1,000,000	—	(1,000,000)	—	—	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81	1.84
	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	1.95
	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 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	—
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	—
GU Shunan	1,000,000	—	(1,000,000)	—	—	01.11.2001	02.05.2002 to 01.05.2007	0.74	0.73	1.35
	1,000,000	—	(1,000,000)	—	—	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81	1.35
	1,000,000	—	(1,000,000)	—	—	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	1.35
	1,000,000	—	(1,000,000)	—	—	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	1.35
	—	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	1.35
	84,200,000	28,100,000	(26,650,000)	—	85,650,000					
Others										
Former directors (Note)	19,000,000	—	—	—	19,000,000	10.08.2001	11.02.2002 to 10.02.2007	0.5312	0.66	—
	20,000,000	—	(2,000,000)	—	18,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81	1.41
	14,500,000	—	(2,500,000)	—	12,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	1.388
	7,500,000	—	(2,500,000)	—	5,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	1.59
	—	7,500,000	(500,000)	(1,000,000)	6,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	2.475
	—	1,000,000	(1,000,000)	—	—	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	2
Employees	41,800,000	—	(11,800,000)	—	30,000,000	10.08.2001	11.02.2002 to 10.02.2007	0.5312	0.66	1.374
	10,100,000	—	(2,850,000)	—	7,250,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81	1.679
	59,860,000	—	(2,660,000)	—	57,200,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	1.751
	29,200,000	—	(630,000)	—	28,570,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	1.723
	—	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	—
	233,353,939	97,560,000	(26,440,000)	(1,000,000)	303,473,939					
Total	317,553,939	125,660,000	(53,090,000)	(1,000,000)	389,123,939					

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42. SHARE OPTION SCHEME (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 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 of the exercises of options within the disclosure line.
- # If the last day of the exercise 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 on 6 February 2004 and 24 May 2004.

Note: As at 1 January 2004, YE Xuquan, ZHANG Yaping, WANG Man Kwan, Paul, ZHAI Zhiming and YU Lai, directors of the Company who resigned during the year had a total of 61,000,000 options. A total of 8,500,000 options were granted to these directors during the year prior to their respective dates of resignation ("Granted Options") and 1,500,000 of Granted Options were exercised by WANG Man Kwan, Paul and 1,000,000 Granted Options lapsed during the year up to their respective dates of resignation. These options were reclassified and included in the "Former directors" category in the above movement schedule.

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43. RESERVES

Group

	Notes	Preference Share premium account HK\$'000	Ordinary share premium account HK\$'000	Ordinary shares to be issued HK\$'000	Capital reserve HK\$'000	Hotel property revaluation reserve HK\$'000	Expansion fund reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Special reserve HK\$'000 (note 43(b))	Retained profits/(accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2003:		665,142	5,927,889	242,880	3,605,864	—	145,313	(66,611)	—	(4,282,350)	6,238,127
Share options exercised, net of issue expenses	41(i)	—	10,748	—	—	—	—	—	—	—	10,748
Cancellation of Preference Shares	41(ii), 43(d)	(665,142)	(328,832)	—	—	—	—	—	—	—	(993,974)
Additional Shares to be issued as a result of the Acquisition		—	—	60,720	(60,720)	—	—	—	—	—	—
Release on disposal of subsidiaries and associates		—	—	—	(462,527)	—	(36,336)	18,876	—	436,182	(43,805)
Net profit for the year		—	—	—	—	—	—	—	—	1,106,721	1,106,721
Loss Elimination Reduction	43(a)	—	(3,879,159)	—	—	—	—	—	—	3,879,159	—
Transfer from the profit and loss account		—	—	—	—	—	48,734	—	—	(48,734)	—
Exchange realignment		—	—	—	—	—	—	(7,773)	—	—	(7,773)
Transfer from retained profits related to net profit of the Company for the period from 1 July 2003 to the Effective Date and otherwise in accordance with the Undertaking	43(b)	—	—	—	—	—	—	—	127,433	(127,433)	—
Transfer to retained profits upon issue of new ordinary shares for the period from the Effective Date to 31 December 2003	43(b)	—	—	—	—	—	—	—	(7,712)	7,712	—
At 31 December 2003		—	1,730,646	303,600	3,082,617	—	157,711	(55,508)	119,721	971,257	6,310,044
Reserves retained by:											
Company and subsidiaries		—	1,730,646	303,600	3,082,617	—	145,210	(53,498)	119,721	774,826	6,103,122
Associates		—	—	—	—	—	6,856	(816)	—	68,328	74,368
Jointly-controlled entity		—	—	—	—	—	5,645	(1,194)	—	128,103	132,554
At 31 December 2003		—	1,730,646	303,600	3,082,617	—	157,711	(55,508)	119,721	971,257	6,310,044

