



Guangdong Investment Limited

粵海投資有限公司

Stock Code 股份代號：270

Interim Report 2008
中期報告



Qiling Aqueduct

(Dongshen Water Supply Project)

Qiling Aqueduct is a major component of the water transport system of the Dongshen Water Supply Project, with a length of 627.4 meters and a designed flow of 90 cubic meters per second.

旗嶺渡槽

(東深供水項目)

旗嶺渡槽為東深供水工程主要輸水建築物，全長627.4米，設計流量為每秒90立方米。

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Corporate Information

(as at 12 September 2008)

Board of Directors

Executive Directors

LI Wenyue (*Chairman*)

ZHANG Hui (*Managing Director*)

TSANG Hon Nam (*Chief Financial Officer*)

Non-Executive Directors

CHENG Mo Chi, Moses, *GBS, OBE, JP*

HUANG Xiaofeng

ZHAI Zhiming

LI Wai Keung

SUN Yingming

WANG Xiaofeng

Xu Wenfang

Independent Non-Executive Directors

CHAN Cho Chak, John, *GBS, JP*

Dr. The Honourable LI Kwok Po, David, *GBM, GBS, OBE, JP*

FUNG Daniel R., *SBS, QC, SC, JP*

Company Secretary

HO LAM Lai Ping, Theresa

Auditors

Ernst & Young

Principal Bankers

Bank of China (Hong Kong) Limited

Bank of China, Shenzhen Branch

China Merchants Bank

China CITIC Bank, Guangzhou Branch

Goldman Sachs Capital Markets, L.P.

The Hongkong and Shanghai Banking Corporation Limited

Industrial and Commercial Bank of China (Asia) Limited

Industrial and Commercial Bank of China,

Shenzhen Branch

Standard Chartered Bank

Registered Office

28/F. and 29/F.

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Hong Kong

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Share Registrar

Tricor Tengis Limited

26/F., Tesbury Centre

28 Queen's Road East

Hong Kong

Share Information

Place of Listing	Main Board of The Stock Exchange of Hong Kong Limited
Stock Code	270
Board lot	2,000 shares
Financial year end	31 December

Shareholders' Calendar

Closure of Register of Members	30 September 2008 to 2 October 2008
Interim Dividend	4.0 HK cents per ordinary share
Payable	17 October 2008

Financial Highlights

Unaudited financial highlights for the six months ended 30 June			
	2008 HK\$' 000	2007 HK\$' 000	Changes %
Revenue	<u>3,765,499</u>	<u>3,287,078</u>	<u>14.5</u>
Profit attributable to equity holders of the Company	<u>896,716</u>	<u>918,656</u>	<u>(2.4)</u>
Earnings per share – Basic	<u>14.63 HK cents</u>	<u>15.08 HK cents</u>	<u>(3.0)</u>
Interim dividend per share	<u>4.00 HK cents</u>	<u>5.00 HK cents</u>	<u>(20.0)</u>
EBITDA	<u>1,912,920</u>	<u>2,000,920</u>	<u>(4.4)</u>
	30 June 2008 HK\$' 000	31 December 2007 HK\$' 000	Changes %
Shareholders' equity	<u>15,014,520</u>	<u>14,024,995</u>	<u>7.1</u>
Total assets	<u>31,260,188</u>	<u>30,492,623</u>	<u>2.5</u>
Net financial borrowings ⁵	<u>8,377,045</u>	<u>8,805,504</u>	<u>(4.9)</u>
Key ratios		For the six months ended 30 June	
	2008	2007	
Interest cover ¹	<u>10.04x</u>	<u>7.99x</u>	
Dividend payout ratio ²	<u>27%</u>	<u>33%</u>	
	30 June 2008	31 December 2007	
Gearing ³	<u>0.58x</u>	<u>0.66x</u>	
Liquidity ⁴	<u>1.84x</u>	<u>1.26x</u>	

Notes:

$$1. \frac{\text{EBITDA}}{\text{Finance costs}}$$

$$2. \frac{\text{Dividend per share}}{\text{Basic earnings per share}}$$

$$3. \frac{\text{Net financial indebtedness}}{\text{Net asset value (excluded minority interests)}}$$

$$4. \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$5. \text{Financial borrowings – cash and cash equivalents}$$

Report on Review of Interim Financial Information



18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

To the Board of Directors of Guangdong Investment Limited

INTRODUCTION

We have reviewed the interim financial information set out on pages 5 to 35 which comprise the condensed consolidated balance sheet of Guangdong Investment Limited as at 30 June 2008 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material aspects, in accordance with HKAS 34.

Ernst & Young
Certified Public Accountants

Hong Kong
12 September 2008

Unaudited Interim Condensed Consolidated Financial Statements

Condensed Consolidated Income Statement

For the six months ended 30 June 2008

	Notes	For the six months ended 30 June	
		2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
REVENUE	3	3,765,499	3,287,078
Cost of sales		(2,063,093)	(1,686,288)
Gross profit		1,702,406	1,600,790
Other income and gains		67,116	79,977
Selling and distribution costs		(41,746)	(37,509)
Administrative expenses		(270,526)	(220,437)
Other operating (expenses)/income, net		(57,233)	54,415
Finance costs	4	(190,584)	(250,575)
Share of profits of jointly-controlled entities		48,220	13,414
Share of profits less losses of associates		(6,907)	21,000
PROFIT BEFORE TAX	5	1,250,746	1,261,075
Tax	6	(293,036)	(168,621)
PROFIT FOR THE PERIOD		957,710	1,092,454
Attributable to:			
Equity holders of the Company		896,716	918,656
Minority interests		60,994	173,798
		957,710	1,092,454
DIVIDEND — interim	7	246,456	305,134
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
Basic		14.63 HK cents	15.08 HK cents
Diluted		14.43 HK cents	14.75 HK cents

Unaudited Interim Condensed Consolidated Financial Statements

Condensed Consolidated Balance Sheet

30 June 2008

	Notes	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Unaudited) (Restated) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		2,335,265	2,301,211
Investment properties		4,533,159	4,277,760
Prepaid land lease payments		847,127	849,808
Goodwill		256,119	256,119
Interests in jointly-controlled entities		1,002,930	852,142
Interests in associates		367,502	354,424
Intangible assets		17,841,748	18,300,506
Deferred tax assets		20,751	21,618
Other long term assets		7	18
Total non-current assets		27,204,608	27,213,606
CURRENT ASSETS			
Available-for-sale investments		272,999	42,045
Tax recoverable		628	33,437
Inventories		56,161	57,819
Receivables, prepayments and deposits	9	683,994	379,843
Derivative financial instruments	10	49,983	78,516
Restricted cash and bank balances		2,831	2,824
Cash and cash equivalents		2,988,984	2,684,533
Total current assets		4,055,580	3,279,017
CURRENT LIABILITIES			
Payables, accruals and other liabilities	11	(1,209,901)	(1,416,203)
Tax payable		(79,930)	(81,249)
Derivative financial instruments	10	(155,868)	(277,647)
Due to minority shareholders of subsidiaries		(325,265)	(415,349)
Interest-bearing bank borrowings	12	(311,363)	(292,343)
Other liabilities — current portion	13	(118,200)	(118,200)
Total current liabilities		(2,200,527)	(2,600,991)
NET CURRENT ASSETS		1,855,053	678,026
TOTAL ASSETS LESS CURRENT LIABILITIES — page 7		29,059,661	27,891,632

Unaudited Interim Condensed Consolidated Financial Statements

Condensed Consolidated Balance Sheet (continued)

30 June 2008

	Notes	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Unaudited) (Restated) HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES — page 6		<u>29,059,661</u>	<u>27,891,632</u>
NON-CURRENT LIABILITIES			
Due to minority shareholders of subsidiaries		(25,190)	(22,594)
Interest-bearing bank borrowings	12	(9,281,666)	(9,424,694)
Other liabilities	13	(1,781,559)	(1,654,800)
Deferred tax liabilities		<u>(823,029)</u>	<u>(758,058)</u>
Total non-current liabilities		<u>(11,911,444)</u>	<u>(11,860,146)</u>
Net assets		<u>17,148,217</u>	<u>16,031,486</u>
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	14	3,076,194	3,051,969
Reserves	16	11,691,870	10,606,790
Proposed dividend		<u>246,456</u>	<u>366,236</u>
		<u>15,014,520</u>	<u>14,024,995</u>
Minority interests		<u>2,133,697</u>	<u>2,006,491</u>
Total equity		<u>17,148,217</u>	<u>16,031,486</u>

Unaudited Interim Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2008

	Attributable to equity holders of the Company													
	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Share option reserve (Unaudited) HK\$'000	Asset revaluation reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Hedging reserve (Unaudited) HK\$'000	Expansion fund reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Special reserve (Unaudited) HK\$'000 (note 16)	Retained profits (Unaudited) HK\$'000	Proposed dividend (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1 January 2007	3,045,474	2,321,184	4,626	—	1,430,009	(96,168)	373,018	165,913	—	5,073,934	304,597	12,622,587	1,789,403	14,411,990
Net gains on cash flow hedges	—	—	—	—	—	208,980	—	—	—	—	—	208,980	28,848	237,828
Exchange realignment	—	—	—	—	—	—	125,497	125,497	—	—	—	125,497	31,874	157,371
Total income and expense recognised directly in equity	—	—	—	—	—	208,980	125,497	125,497	—	—	—	334,477	60,722	395,199
Profit for the period	—	—	—	—	—	—	—	—	—	918,656	—	918,656	173,798	1,092,454
Total income and expense for the period	—	—	—	—	—	208,980	125,497	125,497	—	918,656	—	1,253,133	234,520	1,487,653
Share options exercised, net of share issue expenses	1,750	3,102	—	—	—	—	—	—	—	—	—	4,852	—	4,852
Acquisition of minority interests	—	—	—	—	—	—	—	—	—	—	—	—	(16,999)	(16,999)
Dividends paid to minority interests	—	—	—	—	—	—	—	—	—	—	—	—	(5,788)	(5,788)
Final 2006 dividend paid	—	—	—	—	—	—	—	—	—	(125)	(604,597)	(604,722)	—	(604,722)
Proposed interim 2007 dividend	—	—	—	—	—	—	—	—	—	(305,134)	305,134	—	—	—
Transfer from retained profits during the period in accordance with the Undertaking (note 16)	—	—	—	—	—	—	—	—	109,394	(109,394)	—	—	—	—
Transfer to retained profits upon issue of new Ordinary Shares during the period (note 16)	—	—	—	—	—	—	—	—	(43,660)	43,660	—	—	—	—
At 30 June 2007	3,047,224	2,324,286	4,626	—	1,430,009	112,812	373,018	291,410	65,734	5,621,597	305,134	13,575,850	2,001,137	15,576,987

