

GDH INTERIM CONDENSED FINANCIAL STATEMENTS

The Board of Directors of Guangdong Investment Limited (the “Company” or “GDI”) is pleased to present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2001 together with the comparative figures. These interim financial statements have not been audited, but have been reviewed by the Company’s auditors, Ernst & Young, and audit committee.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2001

		For the six months ended 30 June	
		2001	2000
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
TURNOVER	2	3,705,397	2,257,569
Cost of sales		(2,163,530)	(1,599,294)
Gross profit		1,541,867	658,275
Other revenue		77,268	116,100
Distribution costs		(130,277)	(101,377)
Administrative expenses		(257,086)	(361,305)
Gain on discontinuation of curtain wall operations		33,875	—
Other operating expenses		(143,717)	(213,269)
PROFIT FROM OPERATING ACTIVITIES	2, 3, 4	1,121,930	98,424
Finance costs	5	(820,776)	(261,992)
		301,154	(163,568)
Share of profit of a jointly controlled entity		13,928	10,746
Share of profits less losses of associates		83	(866)
PROFIT/(LOSS) BEFORE TAX		315,165	(153,688)
Tax	6	(55,639)	(47,149)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		259,526	(200,837)
Minority interests		(130,792)	(69,386)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		128,734	(270,223)
EARNINGS/(LOSS) PER SHARE	8		
— Basic		HK¢1.92	(HK¢12.00)
— Diluted		N/A	N/A



INTERIM CONDENSED FINANCIAL STATEMENTS *(continued)*

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the six months ended 30 June 2001

		For the six months ended 30 June	
		2001	2000
		HK\$'000	HK\$'000
	Note	(Unaudited)	(Unaudited)
Exchange differences on translation of the financial statements of subsidiaries and associates operating in Mainland China and overseas and net losses not recognised in the profit and loss account	15	(702)	(8,948)
Net profit/(loss) for the period attributable to shareholders		<u>128,734</u>	<u>(270,223)</u>
Total recognised gains and losses		128,032	(279,171)
Goodwill eliminated against reserves		<u>—</u>	<u>(2,559)</u>
		<u><u>128,032</u></u>	<u><u>(281,730)</u></u>



INTERIM CONDENSED FINANCIAL STATEMENTS *(continued)*

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2001

		30 June 2001 <i>HK\$'000</i> (Unaudited)	31 December 2000 <i>HK\$'000</i> (Audited)
	Notes		
NON-CURRENT ASSETS			
Fixed assets		10,801,713	10,826,482
Negative goodwill	16(a)	(96,089)	—
Properties under development	10	35,000	40,838
Investment properties	11	2,730,775	2,894,255
Interest in a jointly controlled entity		948,536	929,662
Interests in associates		547,512	604,003
Contractual joint venture		193,821	213,158
Other financial assets		67,425	70,088
Operating right		14,370,757	14,615,619
Other long term assets		835,055	903,536
		<u>30,434,505</u>	<u>31,097,641</u>
CURRENT ASSETS			
Properties under development	10	253,892	366,118
Due from a contractual joint venture		61,683	32,567
Loan receivables		35,377	39,824
Other financial assets		26,893	30,160
Due from a related company		1,661	1,713
Due from minority shareholders of subsidiaries		15,438	16,943
Due from a fellow subsidiary		43,184	63,144
Prepayments, deposits and other debtors		367,609	603,422
Inventories		983,861	765,125
Construction/installation contracts receivable		—	5,045
Trade receivables	9	652,166	803,406
Pledged bank deposits	12	68,309	66,264
Cash and cash equivalents	12	1,660,996	2,025,407
		<u>4,171,069</u>	<u>4,819,138</u>