Notes to Financial Statements

31 December 2004

43. RESERVES

Group (continued)

	Notes	Preference Share premium account HK\$'000	Ordinary share premium account HK\$'000	Ordinary shares to be issued HK\$'000	Capital reserve HK\$'000	Hotel property revaluation reserve HK\$'000	Expansion fund reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Special reserve HK\$'000 (note 43(b))	Retained profits HK\$'000	Total HK\$'000
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, net of issue expenses	41(i)	—	16,190	—	—	—	—	—	—	—	16,190
Additional Shares to be issued as a result of the Acquisition	43(c)	—	110,880	(242,880)	—	—	—	—	—	—	(132,000)
Net profit for the year		—	—	—	—	—	—	—	—	1,149,699	1,149,699
Interim 2004 dividend	12	—	—	—	—	—	—	—	—	(136,997)	(136,997)
Proposed final 2004 dividend	12	—	—	—	—	—	—	—	—	(194,990)	(194,990)
Transfer from the profit and loss account		—	—	—	—	—	42,181	—	—	(42,181)	—
Surplus on revaluation, net of deferred tax and share of minority interest	14	—	—	—	—	12,182	—	—	—	—	12,182
Exchange realignment		—	—	—	—	—	—	1,296	—	—	1,296
Transfer from retained profits during the year in accordance with the Undertaking	43(b)	—	—	—	—	—	—	—	438,852	(438,852)	—
Transfer to retained profits upon issue of new ordinary shares during the year	43(b)	—	—	—	—	—	—	—	(285,628)	285,628	—
At 31 December 2004		—	1,857,716	60,720	3,082,617	12,182	199,892	(54,212)	272,945	1,593,564	7,025,424
Reserves retained by:											
Company and subsidiaries		—	1,857,716	60,720	3,082,617	12,182	187,391	(53,630)	272,945	1,336,333	6,756,274
Associates		—	—	—	—	—	6,856	(582)	—	95,242	101,516
Jointly-controlled entities		—	—	—	—	—	5,645	—	—	161,989	167,634
At 31 December 2004		—	1,857,716	60,720	3,082,617	12,182	199,892	(54,212)	272,945	1,593,564	7,025,424

Company

	Notes	Preference Share premium account HK\$'000	Ordinary share premium account HK\$'000	Ordinary shares to be issued HK\$'000 (note 43(c))	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Special reserve HK\$'000 (note 43(b))	Retained profits/(accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2003		665,142	5,927,889	242,880	1,733,711	(14,813)	—	(3,744,294)	4,810,515
Share options exercised, net of issue expenses	41(i)	—	10,748	—	—	—	—	—	10,748
Cancellation of Preference Shares	41(ii), 43(d)	(665,142)	(328,832)	—	—	—	—	—	(993,974)
Additional Shares to be issued as a result of the Acquisition		—	—	60,720	—	—	—	—	60,720
Net loss for the year		—	—	—	—	—	—	(7,432)	(7,432)
Loss Elimination Reduction	43(a)	—	(3,879,159)	—	—	—	—	3,879,159	—
Transfer from retained profits related to net profit of the Company for the period from 1 July 2003 to the Effective Date and otherwise in accordance with the Undertaking	43(b)	—	—	—	—	—	127,433	(127,433)	—
Transfer to retained profits upon issue of new ordinary shares for the period from the Effective Date to 31 December 2003	43(b)	—	—	—	—	—	(7,712)	7,712	—
At 31 December 2003		—	1,730,646	303,600	1,733,711	(14,813)	119,721	7,712	3,880,577