Unaudited Interim Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Changes in Equity (continued)

For the six months ended 30 June 2008

	Attributable to equity holders of the Company													
	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Share option reserve (Unaudited) HK\$'000	Asset revaluation reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Hedging reserve (Unaudited) HK\$'000	Expansion fund reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Special reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Proposed dividend (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1 January 2008	3,051,969	2,339,544	1,485	8,406	1,430,009	(150,817)	501,859	505,735	74,049	5,896,520	386,236	14,024,995	2,006,491	16,031,486
Net gains on cash flow hedges	-	-	-	-	-	77,780	-	-	-	-	-	77,780	10,436	88,216
Exchange realignment	-	-	-	-	-	-	330,956	330,956	-	-	-	330,956	79,433	410,389
Total income and expense recognised directly in equity	-	-	-	-	-	77,780	330,956	330,956	-	-	-	408,736	89,669	498,605
Profit for the period	-	-	-	-	-	-	-	-	-	896,716	-	896,716	60,994	957,710
Total income and expense for the period	-	-	-	-	-	77,780	330,956	330,956	-	896,716	-	1,305,452	150,663	1,456,315
Share options exercised, net of share issue expenses	24,225	28,151	-	-	-	-	-	-	-	-	-	52,376	-	52,376
Transfer from the income statement	-	-	-	-	-	-	1,480	-	-	(1,480)	-	-	-	-
Dividends paid to minority interests	-	-	-	-	-	-	-	-	-	-	-	-	(23,657)	(23,657)
Final 2007 dividend paid	-	-	-	-	-	-	-	-	-	(2,067)	(386,236)	(388,303)	-	(388,303)
Proposed interim 2008 dividend	-	-	-	-	-	-	-	-	-	(246,456)	246,456	-	-	-
Transfer from retained profits during the period in accordance with the Undertaking (note 16)	-	-	-	-	-	-	-	-	2,089	(2,089)	-	-	-	-
Transfer to retained profits upon issue of new Ordinary Shares during the period (note 16)	-	-	-	-	-	-	-	-	(52,393)	52,393	-	-	-	-
At 30 June 2008	3,076,194	2,367,695	1,485	8,406	1,430,009	(73,037)	503,339	836,691	23,745	6,593,537	246,456	15,014,520	2,133,697	17,148,217

Unaudited Interim Condensed Consolidated Financial Statements

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2008

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	1,227,727	1,621,006
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(513,949)	(342,748)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(735,404)	(1,578,370)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(21,626)	(300,112)
Cash and cash equivalents at beginning of period	1,812,337	1,826,742
Effect of foreign exchange rate changes, net	115,303	41,815
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,906,014	1,568,445
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	731,542	627,464
Non-pledged bank deposits with original maturity of less than three months when acquired	1,174,472	940,981
	1,906,014	1,568,445

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements

30 June 2008

1. ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements of Guangdong Investment Limited (the “Company”) and its subsidiaries (collectively known as the “Group”) for the six months ended 30 June 2008 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2007, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) as disclosed in note 2 to the interim condensed consolidated financial statements.

2. CHANGES IN ACCOUNTING POLICIES

2.1 Impact of new and revised HKFRSs

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised HKFRSs which are generally effective for accounting periods beginning on or after 1 January 2008. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material impact on these interim condensed consolidated financial statements.

HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) *HK(IFRIC)-Int 11 “HKFRS 2 – Group and Treasury Share Transactions”*

This interpretation requires arrangements whereby an employee is granted rights to the Group’s equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. The adoption of this interpretation has not resulted in any change in the accounting policy for the Group’s equity instruments.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2008

2. CHANGES IN ACCOUNTING POLICIES (continued)

2.1 Impact of new and revised HKFRSs (continued)

The principal effects of adopting these new and revised HKFRSs are as follows: (continued)

(b) *HK(IFRIC)-Int 12 “Service Concession Arrangements”*

In prior years, the Group classified its assets for public-to-private service concession arrangements as property, plant and equipment. Upon the adoption of HK(IFRIC)-Int 12, the Group has to recognise the consideration received or receivable in exchange for the construction services under public-to-private service concession arrangements as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services.

The effects of the above changes are summarised in note 2.3 to the financial statements. The changes have been adopted retrospectively from the earliest period presented and comparative amounts have been restated.

(c) *HK(IFRIC)-Int 14 “HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”*

This interpretation addresses how to assess the limit under HKAS 19 “Employee Benefits”, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists. As the Group had no defined benefit scheme, the interpretation has had no impact on the financial position on results of operation of the Group.

2.2 Impact of issued but not yet effective HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these interim condensed consolidated financial statements.

HKFRS 2 Amendments	Share-based Payments – Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32 and HKAS 1 Amendments	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HK(IFRIC)-Int 13	Customer Loyalty Programmes ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 July 2008

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2008

2. CHANGES IN ACCOUNTING POLICIES (continued)

2.2 Impact of issued but not yet effective HKFRSs (continued)

Amendment to HKFRS 2 clarifies the definition of “vesting conditions” and specifies the accounting treatment of “cancellations” by the counterparty to a share-based arrangement.

HKFRS 3 (Revised) amended the definition of a business and a business combination and additional guidance was added for identifying when a group of assets constitutes a business. It also clarifies how the acquirer makes any classifications, designations or assessments for the identifiable assets acquired and liabilities assumed in a business combination.

HKFRS 8, which will replace HKAS 14 “Segment Reporting”, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group’s major customers.

HKAS 1 has been revised to affect the presentation of owner changes in equity and comprehensive income. The revised standard will use “statement of financial position” and “statement of cash flows” to replace the titles “balance sheet” and “cash flow statement”, and in making reference to these two statements within a complete set of financial statements.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group’s current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HKAS 27 has been revised to add new term “non-controlling interest” to replace the term “minority interest”, and required the changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity measures any gain or loss arising on the loss of control of a subsidiary.

HKAS 32 and HKAS 1 Amendments permitted a range of entities to recognise their capital as equity rather than as financial liabilities, and required additional disclosures for puttable financial instruments classified as equity. The amendment reinforces that this is a limited scope exception to the definition of a financial liability and no analogies should be made to these requirements.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

The Group has not early adopted these new HKFRSs in the financial statements for the period ended 30 June 2008. 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 and revised HKFRSs would have a significant impact on its results of operations and financial position.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2008

2. CHANGES IN ACCOUNTING POLICIES (continued)

2.3 Summary of the impact of changes in accounting policy

The effects of the changes are summarised as below:

(a) Effect on the condensed consolidated balance sheet

Effect of new policy (Increase/(decrease))	Effect of adopting HK(IFRIC)-Int 12 Service Concession Arrangements HK\$'000
At 1 January 2008	
<u>Assets</u>	
Property, plant and equipment	(3,964,293)
Prepaid land lease payments	(3,174,412)
Intangible assets	7,138,705
	<u>—</u>

The adjustments are taken effect retrospectively.

At 30 June 2008	
<u>Assets</u>	
Property, plant and equipment	(3,819,696)
Prepaid land lease payments	(3,104,811)
Intangible assets	6,924,507
	<u>—</u>

(b) Effect on balances of equity

The adoption of this interpretation has had no impact on the equity as at 1 January 2008 and 30 June 2008.

(c) Effect on condensed consolidated income statement

The adoption of the Interpretation has had no impact on the condensed consolidated income statement for the six months ended 30 June 2007 and 2008.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2008

3. SEGMENT INFORMATION

Segment information is presented on a primary segment reporting basis, by business 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 details of the business segments are as follows:

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

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.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2008

3. SEGMENT INFORMATION (continued)

Business segments

The following table presents revenue and profit/(loss) for the Group's business segments for the six months ended 30 June 2008 and 2007.