INTERIM CONDENSED FINANCIAL STATEMENTS *(continued)*

CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*

30 June 2001

		30 June 2001 HK\$'000 (Unaudited)	31 December 2000 HK\$'000 (Audited)
	Notes		
CURRENT LIABILITIES			
Trade payables	13	(414,007)	(487,544)
Accruals and other liabilities		(1,375,727)	(2,095,597)
Tax payable		(38,083)	(85,192)
Accrued dividend	7	—	(49,096)
Due to minority shareholders of subsidiaries		(136,918)	(148,166)
Due to a fellow subsidiary		—	(1,000)
Lease payables		(9)	(179)
Bank and other interest-bearing borrowings		(875,772)	(1,108,958)
Provision for bank loans guaranteed		(6,039)	(43,319)
		<u>(2,846,555)</u>	<u>(4,019,051)</u>
NET CURRENT ASSETS		<u>1,324,514</u>	<u>800,087</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		31,759,019	31,897,728
NON-CURRENT LIABILITIES			
Bank and other interest-bearing borrowings		(19,245,794)	(19,475,836)
Due to minority shareholders of subsidiaries		(339,068)	(263,721)
Provision for bank loans guaranteed		(688,782)	(707,500)
Deferred tax		(2,285)	(2,285)
		<u>(20,275,929)</u>	<u>(20,449,342)</u>
Minority interests		<u>(2,779,477)</u>	<u>(2,931,253)</u>
		<u>8,703,613</u>	<u>8,517,133</u>
CAPITAL AND RESERVES			
Issued capital	14	2,435,532	2,434,492
Reserves	15	<u>6,268,081</u>	<u>6,082,641</u>
		<u>8,703,613</u>	<u>8,517,133</u>



INTERIM CONDENSED FINANCIAL STATEMENTS *(continued)*

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2001

	HK\$'000 (Unaudited)
NET CASH INFLOW FROM OPERATING ACTIVITIES	1,119,381
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	
Interest received	33,032
Interest paid	(803,356)
Interest element of finance lease payments	(69)
Dividends paid to minority shareholders	<u>(74,454)</u>
Net cash outflow from returns on investments and servicing of finance	<u>(844,847)</u>
TAXES PAID	<u>(100,292)</u>
INVESTING ACTIVITIES	
Purchases of fixed assets	(319,887)
Additions to other long term assets	(1,966)
Decrease in non-pledged bank deposits with original maturity of more than three months when acquired	7,640
Increase in pledged bank deposits	(2,045)
Proceeds from sales of fixed assets	19,050
Proceeds from sales of other financial assets	2,298
Repayment of amount due from a fellow subsidiary	19,960
Acquisitions of additional interests in subsidiaries	(34,134)
Proceeds from disposal of subsidiaries	<u>218,576</u>
Net cash outflow from investing activities	<u>(90,508)</u>
NET CASH INFLOW BEFORE FINANCING	<u>83,734</u>
FINANCING	
Shares issue expenses	(30)
New bank loans	678,883
Repayment of credits and notes payable	(134,833)
Repayment of floating rate bonds	(76,722)
Repayment of floating rate notes	(57,409)
Repayment of bank loans	(792,599)
Repayment of provision for bank loans guaranteed	(58,100)
Capital element of finance lease payments	<u>(16)</u>
Net cash outflow from financing	<u>(440,826)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(357,092)



INTERIM CONDENSED FINANCIAL STATEMENTS *(continued)*

CONDENSED CONSOLIDATED CASH FLOW STATEMENT *(continued)*

For the six months ended 30 June 2001

	<i>HK\$'000</i> (Unaudited)
DECREASE IN CASH AND CASH EQUIVALENTS	(357,092)
Cash and cash equivalents at beginning of period	1,978,311
Effect of foreign exchange rate changes, net	<u>(759)</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>1,620,460</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	
Cash and bank balances	1,068,077
Non-pledged bank deposits with original maturity of less than three months when acquired	553,826
Bank loans and overdrafts with original maturity of less than three months when advanced	<u>(1,443)</u>
	<u><u>1,620,460</u></u>