Notes to Financial Statements

31 December 2004

43. RESERVES (continued)

Company (continued)

	Notes	Preference Share premium account HK\$'000	Ordinary share premium account HK\$'000	Ordinary shares to be Issued HK\$'000 (note 43(c))	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Special reserve HK\$'000 (note 43(b))	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2004		—	1,730,646	303,600	1,733,711	(14,813)	119,721	7,712	3,880,577
Share options exercised, net of issue expenses	41(i)	—	16,190	—	—	—	—	—	16,190
Additional Shares to be issued as a result of the Acquisition	43(c)	—	110,880	(242,880)	—	—	—	—	(132,000)
Net profit for the year		—	—	—	—	—	—	853,028	853,028
Interim 2004 dividend		—	—	—	—	—	—	(136,997)	(136,997)
Proposed final 2004 dividend		—	—	—	—	—	—	(194,990)	(194,990)
Transfer from retained profits related to net profit of the Company during the year in accordance with the Undertaking	43(b)	—	—	—	—	—	438,852	(438,852)	—
Transfer to retained profits upon issue of new ordinary shares during the year	43(b)	—	—	—	—	—	(285,628)	285,628	—
At 31 December 2004		—	1,857,716	60,720	1,733,711	(14,813)	272,945	375,529	4,285,808

- (a) By the Company's announcement dated 21 August 2003, the Company announced its intention to put forward (i) a proposal to reduce the Company's share premium account by approximately HK\$3,879,159,000, being an amount equal to the Company's accumulated losses as at 30 June 2003 and thereafter to apply the amount of the share premium account so reduced in eliminating the accumulated losses of the Company as at 30 June 2003 (the "Loss Elimination Reduction"); and (ii) a proposal involving the cancellation of the Company's Preference Shares and their replacement with the Straight Bonds (note 36) and the Convertible Bonds (note 37), both to be issued to GDH Limited (as the beneficial owner of all the Preference Shares in issue) or its nominee (the "Preference Share Cancellation"). The Loss Elimination Reduction and the Preference Share Cancellation are referred to collectively as the "Capital Reduction Proposal".

The purpose of Capital Reduction Proposal is to place the Company in a position to resume payment of dividends to its ordinary shareholders on any distributable profits that may be generated in the years subsequent to 2003. The Capital Reduction Proposal is subject to, inter alia, shareholders' approval and confirmation by the court. On 29 September 2003, the Capital Reduction Proposal was approved by the shareholders in an extraordinary general meeting. On 24 December 2003, a copy of the order of the High Court of the Hong Kong Special Administrative Region of the People's Republic of China (the "Court") confirming the Capital Reduction Proposal, and the minutes of the reduction of capital of the Company resulting from the Preference Share Cancellation, were registered with the Registrar of Companies in accordance with Section 61 of the Companies Ordinance. Accordingly, the Capital Reduction Proposal became effective on 24 December 2003 (the "Effective Date") and accumulated losses of the Company of HK\$3,879,159,000 were eliminated against the Company's ordinary share premium account.

Notes to Financial Statements

31 December 2004

43. RESERVES (continued)

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

During the year ended 31 December 2004, the release of provision as determined above was HK\$69,658,782; and the profit distributed from the Company's subsidiaries as determined above was HK\$369,193,144, resulting in an aggregate transfer from retained profits to the Special Reserve of the Group and the Company of HK\$438,851,926 (2003: HK\$127,433,000).