	Property Investment and Development		Toll Roads and Bridges		Water Distribution	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	341,171	203,772	6,895	7,757	1,811,220	1,735,562
Intersegment sales	44,477	45,464	—	—	—	—
Other revenue from external sources (note)	10,191	2,820	44	40	780	—
Other revenue from intersegment (note)	—	—	—	—	—	—
Exchange gains/(losses), net	2,231	(17)	1,001	—	(57,086)	(27,006)
Total	398,070	252,039	7,940	7,797	1,754,914	1,708,556
Segment results	332,008	240,396	1,917	(2,039)	984,145	992,168
Interest income						
Other unallocated gains, net						
Finance costs						
Share of profits less losses of:						
Jointly-controlled entities	—	—	48,220	13,414	—	—
Associates	—	—	4,817	2,729	—	—
Profit before tax						
Tax						
Profit for the period						

Note: Excluding exchange gains/(losses), net

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2008

3. SEGMENT INFORMATION (continued)

Business segments (continued)

	Electric Power Generation		Hotel Operations and Management		Department Stores	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	406,379	442,746	168,039	148,171	1,031,795	749,070
Intersegment sales	—	—	—	—	—	—
Other revenue from external sources (note)	6,639	5,330	199	599	8,882	8,065
Other revenue from intersegment (note)	—	—	—	—	—	—
Exchange gain/(losses), net	(654)	1,454	107	258	3,035	—
Total	412,364	449,530	168,345	149,028	1,043,712	757,135
Segment results	(101,050)	94,351	49,236	41,778	103,789	63,968
Interest income						
Other unallocated gains, net						
Finance costs						
Share of profits less losses of:						
Jointly-controlled entities	—	—	—	—	—	—
Associates	(31,883)	11,543	—	—	20,159	6,728
Profit before tax						
Tax						
Profit for the period						

Note: Excluding exchange gains/(losses), net

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2008

3. SEGMENT INFORMATION (continued)

Business segments (continued)

	Others		Eliminations		Consolidated	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	—	—	—	—	3,765,499	3,287,078
Intersegment sales	—	—	(44,477)	(45,464)	—	—
Other revenue from external sources (note)	718	476	—	—	27,453	17,330
Other revenue from intersegment (note)	1,359	1,359	(1,359)	(1,359)	—	—
Exchange gain/(losses), net	1,731	837	—	—	(49,635)	(24,474)
Total	3,808	2,672	(45,836)	(46,823)	3,743,317	3,279,934
Segment results	(9,690)	(16,033)	—	—	1,360,355	1,414,589
Interest income					37,694	39,578
Other unallocated gains, net					1,968	23,069
Finance costs					(190,584)	(250,575)
Share of profits less losses of:						
Jointly-controlled entities	—	—	—	—	48,220	13,414
Associates	—	—	—	—	(6,907)	21,000
Profit before tax					1,250,746	1,261,075
Tax					(293,036)	(168,621)
Profit for the period					957,710	1,092,454

Note: Excluding exchange gains/(losses), net

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2008

4. FINANCE COSTS

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Interest on bank loans and other borrowings wholly repayable ⁽¹⁾ :		
Within five years	128,803	36,292
Over five years	13,470	203,371
	142,273	239,663
Finance charges on cash flow hedges, net (note 10)	48,311	10,912
	190,584	250,575
Total finance costs for the period		

- (1) Net of government grants of HK\$27,645,000 (six months ended 30 June 2007: HK\$26,450,000) in respect of subsidies for interest expense arising from bank loans borrowed by the Group for the purpose of Dongshen Water Supply Phase IV Renovation Project (the "Phase IV Renovation Project"). There are no unfulfilled conditions or contingencies relating to these grants.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2008

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Note	For the six months ended 30 June	
		2008 (Unaudited) HK\$'000	2007 (Unaudited) (Restated) HK\$'000
Interest income**		(37,694)	(39,578)
Ineffectiveness of cash flow hedges**	10	206	(16,182)
Cost of inventories sold*		1,046,891	873,078
Depreciation		97,395	103,041
Recognition of prepaid land lease payments		8,223	8,102
Amortisation of intangible assets*		407,273	412,520
Changes in fair value of investment properties^		(12,526)	(55,379)
Loss on disposal of items of property, plant and equipment, net^		1,627	942
Impairment of intangible assets^		55,415	—
Impairment of items of property, plant and equipment^		14,435	—
Write-back of impairments of receivables^		(5,960)	—

* These costs and expenses are included in "Cost of sales" on the face of the condensed consolidated income statement.

** Included in "Other income and gains" on the face of the condensed consolidated income statement.

^ Included in "Other operating (expenses)/income, net" on the face of the condensed consolidated income statement.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2008

6. TAX

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Current — Hong Kong	2,914	2,679
Current — Mainland China	270,048	201,755
Deferred	20,074	(35,813)
Total tax charge for the period	<u>293,036</u>	<u>168,621</u>

Hong Kong profits tax has been provided at the rate of 17.5% (six months ended 30 June 2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable in Mainland China 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.

On 25 April 2008, the Government of the Hong Kong Special Administrative Region (“HKSAR”) approved the Hong Kong profits tax rate to be reduced from 17.5% to 16.5% from the year of assessment 2008/2009 onwards. The change in the Hong Kong profits tax rate will directly affect the Group’s effective tax rate prospectively from 2008. According to HKAS 12 “Income taxes”, deferred tax assets and deferred tax 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, and the Group’s deferred tax have been adjusted accordingly. The effect on the change of tax rate is not material to the Group for the period ended 30 June 2008.

Under the PRC Corporate Income Tax Law (the “New CIT Tax Law”), which became effective from 1 January 2008, enterprises are subject to corporate income tax (“CIT”) at a rate of 25% (six months ended 30 June 2007: 33%). According to the “Notice by the PRC State Council on the Implementation of the Grandfathering Preferential Policies under the PRC Income Tax Law”, the applicable tax rates in the coming years for enterprises which previously enjoyed lower CIT rate of 15% will be 18% in 2008; 20% in 2009; 22% in 2010; 24% in 2011; and 25% in 2012 and thereafter. In addition, certain of the Group’s PRC subsidiaries, which are currently entitled to a preferential tax treatment with full tax exemption from CIT for the two years starting from the first profitable year of operation, followed by a 50% reduction in CIT rate for the next three years, will continue to enjoy the preferential tax treatment in accordance with the original tax law, administrative regulations and the relevant stipulated preferential treatment until the term expires.

The share of taxes attributable to jointly-controlled entities and associates amounting to HK\$5,713,000 (six months ended 30 June 2007: HK\$50,378,000) and HK\$71,000 (six months ended 30 June 2007: HK\$7,843,000), respectively, are included in “Share of profits of jointly-controlled entities” and “Share of profits less losses of associates” on the face of the condensed consolidated income statement.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2008

7. DIVIDEND

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Interim — 4.0 HK cents (2007: 5.0 HK cents) per ordinary share	<u>246,456</u>	<u>305,134</u>

At a meeting of the board of directors held on 12 September 2008, the directors resolved to pay an interim dividend to shareholders of 4.0 HK cents (2007: 5.0 HK cents) for the six months ended 30 June 2008.

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculations of the basic and diluted earnings per share for the six months ended 30 June 2008 and 2007 are based on:

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Earnings:		
Profit attributable to ordinary equity holders of the Company, used for the purpose of the basic and diluted earnings per share calculation	<u>896,716</u>	<u>918,656</u>

	For the six months ended 30 June	
	2008 (Unaudited)	2007 (Unaudited)
Shares:		
Weighted average number of Ordinary Shares in issue during the period used in the basic earnings per share calculation	6,128,329,829	6,092,276,800
Effect of dilution — weighted average number of Ordinary Shares that assumed to have been issued:		
Share options*	<u>84,037,836</u>	<u>133,913,640</u>
For the purpose of diluted earnings per share calculation	<u>6,212,367,665</u>	<u>6,226,190,440</u>

* No share options had an anti-dilutive effect on the basic earnings per share and was not included in the diluted earnings per share calculation for the six months ended 30 June 2008 and 2007.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2008

9. RECEIVABLES, PREPAYMENTS AND DEPOSITS

		30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
	Note		
Trade receivables, net of impairments		476,841	200,929
Other receivables, prepayments and deposits		203,020	175,623
Due from the immediate holding company	20(a)	1,261	606
Due from fellow subsidiaries	20(a)	2,872	2,685
		683,994	379,843

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 within 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. The Group's trade receivables relate principally to the water supply business (31 December 2007: electricity supply business) and the Group has a certain concentration of credit risk as 48% (31 December 2007: 33%) of the total trade receivables were due from one of the Group's major customers.

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

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Within 3 months	473,068	200,656
3 months to 6 months	1,510	258
6 months to 1 year	1,699	15
More than 1 year	11,596	11,030
	487,873	211,959
Less: Impairments	(11,032)	(11,030)
	476,841	200,929

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2008

10. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2008	
	Assets	Liabilities
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest rate swap agreements	<u>49,983</u>	<u>(155,868)</u>

	31 December 2007	
	Assets	Liabilities
	(Audited)	(Audited)
	HK\$'000	HK\$'000
Interest rate swap agreements	<u>78,516</u>	<u>(277,647)</u>

The Group entered into certain interest rate swap agreements to hedge the interest rate risk arising from two credit facilities (the "Refinancing Facilities").

The carrying amount of interest rate swap agreements is the same as its fair value. The fair value of interest rate swap agreements is the estimated amount that the Group would receive or pay to terminate the swap agreements at the balance sheet date, taking into account current market conditions and the current creditworthiness of the swap counterparties. The above transactions involving derivative financial instruments are with creditworthy banks with no recent history of default.

Cash flow hedges

At 30 June 2008, the Group had certain interest rate swap agreements with a total notional amount of HK\$5,200 million (31 December 2007: HK\$5,200 million), designated and qualified as hedges in respect of the Group's Refinancing Facilities, whereby the Group receives interest at Hong Kong Inter Bank Offered Rates ("HIBOR") per annum and pays interest at a range of fixed rates per annum on the notional amounts. The swap agreements converted the interest obligation arising from the Refinancing Facilities from the floating rate of HIBOR to a range of fixed interest rates per annum for the period from the effective dates of respective contracts to various maturity dates up to 2012.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2008

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedges (continued)

The terms of these swap agreements have been negotiated to match the respective terms of the Refinancing Facilities. The cash flow hedges of the Refinancing Facilities were assessed to be highly effective and the net fair value gain on cash flow hedges of HK\$77,780,000 (six months ended 30 June 2007: HK\$208,980,000) included in the hedging reserve was as follows:

	30 June 2008 (Unaudited) HK\$'000	30 June 2007 (Unaudited) HK\$'000
Total fair value gains included in the hedging reserve	39,905	226,916
Fair value losses transferred from the hedging reserve and recognised in the income statement (note 4)	48,311	10,912
Net movement on cash flow hedges	88,216	237,828
Portion shared by minority interests	(10,436)	(28,848)
Net movement attributable to the equity holders of the Company for the six months ended 30 June	77,780	208,980

Derivatives not qualified for hedge accounting

At 30 June 2008, the Group had various other interest rate swap agreements which did not meet the criteria for hedge accounting. The net loss in the fair value of these derivatives not qualified for hedge accounting amounting to HK\$206,000 (six months ended 30 June 2007: net gain of HK\$16,182,000) (note 5) was included in the income statement during the period.