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2001

1. ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" except that the comparative figures of the condensed consolidated cash flow statement have not been prepared as permitted under the transitional provisions set out in the Rules Governing the Listing of Securities (the "Hong Kong Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). The accounting policies and basis of presentation used in the preparation of these interim financial statements are the same as those used in the audited financial statements for the year ended 31 December 2000, except that the following new/revised SSAPs have been adopted for the first time in the preparation of the current period's condensed consolidated financial statements:

- SSAP 9 (revised) Events after the Balance Sheet Date
- SSAP 14 (revised) Leases
- SSAP 28 Provisions, Contingent Liabilities and Contingent Assets
- SSAP 29 Intangible Assets
- SSAP 30 Business Combinations
- SSAP 31 Impairment of Assets
- SSAP 32 Consolidated Financial Statements and Accounting for Investments in Subsidiaries

A summary of their major effects is as follows:

SSAP 9 (revised) prescribes the accounting treatment and disclosures for events occurring after the balance sheet date. This has had no impact on these financial statements.

SSAP 14 (revised) prescribes the accounting treatment and disclosures for leases and hire purchase contracts. This SSAP has been applied prospectively and has had no major impact on these financial statements. However, the disclosures for commitments under non-cancellable operating leases have been changed. In prior period, operating lease commitments were disclosed as payment committed to be made during the next year, analysed between those in which the commitment would expire within that year, in the second to fifth year, inclusive, and over five years. In the current period, such disclosure has changed to the total of future minimum lease payments under non-cancellable operating leases analysed into those not later than one year, later than one year and not later than five years and later than five years. Disclosures as required are set out in note 17(d) to these financial statements.

SSAP 28 prescribes the accounting treatment and disclosures for provisions, contingent liabilities and contingent assets. This SSAP has been applied prospectively. The effect of adjustment to accrued dividend at the beginning of the period arising from the adoption of this SSAP is detailed in note 7 to these financial statements.

SSAP 29 prescribes the accounting treatment and disclosures of intangible assets. This has had no major impact on these financial statements.

1. ACCOUNTING POLICIES *(continued)*

SSAP 30 prescribes the accounting treatment and disclosures for business combinations. This SSAP has been applied prospectively.

For these financial statements, goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions is reported in the balance sheet as an intangible asset and amortised using the straight-line method over its estimated useful life not exceeding 20 years. Goodwill on acquisitions which occurred prior to 1 January 2001 was eliminated directly to reserves in the year of acquisition.

The gain or loss on disposal of a subsidiary or an associate is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill which remains unamortised. Any attributable goodwill previously eliminated against reserves is written back and included in the gain or loss on disposal.

The carrying amount of goodwill is reviewed at each balance sheet date and written down for impairment where it is considered necessary.

Negative goodwill represents the excess, as at the date of acquisition, of the Group's interest in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition.

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

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

The gain or loss on disposal of a subsidiary or an associate includes the unamortised balance of negative goodwill relating to the subsidiary or associate disposed of.

SSAP 31 requires enterprises to consider whether assets are carried in excess of their recoverable amounts and prescribes the accounting treatment for any resulting impairment losses. This SSAP has been applied prospectively.

For these financial statements, an assessment is made at the balance sheet date on whether there is any indication of impairment loss previously recognised for an asset in prior periods may no longer exist or may have increased or decreased. If any such indication exists, the recoverable amount is estimated. When carrying amount is greater or lesser than this estimated recoverable amount, assets are written down or written back, respectively, to their estimated recoverable amounts. The impairment losses recognised during the period and additional disclosures as required are disclosed in notes 4 and 10 to these financial statements.

SSAP 32 prescribes the accounting treatment and disclosures in the preparation and presentation of consolidated financial statements. This has had no major impact on these financial statements.