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.

During the year, the reduction of the Special Reserve and capitalisation of the same amount to retained profits, which resulted from the increase in paid-up share capital and share premium account due to issue of the Company's ordinary shares, before any share issue expenses, was HK\$285,627,760 (2003: HK\$7,712,000).

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. During the year, the amount of non-permanent loss which was turned into permanent loss of the Group and the Company was HK\$8,536,644 (2003: Nil).

Notes to Financial Statements

31 December 2004

43. RESERVES (continued)

(b) (continued)

In the event that the amount standing to the credit of the Special Reserve at any time exceeds the Limit, the Company shall be at liberty to transfer the amount of any such excess to the general reserves of the Company and the same shall become available for distribution. All profits and write-backs of provisions made by the Company between 1 July 2003 and the Effective Date are subject to an undertaking in similar terms.

As at 31 December 2004, the Limit of the Group's and the Company's Special Reserve was reduced by (i) an increase in paid-up share capital due to the issue of the Company's ordinary shares of HK\$285,627,760 (2003: HK\$7,712,000); and (ii) the amount of non-permanent loss of HK\$8,536,644 (2003: Nil) which was turned into permanent loss for the year ended 31 December 2004.

The Limit, as adjusted, is HK\$2,682,800,113 (2003: HK\$2,976,964,517) and the amount standing to the credit of the Group's and the Company's Special Reserve was HK\$272,945,698 (2003: HK\$119,721,532) as at 31 December 2004.

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

Since WaterCo 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 million Additional Shares to GDH Limited in accordance with the Earnout Agreement. As further detailed in note 13 to the financial statements, 198,000,000 Additional Shares were issued to GDH Limited on 27 February 2004 and another 66,000,000 Additional Shares were issued on 21 December 2004. The remaining 66,000,000 Additional Shares will be issued on 21 December 2005.

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

Notes to Financial Statements

31 December 2004

43. RESERVES (continued)

(c) (continued)

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

During the year, the above mentioned 264,000,000 Additional Shares were issued, resulting in a reduction of the "Ordinary Shares To Be Issued" reserve of HK\$242,880,000 and the increase in share capital and ordinary share premium account of HK\$132,000,000 and HK\$110,880,000, respectively.

(d) As further detailed in Company's announcement dated 29 December 2003, both the Straight Bonds and the Convertible Bonds were issued by GDI Finance (Cayman) 2003 Limited, a wholly-owned subsidiary of the Company, to GDH Limited, on 24 December 2003 pursuant to the Preference Share Cancellation (as defined in note 43(a) to the financial statements). The aggregate principal amount of Straight Bonds and the Convertible Bonds issued was HK\$994,640,000. As at the date of issue of the Straight Bonds and the Convertible Bonds, the redemption amount, as further explained under notes 36 and 37, including the accumulated dividends of the Preference Shares, amounted to US\$138,175,730 (approximately HK\$1,077,771,000). Therefore, the amount which GDH Limited would have waived under the Preference Share Cancellation is equivalent to approximately HK\$83,131,000. Upon the completion of the Preference Share Cancellation, all of the 85,949 Preference Shares in issue were cancelled. The excess of the aggregate principal amount of Straight Bonds and the Convertible Bonds issued over the value of the Preference Shares of HK\$666,000 amounted to HK\$993,974,000 and such balance was eliminated to the Company's ordinary share premium account and Preference Shares premium account in the amount of HK\$328,832,000 and HK\$665,142,000, respectively.

Notes to Financial Statements

31 December 2004

44. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

- (i) During the year ended 31 December 2003, the Group incurred a non-interest-bearing borrowing of HK\$2,364,000,000 for the construction of the Phase IV Renovation Project.