Amounts payable under the interest rate swap agreements are senior in right of payment to the Refinancing Facilities.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2008

11. PAYABLES, ACCRUALS AND OTHER LIABILITIES

	Note	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Trade payables		187,702	226,479
Accruals and other liabilities		1,012,951	1,175,188
Due to the immediate holding company	20(a)	4,699	7,138
Due to fellow subsidiaries	20(a)	4,549	7,398
		<u>1,209,901</u>	<u>1,416,203</u>

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

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Within 3 months	185,069	211,740
3 months to 6 months	1,311	9,924
6 months to 1 year	1,322	4,815
	<u>187,702</u>	<u>226,479</u>

12. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate	Maturity	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Current				
Bank loan — secured	5.88%	2008	311,363	292,343
Non-current				
Bank loans — secured	2.20% – 5.88%*	2009 – 2017	9,281,666	9,424,694
			<u>9,593,029</u>	<u>9,717,037</u>

* Includes the effects of cash flow hedges of related interest rate swap agreements as further detailed in note 10 to the interim condensed consolidated financial statements.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2008

13. OTHER LIABILITIES

At 30 June 2008, included in the other long-term liabilities was a non-interest-bearing receipt in advance amounting to HK\$1,654,800,000 (31 December 2007: HK\$1,654,800,000). In a prior year, the HKSAR granted a loan facility with a principal amount of HK\$2,364 million (the "Loan Facility") to the Guangdong Provincial Government (the "GPG") for the purpose of the Phase IV Renovation Project. Pursuant to the concession agreement dated 18 August 2000 entered into between the GPG and Guangdong Yue Gang Water Supply Company Limited ("WaterCo"), a 88.17% subsidiary of the Group, the Loan Facility was utilised for the construction of the Phase IV Renovation Project. Upon the completion of the Phase IV Renovation Project during the year ended 31 December 2003, the Group acquired and recorded the assets of the Phase IV Renovation Project and assumed the repayment obligations of the Loan Facility from the GPG as a non-interest-bearing receipt in advance, through the deduction of future water revenue to be received by the Group from the Government of the HKSAR, by an annual amount of HK\$118,200,000 for 20 years commencing from December 2003.

14. SHARE CAPITAL

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Authorised:		
8,000,000,000 (31 December 2007: 8,000,000,000) ordinary shares of HK\$0.50 each ("Ordinary Shares")	4,000,000	4,000,000
Issued and fully paid:		
6,152,388,071 (31 December 2007: 6,103,938,071) Ordinary Shares	3,076,194	3,051,969

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

	Number of Ordinary Shares in issue (Unaudited)	Issued capital (Unaudited) HK\$'000	Ordinary Share premium account (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2008	6,103,938,071	3,051,969	2,339,544	5,391,513
Share options exercised (i)	48,450,000	24,225	28,151	52,376
At 30 June 2008	6,152,388,071	3,076,194	2,367,695	5,443,889

- (i) During the six months ended 30 June 2008, the subscription rights attaching to 48,450,000 (six months ended 30 June 2007: 3,500,000) share options were exercised at subscription prices ranging from HK\$0.96 to HK\$1.59 (six months ended 30 June 2007: HK\$1.22 to HK\$1.59) per Ordinary Share (note 15), resulting in the issue of 48,450,000 (six months ended 30 June 2007: 3,500,000) new Ordinary Shares for a total consideration, net of expenses, of HK\$52,376,000 (six months ended 30 June 2007: HK\$4,852,000).

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2008

15. 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 following share options were outstanding under the GDI Scheme during the period:

Name or category of participants	Number of share options				Date of grant of share options* (DD.MM.YYYY)	Exercise period of share options (both dates inclusive)* (DD.MM.YYYY)	Exercise price of share options** HK\$ (per share)	Price of ordinary share*** at grant date of options HK\$ (per share)	Price of ordinary shares*** immediately before the exercise date HK\$ (per share)
	At 1 January 2008	Exercised during the period	Lapsed during the period	At 30 June 2008					
Directors									
Li Wenyue	6,000,000	(6,000,000)	–	–	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	} 3.74
	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	} 3.71
	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)	–	–	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	} 3.56
	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	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	–

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2008

15. SHARE OPTION SCHEME (continued)

Name or category of participants	Number of share options			At 30 June 2008	Date of grant of share options* (DD.MM.YYYY)	Exercise period of share options (both dates inclusive) [†] (DD.MM.YYYY)	Exercise price of share options** HK\$ (per share)	Price of ordinary share*** at grant date of options HK\$ (per share)	Price of ordinary shares*** immediately before the exercise date HK\$ (per share)
	At 1 January 2008	Exercised during the period	Lapsed during the period						
Directors (continued)									
Fung, Daniel R.	1,000,000	(1,000,000)	—	—	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	3.27
Cheng Mo Chi, Moses	1,000,000	(1,000,000)	—	—	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	3.64
	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	—
Wang Xiaofeng	1,000,000	(1,000,000)	—	—	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	} 3.59
	1,000,000	(1,000,000)	—	—	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	
	1,000,000	—	—	1,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	—
	650,000	—	—	650,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	—
	<u>39,000,000</u>	<u>(22,450,000)</u>	<u>—</u>	<u>16,550,000</u>					
Others									
Former directors and employees	48,000,000	(20,000,000)	(28,000,000)	—	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	} 3.77
	22,500,000	(3,000,000)	—	19,500,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	
	31,000,000	(3,000,000)	—	28,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	
	38,500,000	—	—	38,500,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	—
	1,500,000	—	—	1,500,000	10.03.2006	11.06.2006 to 10.06.2011	3.405	3.30	—
	<u>141,500,000</u>	<u>(26,000,000)</u>	<u>(28,000,000)</u>	<u>87,500,000</u>					
Total	<u>180,500,000</u>	<u>(48,450,000)</u>	<u>(28,000,000)</u>	<u>104,050,000</u>					

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2008

15. SHARE OPTION SCHEME (continued)

Notes to the reconciliation of share options outstanding during the period:

- * 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 grant date of options" 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 "Immediately before the exercise date" of the share options is the weighted average of the Stock Exchange closing prices immediately before the dates on which the options were exercised by each of the directors or all other participants as an aggregate whole.
- # If the last day of the option 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).

16. RESERVES

One of the undertakings given to the High Court of the HKSAR 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 24 December 2003 ("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 a 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 six months ended 30 June 2008, the release of provision as determined above was HK\$2,089,000 (six months ended 30 June 2007: HK\$109,394,000); and no profit was distributed from the Company's subsidiaries in both the current and prior periods as determined above, resulting in an aggregate transfer from retained profits to the Special Reserve of the Group of 2,089,000 (six months ended 30 June 2007: HK\$109,394,000).

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.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2008

16. RESERVES (continued)

During the six months ended 30 June 2008, the reduction of the Special Reserve and the capitalisation of the same amount to retained profits, which resulted from the aggregate increase in paid-up share capital and share premium account due to the issue of the Company's Ordinary Shares in both the current period and prior years (before any share issue expenses), amounted to HK\$52,393,000 (six months ended 30 June 2007: HK\$43,660,000). In effecting the reduction and capitalisation as aforesaid, the amount transferred from the Special Reserve is kept to an amount not exceeding the balance of the Special Reserve before such transfer.

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 the 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 period, there was no non-permanent loss which has turned into a permanent loss of the Group and the Company.

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

As at 30 June 2008, the Limit of the Special Reserve was reduced by an increase in paid-up share capital due to the issue of the Company's Ordinary Shares during the period of HK\$52,392,500.

The Limit, as adjusted, was HK\$650,568,033 (31 December 2007: HK\$702,960,533) and the amount standing to the credit of the Special Reserve was HK\$23,745,266 (31 December 2007: HK\$74,049,025) as at 30 June 2008.

17. ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES

During the six months ended 30 June 2007, the Company acquired an aggregate additional 0.25% equity interest in GH Water Supply (Holdings) Limited ("GH Holdings") at a total cash consideration of HK\$32,658,000 from the minority shareholders of GH Holdings. As a result of this acquisition, the Group increased its holdings in GH Holdings from 87.62% at 31 December 2006 to 87.87% at 30 June 2007, resulting in a total positive goodwill of approximately HK\$15,660,000.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2008

18. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of one to fifteen years (31 December 2007: one to fifteen years).

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:

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Within one year	16,769	10,143
In the second to fifth years, inclusive	69,056	41,559
After five years	122,626	60,948
	208,451	112,650

In addition to the operating lease arrangements as disclosed above, the Group leases certain leasehold properties for the department store operations of a subsidiary of the Group. The rental charge for the six months ended 30 June 2008 amounting to HK\$3,679,000 (year ended 31 December 2007: HK\$5,245,000) is calculated with reference to the revenue generated by the subsidiary of the Group.