GDH INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

2. SEGMENT INFORMATION

An analysis of the Group's turnover and profit from operating activities by principal activity and geographical area of operations is as follows:

	Turnover for the six months ended 30 June		Profit from operating activities for the six months ended 30 June	
	2001 HK\$'000 (Unaudited)	2000 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)	2000 HK\$'000 (Unaudited)
By activity:				
Continuing operations:				
Utilities	1,635,707	274,942	878,771	94,495
Infrastructure	3,811	5,559	(1,090)	27,120
Property investment and development	417,180	327,850	67,873	35,926
Hotel and tour operations	303,812	320,903	20,165	12,685
Brewery operations	253,772	286,987	22,821	36,246
Tannery operations	363,855	338,790	13,631	5,899
Malting operations	350,260	267,327	21,019	14,522
Retail and trading operations	358,655	281,578	50,949	26,369
Finance and others	11,359	40,614	52,156	(70,572)
	3,698,411	2,144,550	1,126,295	182,690
Discontinued operations:				
Curtain wall operations – Note 3 (i)	6,986	42,829	(4,365)	(66,086)
Timber operations – Note 3 (ii)	—	70,190	—	(18,180)
	6,986	113,019	(4,365)	(84,266)
	3,705,397	2,257,569	1,121,930	98,424
By geographical area:				
The People's Republic of China:				
Mainland China:				
Continuing operations	3,400,844	1,808,080	1,074,514	236,313
Discontinued timber operations – Note 3 (ii)	—	70,190	—	(18,180)
Hong Kong Special Administrative Region ("Hong Kong"):				
Continuing operations	281,821	325,931	55,813	(50,380)
Discontinued curtain wall operations – Note 3 (i)	6,986	42,829	(4,365)	(66,086)
Others	15,746	10,539	(4,032)	(3,243)
	3,705,397	2,257,569	1,121,930	98,424



3. DISCONTINUATION OF OPERATIONS

- (i) On 10 February 2001, the Company entered into a conditional sale and purchase agreement (the "Building Agreement") with Hi Sun Limited, an independent third party, for a disposal of the Company's entire 57.16% equity interest in Guangdong Building Industries Limited ("GD Building"), which used to operate the Group's curtain wall business, at a consideration of HK\$31,483,000 (the "Consideration"). Pursuant to the Building Agreement, the Group agreed to waive the net amounts due from the GD Building group which was approximately HK\$358,000,000 (including certain bank loans of the GD Building group of approximately HK\$185,000,000 taken up by the Company by means of the issuance of notes payable to the relevant bank creditors) as at 3 March 2001 and to assume a contingent liability of the GD Building group of approximately HK\$20,000,000 as at 22 December 2000 as disclosed in note 18 to these financial statements.

On 3 March 2001, the Building Agreement was completed. GD Building ceased to be a subsidiary of the Company, and the Group's curtain wall operations were then discontinued. The gain on the discontinuation of curtain wall operations was the excess of the Consideration over the Group's cost of investment in and receivable from the GD Building group after taken into account the goodwill and accumulated losses of the GD Building group attributable to and taken up by the Group at the effective date of disposal. For the period from 1 January 2001 to 3 March 2001 (the completion date of the Building Agreement), the curtain wall business contributed HK\$6,986,000 (six months ended 30 June 2000: HK\$42,829,000) to the Group's turnover and accounted for a loss of HK\$4,434,000 (six months ended 30 June 2000: a loss of HK\$79,589,000) to the Group's profit before tax.

- (ii) On 22 December 2000, the Group transferred its entire 100% equity interest in Guangdong Timber Limited to GDH Limited, a holding company of the Company, as part of the consideration for an acquisition of an 81% equity interest in GH Water Supply (Holdings) Limited ("GH Holdings") (the "Acquisition") and effectively discontinued its timber operations. For the six months ended 30 June 2000, the timber operations contributed HK\$70,190,000 to the Group's turnover and accounted for a loss of HK\$34,748,000 to the Group's loss before tax.