During the year ended 31 December 2004, the Group settled an amount of HK\$118,200,000 (2003: HK\$118,200,000) by offsetting it against the water revenue receivable of WaterCo in accordance with the terms of the concession agreement. Details of the non-interest-bearing borrowing are set out in note 39 to the financial statements.

- (ii) 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 廣東天質(集團)股份有限公司 (Guang Dong Teem (Holdings) Ltd.). The acquisition was completed in June 2004.
- (iii) As at 31 December 2003, an advance of RMB65,000,000 (equivalent to HK\$61,139,000) was made by the Group to an associate as the Group's additional capital contribution in that associate. During the year, upon the completion of the capital injection verification process, the advance was recorded as an additional investment in the associate.

Notes to Financial Statements

31 December 2004

44. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Disposal of subsidiaries and associates

	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Fixed assets	—	1,627,546
Investment properties	—	147,731
Interest in associates	—	100,371
Deferred tax assets	—	30,072
Other long term assets	—	26,187
Properties under development	—	5,600
Due from minority shareholders of subsidiaries	—	9,055
Inventories	—	619,859
Receivables, prepayments and deposits	—	248,404
Cash and bank balances	—	346,786
Trade payables	—	(290,276)
Accruals and other liabilities	—	(228,454)
Tax payable	—	(2,654)
Due to the immediate holding company	—	(85,653)
Due to fellow subsidiaries	—	(1,319)
Due to minority shareholders of subsidiaries	—	(326,463)
Bank and other interest-bearing borrowings	—	(311,327)
Deferred tax liabilities	—	(1,700)
Minority interests	—	(434,084)
	—	1,479,681
Release of goodwill remaining in consolidated capital reserve	—	2,354
Release of negative goodwill remaining in consolidated capital reserve	—	(65,035)
Release of exchange fluctuation reserve	—	18,876
	—	1,435,876
Gain on disposal of subsidiaries and associates, net	—	19,474
	—	1,455,350

Notes to Financial Statements

31 December 2004

44. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Disposal of subsidiaries and associates (continued)

	2004 HK\$'000	2003 HK\$'000
Satisfied by:		
Cash, net of expenses	—	1,040,314
Decrease in due to the immediate holding company	—	415,036
	—	1,455,350

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

	2004 HK\$'000	2003 HK\$'000
Cash, net of expenses	—	1,040,314
Cash and bank balances disposed of	—	(346,786)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries and associates	—	693,528

The results of the subsidiaries disposed of are detailed in note 6 to the financial statements.

Notes to Financial Statements

31 December 2004

44. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Acquisition of a subsidiary

	2004 HK\$'000	2003 HK\$'000
Net assets acquired:		
Interest in an associate	40,109	—
Accruals and other payables	(5)	—
	40,104	—
Negative goodwill on acquisition	(11,044)	—
	29,060	—
Satisfied by:		
Cash	29,060	—

In October 2004, the Group acquired a 100% interest in GAM3 from a fellow subsidiary of the Company. GAM3 has a 20% interest in an associate, Guangdong Pan Yu Bridge Company Limited, which engaged in toll bridge operations. Further details of the transaction are included in note 50(f) to the financial statements. The purchase consideration for the acquisition was in form of cash, which was fully paid on 12 November 2004.

Since its acquisition, GAM3 has no turnover and the consolidated profit after tax and before minority interests contributed to the Group for the year ended 31 December 2004 is not material.

(d) Cash and cash equivalents

	2004 HK\$'000	2003 HK\$'000
Cash and cash equivalents in the consolidated balance sheet as at 31 December (note 27)	1,642,688	1,349,413
Non-pledged time deposits with original maturity of more than three months when acquired	(75,131)	(78,784)
Cash and cash equivalents in the consolidated cash flow statement as at 31 December	1,567,557	1,270,629

Notes to Financial Statements

31 December 2004

45. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 16 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to ten years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	266,848	235,310
In the second to fifth years, inclusive	259,072	242,534
After five years	11,212	732
	537,132	478,576

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of one year.