19. COMMITMENTS

In addition to the operating lease commitments detailed in note 18 above, the Group had the following commitments at the balance sheet date:

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
(a) Capital commitments in respect of property, plant and equipment:		
Contracted for	133,422	106,482
Authorised, but not contracted for	545,298	530,354
	678,720	636,836

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2008

19. COMMITMENTS (continued)

- (b) During the year ended 31 December 2007, the Company has signed a letter of intent regarding the construction of two 300,000 kilowatts heat and electricity supply plants (the “Zhongshan Project”) utilising the existing land and production facilities of Zhongshan Power Plant. At present, it is estimated that the Zhongshan Project will have a total investment cost of approximately RMB2.8 billion. A lot of the details of the Zhongshan Project including the terms of the contractual documents, the number and identities of the other investors and the percentage of the Group’s interest in the Zhongshan Project have yet to be worked out. In addition, the Zhongshan Project is also very much contingent upon all the various requisite PRC approvals being obtained.
- (c) During the period, Guangdong Power (International) Limited entered into the framework agreement with Guangdong Yudean Group Co. Ltd. and Guangdong Electric Power Development Co. Ltd. regarding possible investment in the construction of two 600-megawatt power generation units (the “Proposed Project”) in Guangdong Shaoguan Yue Jiang Power Supply Limited. At present, it is estimated that the Proposed Project will have a total investment cost of approximately RMB4.7 billion. Many aspects of the matters envisaged in the framework agreement remain the subject of further negotiation between the parties and it is likely to entail entering into formal contracts. In addition, the implementation of the Proposed Project will be contingent upon, among other things, all the requisite PRC Government approvals being obtained.
- (d) During the period, the Company succeeded in its bid for the acquisition of certain existing hydro-power generation units in the Yangshan County and the right to, inter alia, upgrade and redevelop the same (the “Yangshan Project”). At present, it is estimated that the Yangshan Project will have a total investment cost of approximately RMB510 million and after the upgrading and redevelopment the total capacity will be increased to 37.5-megawatt. The upgrading and redevelopment as aforesaid is however conditional upon all the requisite PRC Government approvals being obtained.
- (e) Pursuant to WaterCo’s article of association, Guangdong Holdings Limited, which directly holds a 1% equity interest in WaterCo and is the Company’s ultimate holding company, is not entitled to receive any distributed profits of WaterCo for the first fifteen years of operation and 100% of the distributed profits for that period shall be made to GH Holdings. Starting from the sixteenth year of WaterCo’s operation, 1.01% of the distributed profits of WaterCo for the first fifteen years of operation plus simple interest at a rate of 8% per annum on the unpaid amount of the distributed profits shall be made to Guangdong Holdings Limited (collectively referred to as the “Deferred Dividend”). Once Guangdong Holdings Limited has received the Deferred Dividend in full, all of the WaterCo’s distributable profits are to be distributed to GH Holdings and Guangdong Holdings Limited according to their respective equity interests in WaterCo during the remaining operating period.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2008

20. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances set out elsewhere in these interim condensed consolidated financial statements, the Group had the following material related party transaction during the period:

(a) Outstanding balances with related parties

	Notes	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Balances due from:			
Immediate holding company	(i)	1,261	606
Fellow subsidiaries	(ii)	2,872	2,685
Jointly-controlled entity	(iii)	55,410	—
Associate	(iv)	1,566	—
Balances due to:			
Immediate holding company	(i)	(4,699)	(7,138)
Fellow subsidiaries	(ii)	(4,549)	(7,398)

Notes:

- (i) The balance with the immediate holding company is unsecured, non-interest-bearing and has no specific terms of repayment. The carrying amount of the amount due approximates to its fair value.
- (ii) The balances with fellow subsidiaries are unsecured, non-interest-bearing and have no specific terms of repayment. The carrying amounts of the amounts due approximate to their fair values.
- (iii) The balance with the jointly-controlled entity is unsecured, non-interest-bearing and has no specific terms of repayment. The carrying amount of the amount due approximates to its fair value.
- (iv) The balance with the associate is unsecured, non-interest-bearing and has no specific terms of repayment. The carrying amount of the amount due approximates to its fair value.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2008

20. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Compensation of directors and key management personnel of the Group

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Short term employment benefits	1,383	1,195
Post-employment benefits	121	84
Share-based payments	—	—
Total compensation paid to directors and key management personnel	<u>1,504</u>	<u>1,279</u>

21. CAPITAL EXPENDITURE

During the six months ended 30 June 2008, the Group acquired items of property, plant and equipment of approximately HK\$58,677,000 (six months ended 30 June 2007: HK\$95,613,000), in aggregate.

22. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 12 September 2008.

Business Review, Discussion and Analysis, Prospects and Other Information

RESULTS

The Board is pleased to report that the results of the Group for the six months ended 30 June 2008. The Group's unaudited consolidated net profit attributable to shareholders amounted to HK\$897 million (2007: HK\$919 million), representing a decrease of 2.4% as compared with the same period last year. The basic earnings per share were 14.63 HK cents (2007: 15.08 HK cents) representing a decrease of 3.0% as compared with the same period last year.

INTERIM DIVIDEND

The Board declares an interim dividend of 4.0 HK cents per share for the six months ended 30 June 2008 (2007: 5.0 HK cents).

FINANCIAL REVIEW

The unaudited consolidated revenue of the Group for the six months ended 30 June 2008 was HK\$3,765 million (2007: HK\$3,287 million), an increase of 14.5% as compared with the same period last year. Satisfactory growth was achieved in the following four business sectors of the Group, namely water distribution, property investment and development, department stores, and hotel operations and management.

The unaudited consolidated profit before tax of the Group for the six months ended 30 June 2008 amounted to HK\$1,251 million (2007: HK\$1,261 million), a slightly decrease of 0.8%. The water distribution business remains the major source of our profit. Benefiting from the increase in water sales volume for Shenzhen and Dongguan areas, the total revenue from the water distribution business increased by HK\$76 million (an increase of 4.4%) as compared with the same period last year. The increase in profit of the Group was also attributable to the increase in revenue from respectively our property investment and development business of HK\$137 million (an increase of 67.4%), our department stores business of HK\$283 million (an increase of 37.7%) and our hotel operations and management business of HK\$20 million (an increase of 13.4%). All these increases were reversed by the losses of HK\$132 million (2007: profit of HK\$113 million) in the electric power generation segment because of the sharp increase in coal price.

An increase in the fair value of investment properties for HK\$12,526,000 was recorded in the period under review (2007: HK\$55,379,000). For the electricity supply business, an impairment of intangible assets for HK\$55 million (2007: Nil) and impairment of items of property, plant and equipment for HK\$14 million (2007: Nil) were recorded in consolidated income statement for the period. Mainly because of the lower interest rate, the finance cost decreased by 23.9% to HK\$191 million.

Under the new PRC Corporation Income Tax Law that came into effect as from 1 January 2008, the preferential tax rates enjoyed by certain of our subsidiaries will be gradually phased out over a five year period from 2008 to 2012. The effective tax rate for the period under review has increase to 23.4% (2007: 13.4%). Tax has likewise substantially increased by HK\$124 million to HK\$293 million. With the tax increase and the slight decrease in our profit before tax, the Group's unaudited consolidated net profit attributable to shareholders has decreased by HK\$22 million to HK\$897 million as compared with same period last year.

The earnings before interest, tax, depreciation and amortisation ("EBITDA") of the Group for the six months ended 30 June 2008 decreased by 4.4% to HK\$1,913 million (2007: HK\$2,001 million).

Business Review, Discussion and Analysis, Prospects and Other Information

BUSINESS OVERVIEW

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

Water Distribution

Profit contribution from the Dongshen Water Supply Project remained significant to the Group. The Group's effective interest in the Dongshen Water Supply Project is 88.17%. The planned annual water supply capacity is 2.423 billion cubic meters.

The total water supply to Hong Kong, Shenzhen and Dongguan during the six months ended 30 June 2008 amounted to 1.084 billion cubic meters (2007: 0.977 billion cubic meters), an increase of 11.0%, generating revenue amounted to HK\$1,811,220,000 (2007: HK\$1,735,562,000), an increase of 4.4%.

Under the Hong Kong Water Supply Agreement for 2006 to 2008 (the "2006 Water Supply Agreement") as concluded between the Government of Hong Kong Special Administrative Region and the Guangdong Provincial Government in 2006, the total annual revenue for water sales to Hong Kong is fixed at HK\$2,494,800,000. As compared with the total annual revenue for the Hong Kong water sales for respectively 2004 and 2005, there was a slight decrease of HK\$34,900,000 annually. The Guangdong Provincial Government has undertaken to subsidise the Group for any adverse impact of the 2006 Water Supply Agreement. The details for the implementation of the subsidy arrangement are still being worked out with the Guangdong Provincial Government.

With the total annual revenue of HK\$2,494,800,000 payable by 11 equal monthly installments under the 2006 Hong Kong Water Supply Agreement, the revenue from water sales to Hong Kong for the six months ended 30 June 2008 was HK\$1,360,800,000 (2007: HK\$1,360,800,000).

The water sales volume to the Shenzhen and Dongguan areas increased by 8.4% to 670 million cubic meters for the six months ended 30 June 2008 (2007: 618 million cubic meters). Benefiting from the increase in water sales volume and the increase in the RMB exchange rate, the water sales revenue to the Shenzhen and Dongguan areas during the six months ended 30 June 2008 increased 20.2% to HK\$450,420,000 (2007: HK\$374,762,000).

The profit before tax of water distribution business for the period under review was HK\$796,473,000 (2007: HK\$761,534,000), 4.6% higher than that in the same period last year. The EBITDA of the water distribution business during the period amounted to HK\$1,433,430,000 (2007: HK\$1,457,880,000), a decrease of 1.7%.