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	117	312
In the second to fifth years, inclusive	—	890
After five years	—	17,363
	117	18,565

Notes to Financial Statements

31 December 2004

45. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee (continued)

In addition to the operating lease commitments as disclosed above, the Group leases certain leasehold land and buildings from 廣東省韶關粵江發電有限責任公司 (Guangdong Shaoguan Yue Jiang Power Supply Limited) ("Yue Jiang"), an associate of the Group, in Mainland China for storage and handling of coal ashes for the Group's electric power generation operation. The annual rental expenses are calculated with reference to the number of units of electricity generated by Shaoguan Power Plant (D) Ltd., a subsidiary of the Group, and the relevant costs incurred by Yue Jiang.

The Company did not have significant operating lease arrangements at the balance sheet date (2003: Nil).

46. COMMITMENTS

In addition to the operating lease commitments detailed in note 45(b) above, the Group had the following commitments at the balance sheet date:

	Group	
	2004	2003
	HK\$'000	HK\$'000
(a) Capital commitments in respect of property, plant and equipment:		
Contracted for	155,150	11,490
Authorised, but not contracted for	672,309	536,460
	827,459	547,950

- (b) Pursuant to WaterCo's articles of association, Yue Gang Investment, which directly holds 1% equity interest in WaterCo and is the Company's ultimate holding company, 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.

Notes to Financial Statements

31 December 2004

46. COMMITMENTS (continued)

- (c) As at 31 December 2004, the Group had certain outstanding interest rate swap agreements with a total notional principal of HK\$11.7 billion (2003: HK\$11.1 billion). Details of which are set out in note 35 to the financial statements.
- (d) 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 Zhongshan Power (Hong Kong) Limited ("ZPHK") and its shareholders' loans to ZPHK. As part of the consideration, the compensation for the discontinuation of certain guaranteed profits in an amount of US\$2.97 million was received in August 2001. In addition, as a condition precedent to the completion of the sale, Zhongshan Power Plant, the contractual joint venture held by ZPHK, is required to fully repay all its indebtedness to Yue Sheng Finance Limited, the Company's wholly-owned subsidiary, 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.

47. CONTINGENT LIABILITIES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantee given to a subsidiary for repayment of the Straight Bonds and Convertible Bonds (notes 36 and 37)	—	—	497,320	994,960
Guarantee given in respect of a bank loan of the Group's contractual joint venture (note 20)	78,000	81,900	78,000	81,900
	78,000	81,900	575,320	1,076,860

48. PLEDGE OF ASSETS

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

Notes to Financial Statements

31 December 2004

49. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances set out elsewhere in these financial statements, the Group had the following material transactions with related parties during the year.

	Notes	2004 HK\$'000	2003 HK\$'000
Rental income from GDH Limited and certain of its subsidiaries	(i)	(3,424)	(5,621)
Interest income from:			
— a fellow subsidiary	(ii)	—	(670)
— a contractual joint venture	(iii)	(224)	—
General computer and SAP financial system maintenance service fees from GDH Limited and certain of its subsidiaries	(iv)	—	(1,487)
Management fees from:			
— a contractual joint venture	(v)	(4,285)	(4,427)
— a jointly-controlled entity	(vi)	(1,726)	(1,573)
— a fellow subsidiary	(vii)	(376)	—
Hotel management fees received from fellow subsidiaries	(viii)	(3,194)	(1,399)
Property management service fees paid to a fellow subsidiary	(ix)	1,268	1,103
Interest expenses to:			
— Yue Gang Investment	(x)	41	—
— GDH Limited and certain of its subsidiaries	(xi)	20,643	11,069
General computer and SAP financial system maintenance service fees paid to GDH Limited	(xii)	765	526
Finance lease charge paid to a fellow subsidiary	(xiii)	102	—
Rental expense paid to an associate	(xiv)	8,912	9,814
Engineering facilities construction costs paid to a fellow subsidiary	(xv)	—	802
Repairs and maintenance service fees paid to a fellow subsidiary	(xvi)	—	9
Computer operation systems maintenance service fees paid to a fellow subsidiary	(xvii)	—	1,476