Business Review, Discussion and Analysis, Prospects and Other Information

BUSINESS OVERVIEW (continued)

Electric Power Generation

Shaoguan Power Plant D (“Shaoguan PPD”)

The Group's effective interest in Shaoguan PPD is 45.9%. Guangdong Power (International) Limited (“GPIL”), a 51% owned subsidiary of the Company, holds a 90% interest in Shaoguan PPD. Shaoguan PPD has 1 power unit with an installed capacity of 200 MW. In the first six months of 2008, sales of electricity amounted to 443 million kwh (2007: 657 million kwh), representing a decrease of 32.6%. This was mainly because some operation of the power plant was suspended in February, March and April for repair and maintenance. Revenue for the period amounted to HK\$204,632,000 (2007: HK\$278,181,000), a decrease of 26.4%. Because of the significant increase in coal price, the profit margin decreased from 21.6% as in the first six months of 2007 to a negative margin of 6.6% this year. Therefore, Shaoguan PPD suffered a loss before tax of HK\$48,522,000 for the period whereas a profit before tax of HK\$48,211,000 was recorded in the same period last year.

In January 2008, GPIL entered into a framework agreement with 廣東省粵電集團有限公司(Guangdong Yudean Group Co., Ltd.) and 廣東電力發展股份有限公司 (Guangdong Electric Power Development Co., Ltd.) regarding possible investment in the construction of two 600 MW power generation units (the “Proposed Project”). In order to facilitate the obtaining of all requisite PRC government approvals for the Proposed Project, the existing power unit will be closed down before the end of 2010.

Zhongshan Power Plant

The Group's effective interest in Zhongshan Power Plant is 59.85% (a 95% owned subsidiary of the Company holding 63% interest in the project). Zhongshan Power Plant has 2 power units with total installed capacity of 110 MW. In the first six months of 2008, sales of electricity amounted to 373 million kwh (2007: 352 million kwh), representing an increase of 6.0%. As a result of the increase in sales and also the increase in the RMB exchange rate, revenue for the period amounted to HK\$201,747,000 (2007: HK\$164,565,000), an increase of 22.6%. However, due to the significant increase in coal price, the profit margin decreased from 28.7% as in the first six months of 2007 to 0.6% in the same period this year. The loss before tax for the period was HK\$51,475,000 (2007: profit before tax HK\$52,405,000).

On 28 March 2007, a letter of intent was executed between the Group and 中山興中集團有限公司 regarding a proposed project for the construction of two 300 MW power generation units utilising the existing land and production facilities of Zhongshan Power Plant. In order to facilitate the obtaining of all requisite PRC government approvals for this proposed project, the existing power units may be closed down in the future.

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

The Group's effective interest in Yue Jiang Power Plant is 11.48% (Shaoguan PPD holding 25% interest in this project). Revenue for the period amounted to HK\$649,940,000 (2007: HK\$683,317,000), a decrease of 4.9% which was mainly due to the decrease in sale volume of electricity. Because of high coal prices, Yue Jiang Power Plant suffered a loss before tax of HK\$175,952,000 for the period whereas a profit before tax of HK\$37,379,000 was recorded in the same period last year.

Business Review, Discussion and Analysis, Prospects and Other Information

BUSINESS OVERVIEW (continued)

Electric Power Generation (continued)

Meixian Power Plant

The Group's effective interest in Meixian Power Plant is 12.25% (a 49% associate of the Company, Guangdong Power Investment Limited ("GD Power Investment"), holds a 25% interest in the project). Revenue for the period amounted to HK\$541,904,000 (2007: HK\$592,381,000), a decrease of 8.5%. Because of high coal prices, Meixian Power Plant suffered a loss before tax of HK\$59,656,000 for the period whereas a profit before tax of HK\$101,945,000 was recorded in the same period last year. During the period, GD Power Investment received dividend income of HK\$20,540,000 (2007: HK\$14,898,000) from this investment.

Toll Roads and Bridges

"1 Road and 2 Bridges"

In the first six months of 2008, the profit before tax generated by the Group's 51% jointly-controlled entity (the "JCE") which holds interests in the "1 Road and 2 Bridges" project amounted to HK\$105,750,000 in aggregate (2007: HK\$125,082,000).

(i) Humen Bridge

During the period the JCE acquired further interest in this project and increased the profit sharing ratio from 19.5% to 23%. During the period, average daily traffic flow of this bridge increased by 21.3% to 68,950 vehicle trips (2007: 56,865 vehicle trips). Revenue for the period reached HK\$600,797,000 (2007: HK\$466,843,000), an increase of 28.7%. This was mainly because the repair and maintenance works at the Guangshen Highway diverted traffic to the Humen Bridge. With the repayment of shareholders' loans, finance costs decreased by HK\$27,994,000 as compared with that of the same period last year. Accordingly, the profit before tax for the period increased by 33.8% to HK\$447,222,000 (2007: HK\$334,325,000).

(ii) Shantou Haiwan Bridge

The JCE holds 30% interest in this project. During the reporting period, the average daily traffic flow of the bridge increased by 7.6% to 13,357 vehicle trips (2007: 12,419 vehicle trips). Due to the increase in the RMB exchange rate, revenue increased by 9.5% to HK\$87,788,000 (2007: HK\$80,193,000). The profit before tax for the period increased by 7.7% to HK\$65,092,000 (2007: HK\$60,417,000).

(iii) Guangzhou-Shantou Highway (Huizhou Section)

The JCE holds 51% interest in this project. During the reporting period, average daily traffic flow of the highway decreased by 14.9% to 15,336 vehicle trips (2007: 18,031 vehicle trips). Revenue for the period has decreased by 14.7% to HK\$28,520,000 (2007: HK\$33,429,000). However, because of the increase in the RMB exchange rate, an exchange gain of HK\$4,940,000 was recorded for the period (2007: HK\$2,163,000). Accordingly profit before tax for the period increased by 63.8% to HK\$6,077,000 (2007: HK\$3,711,000).

Business Review, Discussion and Analysis, Prospects and Other Information

BUSINESS OVERVIEW (continued)

Toll Roads and Bridges (continued)

Yingkeng Highway

The Group's effective interest in this project is 70%. During the period, average daily traffic flow decreased by 18.8% to 3,770 vehicle trips (2007: 4,642 vehicle trips) and revenue decreased by 11.1% to HK\$6,895,000 (2007: HK\$7,757,000). However, as repair and maintenance costs have substantially decreased by HK\$3,455,000, a profit before tax of HK\$916,000 (2007: loss before tax of HK\$2,024,000) was recorded.

Panyu Bridge

The Group's effective interest in this project is 20%. During the period, average daily traffic flow increased by 6.0% to 55,149 vehicle trips (2007: 52,026 vehicle trips). As a result, revenue for the period has increased by 18.1% to HK\$69,073,000 (2007: HK\$58,467,000). The profit before tax for the period was HK\$26,466,000 (2007: HK\$15,802,000), an increase of 67.5%.

Property Investment

Mainland China

Teem Plaza

At the balance sheet date, the Group holds an effective equity interest of 75.88% in 廣東天河城(集團)股份有限公司 (Guangdong Teem (Holdings) Limited), which owns the Teemall Plaza comprising of a shopping mall and two tower blocks.

The Teemall, one of the most popular shopping malls in the premier area of Guangzhou, has a total gross floor area and lettable area of approximately 160,000 square meters and 98,000 square meters respectively. The mall continued to enjoy high average occupancy rate of approximately 99% during the period (2007: 99%). Revenue of the mall during the period reached HK\$299,527,000 (2007: HK\$219,221,000), an increase of 37%. The profit before tax for the period increased by 27% to HK\$252,557,000 (2007: HK\$198,335,000). The mall is successful in retaining existing brand-name tenants and attracting new ones. The strong demands for shop spaces in the mall resulted in substantial rental increases.

The East Tower, also known as the Teem Tower (粵海天河城大廈), is a 45-storey A-class office tower, with a total gross floor area and lettable area of approximately 102,000 square meters and 90,000 square meters respectively. Responses to the leasing are encouraging and not only a number of multinational companies but also the consulate of a European country have already taken up leases. With an occupancy rate of 80% as at the balance sheet date, total rental income for the period was HK\$52,189,000 (2007: HK\$1,103,000), an increase of 4631%. The profit before tax for the period increased to HK\$48,040,000 (2007: loss of HK\$2,867,000).

The West Tower, which is expected to be completed in 2009, will be a 5-star hotel with approximately 450 hotel rooms. Sheraton Overseas Management Corporation, a renowned international hotel management company, has been engaged to operate, manage and promote the hotel under the name of Sheraton Guangzhou Hotel (粵海喜來登酒店) for an initial 10-year term. Estimated total development cost of the West Tower (inclusive of historic land and further development costs now attributed to the West Tower) is about HK\$780 million, of which approximately HK\$232 million has been invested as at the balance sheet date.

Business Review, Discussion and Analysis, Prospects and Other Information

BUSINESS OVERVIEW (continued)

Property Investment (continued)

Hong Kong

Guangdong Investment Tower

Average occupancy rate of the Guangdong Investment Tower for the first six months of 2008 reached 100% (2007: 96.7%), 3.3% higher than the same period last year. The total rental income for the period was HK\$16,333,000 (2007: HK\$14,176,000), an increase of 15.2% which was a result of the increased occupancy rate and average rent rate.

Department Stores

As at the balance sheet date, the Group holds an effective equity interest of 85.05% in 廣東天河城百貨有限公司 (Guangdong Teemall Department Stores Ltd.) (“GDTDS”) for the operation of department stores.

GDTDS operates with a total leased area of approximately 36,746 square meters (2007: 36,252 square metres) selling a wide range of products and is ranked, in terms of sales, as one of the major department stores in Guangzhou. During the period, GDTDS continued to enjoy record high revenue of HK\$1,031,795,000 (2007: HK\$749,070,000), an increase of 38%. Profit before tax for the period was HK\$109,814,000 (2007: HK\$69,923,000), an increase of 57%

廣東吉之島天寶百貨有限公司 (Guangdong Jusco Teem Stores Co., Ltd.), an 26.56% associate of the Group, is jointly managed by 廣東天河城(集團)股份有限公司 (Guangdong Teem (Holdings) Limited) and JUSCO Japan. It has achieved satisfactory growth in its business since its establishment in 1996.

Hotel Operations and Management

As at 30 June 2008, our hotel management team managed a total of 50 hotels (31 December 2007: 48 hotels), of which 2 are located in Hong Kong, 1 in Macau and 47 in Mainland China. Of these 50 hotels, 8 are owned by the Group (2 in Hong Kong, 4 in Shenzhen, 1 in Zhuhai, and 1 in Changzhou).

During the period under review, the hotel management business maintained its healthy growth and there has been a very encouraging increase in not only the number of hotels under our management but also the synergy within such hotel networks. During the period, the average room rate of the 5 star-rated hotels was HK\$513, an increase of 8.9% as compared with the same period last year. For the hotel management business together with the aforesaid 5 hotels, revenue for the period increased by 14.3% to HK\$156,051,000 (2007: HK\$136,549,000), and profit before tax increased by 24.8% to HK\$49,585,000 (2007: HK\$39,718,000).

The Group also operated a chain of limited service hotels under the “粵海之星商務快捷連鎖酒店” brand name to meet the increasing demands of budget conscious travelers in Mainland China. The aggregate revenue from these hotels for the period increased by 3.1% to HK\$11,987,000 (2007: HK\$11,622,000) and profit before tax decreased by 24.2% to HK\$1,116,000 (2007: HK\$1,472,000).

Business Review, Discussion and Analysis, Prospects and Other Information

LIQUIDITY, GEARING AND FINANCIAL RESOURCES

As at 30 June 2008, the cash and bank balances of the Group increased by HK\$305 million to HK\$2,992 million (31 December 2007: HK\$2,687 million), of which 26% are in Hong Kong dollars, 66% in Renminbi and 8% in US dollars.

During the period under review, the level of the Group's financial borrowing decreased by HK\$124 million. The decrease was mainly due to the repayment of certain interest-bearing debts during the period.

As at 30 June 2008, the Group's financial borrowings amounted to HK\$11,366 million (31 December 2007: HK\$11,490 million), of which 11% in Renminbi and 89% in Hong Kong dollars, including the non-interest bearing Hong Kong government loan of HK\$1,773 million. Of the Group's total financial borrowings, HK\$430 million was repayable within one year while the remaining balance of HK\$8,954 million and HK\$1,982 million are repayable within two to five years and beyond five years from the balance sheet date, respectively.

Save for the bank debts mainly incurred in our water distribution business, the Group maintained credit facilities of RMB50 million as at 30 June 2008 (31 December 2007: RMB50 million).

The gearing (i.e. net financial indebtedness/net asset value (excluded minority interest)) for the Group as at 30 June 2008 was 0.58 times (31 December 2007: 0.66 times). The improvement mostly reflected the reduction in the level of the Group's financial borrowings, together with an increase in net asset of the Group. The Group is in a healthy debt servicing position as the EBITDA/finance cost is 10.04 times (31 December 2007: 7.97 times).

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

PLEDGE OF ASSETS

As at 30 June 2008, none of the Group's property, plant and equipment, investment properties and bank deposits were pledged to secure general banking facilities granted to the Group (31 December 2007: Nil).

CAPITAL EXPENDITURE

The Group's capital expenditure in the first six months of 2008 amounted to HK\$59 million which was principally related to the construction in progress of the West Tower at Guangzhou Teemall Plaza and renovation works for our existing hotels and new limited service hotels.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE AND INTEREST RATES AND RELATED HEDGES

As at 30 June 2008, total Renminbi borrowings amounted to HK\$1,244 million (31 December 2007: HK\$1,168 million).

As at 30 June 2008, the Group's total floating rate borrowings amounted to HK\$9,593 million (31 December 2007: HK\$9,717 million). For the purpose of interest rate risk management, the Group entered certain fixed or re-indexing interest rate swap agreements, amounted to HK\$6,400 million (31 December 2007: HK\$7,400 million), with an average remaining life ranging from 1/2 to 4 1/2 years.

Business Review, Discussion and Analysis, Prospects and Other Information

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2008, the Group had a total of 3,810 employees, of which 799 were at the managerial level. Among the employees, 3,579 were employed by subsidiaries in Mainland China and 231 were employed by the head office and subsidiaries in Hong Kong. Total remuneration paid for the period was approximately HK\$167,665,000 (2007: HK\$148,823,000).

In 2008, the Group continues to strengthen and enhance the development of its corporate team and has further positively stepped up and consolidated our corporate core ideals and values “Credibility, Integrity and Profitability”. Through reinforcing the various control mechanism of our management system and enhancing the optimisation of our staff through the reward and discipline process, we have raised the overall standard of all our staff. The improvement in the quality and competence of our management team is particularly marked. We have in place the mechanism for regular performance appraisals and feedback for our senior management staff to ensure their integrity and high performance. Our remuneration and incentive packages for our employees are driven mainly by the operating results of their respective companies. In order to effectively motivate our staff to actively add value in their work, the incentive bonuses we pay to our management, key staff in their respective fields and staff with outstanding performance are determined not only by reference to the operating net cash flow and profits after tax of their respective companies, but also by applying a progressive scale on the operating results of their companies and further taking into account of the individual performance of the staff concerned. Moreover, the Group has adopted a share option scheme to reward, attract and retain outstanding staff to contribute to the continuing success of the Group in the long run. In terms of staff training and development, the Group encourages its staff to actively participate in relevant professional development and training programs to improve themselves. The Group has also continued to offer on an on-going basis its various general corporate culture and functional skill-based internal training to upgrade the overall quality of all our staff and thereby laying a solid foundation for the continual growth and development of the Group in years to come.

PROSPECTS

Management is at present closely tracking the market situation, making efforts to keep costs down and continuing our push to optimise both our businesses and effectiveness. Our water distribution business is expected to maintain its solid market position and to bring in strong market share, stable profit and cash flow for the Group. Our property investment and development, department stores, and hotel operations and management businesses are also expected to maintain a steady growth. The overall business and cash flow of the Group are expected to maintain their healthy and steady growth.

The Group will continue to focus on its existing core businesses, with particular emphasis on utilities and infrastructure, including actively exploring a number of possible water resources (including hydro-power projects) and power generation related projects, as well as possible new investments in highway projects.

Directors' Interests and Short Positions in Securities

As at 30 June 2008, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive are taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

INTERESTS AND SHORT POSITIONS IN THE COMPANY

(i) Interests in ordinary shares

Name of director	Capacity/nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held (Note)
Li Wenyue	Personal	25,400,000	Long position	0.413%
Zhang Hui	Personal	3,000,000	Long position	0.049%
Chan Cho Chak, John	Personal	5,450,000	Long position	0.089%
Li Kwok Po, David	Personal	4,000,000	Long position	0.065%
Cheng Mo Chi, Moses	Personal	1,100,000	Long position	0.018%
Wang Xiaofeng	Personal	1,000,000	Long position	0.016%

Note: The approximate percentage of interests held was calculated on the basis of 6,152,388,071 ordinary shares of the Company in issue as at 30 June 2008.

Directors' Interests and Short Positions in Securities

INTERESTS AND SHORT POSITIONS IN THE COMPANY (continued)

(ii) *Interests in options relating to ordinary shares*

Name of director	Number of options held as at 1 January 2008	Options granted Jan-Jun 2008		Period during which share options is exercisable (dd.mm.yyyy)	Total consideration paid for share options HK\$	Price per ordinary share payable on exercise of options HK\$	Number of options exercised Jan-Jun 2008	Number of options held as at 30 June 2008	Long/short position
		Date (dd.mm.yyyy)	Number						
Li Wen Yue	6,000,000	—	—	05.03.2003 to 04.03.2008	1	0.96	6,000,000	—	Long position
	3,000,000	—	—	08.08.2003 to 07.08.2008	1	1.22	3,000,000	—	Long position
	3,000,000	—	—	07.05.2004 to 06.05.2009	1	1.59	—	3,000,000	Long position
	2,500,000	—	—	25.08.2004 to 24.08.2009	1	1.25	—	2,500,000	Long position
Zhang Hui	5,000,000	—	—	05.03.2003 to 04.03.2008	1	0.96	5,000,000	—	Long position
	3,000,000	—	—	08.08.2003 to 07.08.2008	1	1.22	3,000,000	—	Long position
	3,000,000	—	—	07.05.2004 to 06.05.2009	1	1.59	—	3,000,000	Long position
	2,500,000	—	—	25.08.2004 to 24.08.2009	1	1.25	—	2,500,000	Long position
Chan Cho Chak, John	1,000,000	—	—	07.05.2004 to 06.05.2009	1	1.59	1,000,000	—	Long position
	450,000	—	—	25.08.2004 to 24.08.2009	1	1.25	450,000	—	Long position
Li Kwok Po, David	1,000,000	—	—	07.05.2004 to 06.05.2009	1	1.59	—	1,000,000	Long position
	450,000	—	—	25.08.2004 to 24.08.2009	1	1.25	—	450,000	Long position

Directors' Interests and Short Positions in Securities

INTERESTS AND SHORT POSITIONS IN THE COMPANY (continued)