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31 December 2004

49. 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) During the year ended 31 December 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 carries a fixed rate of 3.8% per annum and the loan is repayable on demand.
- (iv) During the year ended 31 December 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 among the Company, 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 year.
- (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 actual cost incurred by the Group during the year.
- (vii) The management fee income arose from the accounting and administrative services provided by the Group to a fellow subsidiary. The fee charged is based on the actual costs rendered by the Group during the year.
- (viii) The management fee income arose from the hotel management services rendered to certain fellow subsidiaries in accordance with the terms of agreements entered into between that subsidiary of the Company and these fellow subsidiaries.
- (ix) The management fee arose from the property management service rendered by a fellow subsidiary of the Company to the Group in accordance with the terms of an agreement entered into between the Group and that fellow subsidiary.
- (x) The interest expense arose from an entrusted loan of RMB 2,000,000 advanced by Yue Gang Investment to WaterCo which is fully repayable within one year, further details of which are set out in note 34 to the financial statements.
- (xi) The interest expense arose from (a) the Tranche B Credit of HK\$76,262,000 as at 31 December 2004 (2003: HK\$76,262,000) held by GDH Limited and certain of its subsidiaries, further details of which are set out in note 38 to the financial statements; and (b) the Straight Bonds and Convertible Bonds issued by the Group to GDH Limited, further details of which are set out in notes 36 and 37 to the financial statements, respectively.

The balance for the year ended 31 December 2003 also included the interest expense on an unsecured loan of HK\$170,000,000 advanced by GDH Limited to the Group, which was fully repaid on 12 December 2003.
- (xii) GDH Limited provided the Group with certain general computer and SAP financial system maintenance services commencing from May 2003 in accordance with the agreements between the Group and GDH Limited.

Notes to Financial Statements

31 December 2004

49. RELATED PARTY TRANSACTIONS (continued)

- (xiii) 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.
- (xiv) The rental expense arose from leasing of certain leasehold land and buildings by Yue Jiang, an associate of the Group, to the Group for storage and handling of coal ashes for the Group's electric power generation operation. The rentals were calculated with reference to the number of units of electricity generated by the Group's subsidiary and the relevant costs incurred by Yue Jiang.
- (xv) During the year ended 31 December 2003, the construction costs arose from the construction of certain engineering facilities for WaterCo by a fellow subsidiary of the Company in accordance with the contracts entered into pursuant to an existing agreement between WaterCo and the fellow subsidiary.
- (xvi) During the year ended 31 December 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.
- (xvii) During the year ended 31 December 2003, the Company's fellow subsidiary provided the Group with certain computer maintenance services in accordance with the respective agreements between them.
- (xviii) 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 of the Company 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 5,000,000 of the share options were exercised in January 2005. Further details of the share options are also set out in note 42 to the financial statements.

- (xix) During the year, the cash distribution made by GH Holdings out of its distributable profits, amounting to HK\$33,585,000 (2003: HK\$47,238,000) 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.

Notes to Financial Statements

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50. CONNECTED TRANSACTIONS

In addition to the disclosures set out elsewhere in the financial statements, the other connected transactions disclosed in accordance with Chapter 14A of the Listing Rules are as follows:

- (a) As at 31 December 2004, outstanding advances of HK\$234,535,000 (2003: HK\$227,040,000) were made by the Company to Nan Fang Holdings, a 56.34% owned subsidiary of the Company, to finance its working capital. Included in the amount due from Nan Fang Holdings is an unsecured loan of HK\$81,184,000 (2003: HK\$81,184,000) which bears interest at 9% (2003: 9%) per annum and is repayable on demand. The remaining balance of HK\$153,351,000 (2003: HK\$145,856,000) is unsecured, interest-free and has no fixed terms of repayment.
- (b) The Company made an advance to ZPHK, a 95% owned subsidiary of the Company, to finance its investment in a power plant project. At the balance sheet date, the outstanding balance of HK\$162,672,000 (2003: HK\$162,639,000) is unsecured, interest-free and has no fixed terms of repayment. In 2001, the Company and a minority shareholder of ZPHK entered into a conditional agreement in respect of the Company's disposal of its entire interest in ZPHK. Pursuant to the agreement, ZPHK's amount due to the Company will be assigned to a minority shareholder of ZPHK as this forms part of the terms and conditions for the disposal of the Company's interest in ZPHK, details of the disposal arrangement are set out in note 46(d).
- (c) The Company's wholly-owned subsidiary made a loan to Zhongshan Power Plant, a contractual joint venture of ZPHK, to finance its expansion of the power plant project. As a condition precedent for the disposal of the Company's interest in ZPHK, details of which are set out in note 46(d), the aforesaid indebtedness of the Zhongshan Power Plant due to the Group has to be repaid in full together with interest.

The aforesaid loan to Zhongshan Power Plant was fully repaid in January 2003, and the outstanding loan interest of US\$1,050,000 (2003: US\$1,050,000) has not yet been settled and full provision had been made in prior years.
- (d) In May 2004, the Company and Yue Gang Investment, pursuant to an entrusted loan agreement, advanced unsecured loans of RMB198,000,000 and RMB2,000,000, respectively, to WaterCo, the Group's non wholly-owned subsidiary to finance its working capital. The loans to WaterCo bear interest at an annual rate equal to the average of the 90% of interest rate for over 5-year term loan and the interest rate of one-year fixed deposit as published by The People's Bank of China, and are repayable in full in May 2005.
- (e) The Company and a fellow subsidiary of the Group advanced unsecured loans of RMB5,368,000 and RMB1,342,000 to Hui Yang Yue Hai Real Estate Development Ltd. ("Hui Yang"), the Group's non wholly-owned subsidiary, to finance its working capital. The loans to Hui Yang bear fixed interest rate of 4.5% per annum and are repayable in 2005.

Notes to Financial Statements

31 December 2004

50. CONNECTED TRANSACTIONS (continued)

- (f) In October 2004, the Company entered into a sale and purchase agreement with a fellow subsidiary of the Group (the "Vendor"), under which the Company acquired from the Vendor the 100% equity interest in and took assignment of the shareholder's loan advanced to GAM3, at a total cash consideration of HK\$29,060,000, details of which are set out in note 44(c) to the financial statements.

The transaction was completed in November 2004. Further details of this connected transaction are set out in the Company's announcement dated 29 October 2004.

51. POST BALANCE SHEET EVENTS

- (a) Subsequent to the balance sheet date, in February 2005, the Company, under the terms of the shareholders agreement of GH Holdings, exercised its first right of refusal in respect of certain shares in GH Holdings which certain existing holders wished to transfer, to acquire an aggregate of 0.48% interest in GH Holdings at a total consideration of approximately HK\$35,671,000. As a result of these acquisitions, the Group increased its holdings in GH Holdings from 82.86% at the balance sheet date to 83.34%, resulting in a positive goodwill of approximately HK\$9,485,000.
- (b) Subsequent to the balance sheet date, pursuant to an agreement entered into with an independent third party in January 2005, a jointly-controlled entity of the Group will dispose of (i) its entire 14.18% equity interest in a toll road joint venture project (the "Project") and (ii) its right in respect of the outstanding loans owed from the Project at an aggregate consideration of HK\$322,866,000. The entire consideration has been received in March 2005, which resulted in a write-back of impairment provision of HK\$24,800,000 (note 7) against the Group's interests in jointly-controlled entities for the current year.

52. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

53. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 April 2005.