(ii) *Interests in options relating to ordinary shares (continued)*

Name of director	Number of options held as at 1 January 2008	Options granted Jan-Jun 2008		Period during which share options is exercisable (dd.mm.yyyy)	Total consideration paid for share options HK\$	Price per ordinary share payable on exercise of options HK\$	Number of options exercised Jan-Jun 2008	Number of options held as at 30 June 2008	Long/short position
		Date (dd.mm.yyyy)	Number						
Fung, Daniel R.	1,000,000	—	—	07.05.2004 to 06.05.2009	1	1.59	1,000,000	—	Long position
Cheng Mo Chi, Moses	1,000,000	—	—	05.03.2003 to 04.03.2008	1	0.96	1,000,000	—	Long position
	1,000,000	—	—	08.08.2003 to 07.08.2008	1	1.22	—	1,000,000	Long position
	1,000,000	—	—	07.05.2004 to 06.05.2009	1	1.59	—	1,000,000	Long position
	450,000	—	—	25.08.2004 to 24.08.2009	1	1.25	—	450,000	Long position
Wang Xiaofeng	1,000,000	—	—	05.03.2003 to 04.03.2008	1	0.96	1,000,000	—	Long position
	1,000,000	—	—	08.08.2003 to 07.08.2008	1	1.22	1,000,000	—	Long position
	1,000,000	—	—	07.05.2004 to 06.05.2009	1	1.59	—	1,000,000	Long position
	650,000	—	—	25.08.2004 to 24.08.2009	1	1.25	—	650,000	Long position

Note: If the last day of the option 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).

Directors' Interests and Short Positions in Securities

INTERESTS AND SHORT POSITIONS IN KINGWAY BREWERY HOLDINGS LIMITED

Interests in ordinary shares

Name of director	Capacity/nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held (Note)
Cheng Mo Chi, Moses	Personal	600,000	Long position	0.035%
Jiang Jin	Personal	400,000	Long position	0.023%
Wang Xiaofeng	Personal	20,000	Long position	0.001%

Note: The approximate percentage of interests held was calculated on the basis of 1,707,306,546 ordinary shares of Kingway Brewery Holdings Limited in issue as at 30 June 2008.

INTERESTS AND SHORT POSITIONS IN GUANGNAN (HOLDINGS) LIMITED

(i) Interests in ordinary shares

Name of director	Capacity/nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held (Note)
Li Wenyue	Personal	800,000	Long position	0.088%
Tsang Hon Nam	Personal	300,000	Long position	0.033%
Li Kwok Po, David	Personal	15,000	Long position	0.002%
Jiang Jin	Personal	800,000	Long position	0.088%
Wang Xiaofeng	Personal	120,000	Long position	0.013%

Note: The approximate percentage of interests held was calculated on the basis of 905,603,285 ordinary shares of Guangnan (Holdings) Limited in issue as at 30 June 2008.

Directors' Interests and Short Positions in Securities

INTERESTS AND SHORT POSITIONS IN GUANGNAN (HOLDINGS) LIMITED (continued)

(ii) Interests in options relating to ordinary shares

Name of director	Number of options held as at 1 January 2008	Options granted Jan–Jun 2008		Period during which share options is exercisable (dd.mm.yyyy)	Total consideration paid for share options HK\$	Price per ordinary share payable on exercise of options HK\$	Number of options exercised Jan–Jun 2008	Number of options held as at 30 June 2008	Long/short position
		Date (dd.mm.yyyy)	Number						
Tsang Hon Nam	300,000	–	–	09.06.2006 to 08.03.2016	1	1.66	–	300,000	Long position

INTERESTS AND SHORT POSITIONS IN GUANGDONG TANNERY LIMITED

Interests in ordinary shares

Name of director	Capacity/nature of interests	Number of Ordinary shares held	Long/short position	Approximate percentage of interests held (Note)
Li Wenyue	Personal	194,000	Long position	0.036%
Jiang Jin	Personal	600,000	Long position	0.112%
Wang Xiaofeng	Personal	20,000	Long position	0.004%

Note: The approximate percentage of interests held was calculated on the basis of 537,504,000 ordinary shares of Guangdong Tannery Limited in issue as at 30 June 2008.

Save as disclosed above, as at 30 June 2008, to the knowledge of the Company none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive are taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

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

Substantial Shareholders' Interests

As at 30 June 2008, so far as is known to any director or chief executive of the Company, the following persons (other than a director or chief executive of the Company) had, or were deemed or taken to have interest or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are recorded in the register kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Capacity/nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interest held (Note 1)
廣東粵海控股有限公司 (Guangdong Holdings Limited) (Note 2)	Interests of controlled corporation	3,765,770,781	Long position	61.21%
GDH Limited (Note 3)	Beneficial owner/ Interests of controlled corporation	3,765,770,781	Long position	61.21%
Guangdong Trust Ltd.	Beneficial owner	576,404,918	Long position	9.37%

Notes:

1. The approximate percentage of interest held was calculated on the basis of 6,152,388,071 ordinary shares of the Company in issue as at 30 June 2008.
2. The attributable interest which 廣東粵海控股有限公司 (Guangdong Holdings Limited) has in the Company is held through its 100% direct interest in GDH Limited.
3. The interests of GDH Limited set out above includes attributable interest held through its wholly-owned subsidiary, Guangdong Trust Ltd.

Save as disclosed above, as at 30 June 2008, so far as is known to any director or chief executive of the Company, no other person (other than a director or chief executive of the Company) had, or were deemed or taken to have interest or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are recorded in the register kept by the Company pursuant to Section 336 of the SFO.

Share Option Scheme

During the period, no options have been granted under the share option scheme of the Company (the "Share Option Scheme") and there are no changes in any terms of the Share Option Scheme. Details of the movements in the Company's share options under the Share Option Scheme during the period were set out in note 15 to the unaudited interim condensed consolidated financial statements and the detailed terms of the Share Option Scheme were disclosed in the Annual Report 2007 of the Company.

Corporate Governance and Other Information

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with the code provisions of the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2008.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors’ securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2008.

BOARD OF DIRECTORS

At present, the board of Directors (the “Board”) comprises three Executive Directors, Mr. Li Wenyue, Mr. Zhang Hui and Mr. Tsang Hon Nam; seven Non-Executive Directors, Mr. Cheng Mo Chi, Moses, Mr. Huang Xiaofeng, Mr. Zhai Zhiming, Mr. Li Wai Keung, Mr. Sun Yingming, Ms. Wang Xiaofeng and Ms. Xu Wenfang; and three Independent Non-Executive Directors, Mr. Chan Cho Chak, John, Dr. Li Kwok Po, David and Mr. Fung, Daniel R.

The Board is responsible for the leadership and control of the Company and oversees the Group’s businesses, strategic decisions and performances. The management was delegated the authority and responsibility by the Board for the day-to-day management of the Group. Major corporate matters that are specifically delegated by the Board to the management include the preparation of interim and annual reports and announcements for Board approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory and regulatory requirements and rules and regulations.

AUDIT COMMITTEE

The Company has established an audit committee (the “Audit Committee”) since September 1998 and its terms of reference are in line with the CG Code. The Audit Committee comprises three Independent Non-Executive Directors, Dr. Li Kwok Po, David, Mr. Chan Cho Chak, John and Mr. Fung, Daniel R. and one Non-Executive Director, Mr. Cheng Mo Chi, Moses. Dr. Li Kwok Po, David is the Chairman of the Audit Committee. The principal duties of the Audit Committee include, inter alia, the review of the completeness, accuracy and fairness of the Company’s financial reports and the Group’s internal controls and risk management systems.

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited interim condensed consolidated financial statements of the Group and the Company’s interim report for the six months ended 30 June 2008. In addition, the Company’s external auditors, Messrs. Ernst & Young, have also reviewed the aforesaid unaudited interim condensed consolidated financial statements.

Corporate Governance and Other Information

REMUNERATION COMMITTEE

The Company has also established a remuneration committee (the "Remuneration Committee") since June 2005 and its terms of reference are in line with the CG Code. The Remuneration Committee comprises three Independent Non-Executive Directors, Mr. Chan Cho Chak, John, Dr. Li Kwok Po, David and Mr. Fung, Daniel R. and one Non-Executive Director, Mr. Cheng Mo Chi, Moses. Mr. Chan Cho Chak, John is the Chairman of the Remuneration Committee. The principal duties of the Remuneration Committee include, inter alia, making recommendations to the Board relating to the Company's policy for directors' and senior management's remuneration, determining the executive directors' and senior management's remuneration packages, reviewing and approving their performance-based remuneration and compensation payable for their loss of offices.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2008, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities listed on The Hong Kong Stock Exchange save and except that the Company has issued the following new ordinary shares to certain option holders pursuant to the Company's share option scheme during the period:

	No. of new ordinary shares issued	Exercise price per ordinary share HK\$	Cash consideration HK\$
	33,000,000	0.96	31,680,000
	10,000,000	1.22	12,200,000
	450,000	1.25	562,500
	<u>5,000,000</u>	1.59	<u>7,950,000</u>
Total	<u>48,450,000</u>		<u>52,392,500</u>

INTERIM DIVIDEND

The Board has resolved to declare the payment of an interim dividend of 4.0 HK cents (2007: 5.0 HK cents) per ordinary share for the six months ended 30 June 2008. The interim dividend will be paid to the shareholders whose names appear on the register of members of the Company on Thursday, 2 October 2008. The interim dividend will be paid on Friday, 17 October 2008.

Corporate Governance and Other Information

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 30 September 2008 to Thursday, 2 October 2008 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Tengis Limited of 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 29 September 2008.

By order of the Board

LI Wenyue

Chairman

Hong Kong, 12 September 2008



Guangdong Investment Limited
粵海投資有限公司