4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	For the six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	1,241,600	1,170,459
Depreciation:		
Owned fixed assets	230,543	160,113
Leased fixed assets	17	222
	230,560	160,335
Less: Depreciation capitalised to contract work in progress	—	(114)
	230,560	160,221
Amortisation of investment in contractual joint venture	—	1,458
Amortisation of deferred expenses	6,379	12,266
Amortisation of reusable packaging materials	5,159	8,695
Amortisation of the operating right	244,862	—
Amortisation of trademarks	700	1,000
Included in other operating expenses:		
Revaluation deficit on investment properties	15,000	—
Provisions against construction/installation contracts receivable	—	13,192
Provisions for impairment in values of investment securities	342	10,901
Unrealised holding loss of other investments	3,267	12,022
Provisions against properties held for sale	46,736	36,262
Provisions for impairment in values of properties under development	32,580	40,000
Provisions against inventories	427	—
Provisions for doubtful debts	18,801	83,612
Provisions for impairment in values of fixed assets	15,118	—
Loss on disposal of a subsidiary – <i>Note 16 (a)</i>	4,628	—
Loss on disposal of certain interest in a subsidiary – <i>Note 16 (b) (i)</i>	2,972	—
and after crediting:		
Gain on disposal of a contractual joint venture	—	26,955
Interest income	40,336	82,287
Negative goodwill recognised – <i>Note 16 (a)</i>	9,557	—

5. FINANCE COSTS

	For the six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank loans, overdrafts and other borrowings repayable:		
Within five years	257,341	263,772
Over five years	563,366	—
	820,707	263,772
Less: Interest capitalised to construction in progress, properties under development and contract work in progress	—	(650)
Interest expense charged to cost of sales	—	(34,877)
	820,707	228,245
Finance lease charges	69	39
Provision for convertible bonds redemption premium	—	33,708
Total finance costs charged for the period	820,776	261,992

6. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on assessable profits of subsidiaries of the Company in Mainland China and overseas have been calculated at the rate of tax applicable to those subsidiaries based on existing legislation, interpretations and practices in respect thereof.

	For the six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Company and subsidiaries:		
Hong Kong	1,860	416
Mainland China	52,573	48,067
Overseas	—	250
Under/(over) provision in prior periods	409	(3,475)
	54,842	45,258
Share of tax attributable to:		
Jointly controlled entity	446	1,570
Associates	351	321
Tax charge for the period	55,639	47,149

7. DIVIDEND

For the six months ended 30 June	
2001	2000
HK\$'000	HK\$'000
(Unaudited)	(Unaudited)

Preference shares:

3¼% redeemable cumulative convertible preference share
("Preference Share") dividend accrued during the period

—	11,002
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The Board of Directors has resolved not to declare any interim dividend with respect to the ordinary shares for the six months ended 30 June 2001 (six months ended 30 June 2000: nil).

Pursuant to the Articles of Association of the Company, dividends on the ordinary shares may not be paid until the accumulated and current dividends on the Preference Shares have been paid in full.

In the prior period, the balance of HK\$11,002,000 represented an accrual for the fixed dividend on the Preference Shares for the semi-annual period from 7 April 2000 to 6 October 2000. Such fixed dividend was not subsequently declared and was accumulated with the other unpaid dividends on the Preference Shares.

During the period, the Group adopted SSAP 28 prospectively. Pursuant to the Articles of Association of the Company, the Company may only pay the fixed dividend on the Preference Shares if the Company has sufficient distributable profits and if the payment of such dividend is declared. Under SSAP 28, as the Company did not have a present obligation to pay the fixed dividend on the Preference Shares as at 30 June 2001, no accrual for such dividend was made during the period. In addition, an adjustment to the opening balance of the Company's accumulated losses was made for the accrual for the fixed dividend on the Preference Shares of HK\$49,096,000 as at 1 January 2001 in accordance with the transitional provisions of SSAP 28 and the comparative information has not been restated.

As at 30 June 2001, the accumulated (but undeclared) fixed dividends on the Preference Shares amounted to HK\$59,596,000. Such accumulated dividends do not accrue interest.

8. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2001, together with the comparative amounts for the same period in 2000, is based on the following data:

	For the six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings/(loss):		
Net profit/(loss) attributable to shareholders	128,734	(270,223)
Less: Provision for preference share redemption premium	(24,661)	(26,787)
Preference Share dividend	(10,500)	(11,002)
	<hr/>	<hr/>
Earnings/(loss) for the purpose of basic earnings/(loss) per share	93,573	(308,012)
	<hr/>	<hr/>
Number of shares:		
Weighted average number of ordinary shares in issue		
for the purpose of basic earnings/(loss) per share	4,867,775,865	2,567,208,349
	<hr/>	<hr/>

No diluted earnings per share is presented for the six months ended 30 June 2001 as (i) there was no dilutive effect arising from the contingent issuance of the Additional Shares (as defined in note 17(f)) and exercise of share options of the Company; and (ii) the dilutive effect arising on the exercise of convertible bonds and Preference Shares of the Company was anti-dilutive.

No dilutive loss per share is presented for the six months ended 30 June 2000 as the dilutive effect arising from the exercise of convertible bonds, share options and Preference Shares of the Company was anti-dilutive.

9. TRADE RECEIVABLES

The ageing analysis of the Group's trade receivables at the balance sheet date was as follows:

	As at 30 June 2001 <i>HK\$'000</i> (Unaudited)	As at 31 December 2000 <i>HK\$'000</i> (Audited)
Within 3 months	605,813	734,048
More than 3 months and less than 6 months	18,256	68,043
More than 6 months and less than 1 year	28,888	72,078
More than 1 year	342,198	662,335
	<u>995,155</u>	<u>1,536,504</u>
Less: Provisions for doubtful debts	<u>(342,989)</u>	<u>(733,098)</u>
	<u><u>652,166</u></u>	<u><u>803,406</u></u>

Credit terms

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

10. PROPERTIES UNDER DEVELOPMENT

	<i>HK\$'000</i> (Unaudited)
Cost:	
Balance at 1 January 2001	572,872
Additions	67,799
Disposal of subsidiaries	(63,181)
Transfer to properties held for sale	(119,986)
Exchange adjustment	(438)
Balance at 30 June 2001	<u>457,066</u>
Accumulated impairments:	
Balance at 1 January 2001	165,916
Disposal of subsidiaries	(30,322)
Impairment loss for the period	32,580
Balance at 30 June 2001	<u>168,174</u>
Net carrying amount:	
At 30 June 2001	<u><u>288,892</u></u>
At 31 December 2000	<u><u>406,956</u></u>

10. PROPERTIES UNDER DEVELOPMENT *(continued)*

The carrying amount of properties under development at the balance sheet date was further analysed as follows:

	As at 30 June 2001 <i>HK\$'000</i> (Unaudited)	As at 31 December 2000 <i>HK\$'000</i> (Audited)
Portion classified as current assets	253,892	366,118
Non-current portion	<u>35,000</u>	<u>40,838</u>
	<u>288,892</u>	<u>406,956</u>

The impairment loss represents the write down of certain properties under development situated in Hong Kong and Mainland China to their recoverable amounts as a result of the continuous decrease in market value of these properties under development.

The recoverable amount has been determined by the directors with reference to the net selling price considering amounts received in recent transactions for similar assets.

11. INVESTMENT PROPERTIES

	As at 30 June 2001 <i>HK\$'000</i> (Unaudited)	As at 31 December 2000 <i>HK\$'000</i> (Audited)
Balance at beginning of period/year, at valuation	2,894,255	3,234,067
Arising on acquisition of subsidiaries	—	208,500
Additions, at cost	—	4,749
Transfer from fixed assets	30,000	—
Transfer to fixed assets	—	(106,000)
Transfer to properties held for sale	—	(68,777)
Disposal of a subsidiary	(178,278)	—
Disposals	—	(20,000)
Revaluation deficit	(15,000)	(111,673)
Transfer out as a result of the Acquisition	—	(247,070)
Exchange adjustments	<u>(202)</u>	<u>459</u>
Balance at the end of period/year	<u>2,730,775</u>	<u>2,894,255</u>

Based on advice from independent professional valuers on the existing use of the investment properties of the Group as at 30 June 2001, a revaluation deficit of approximately HK\$15,000,000 was arisen and this has been charged to the profit and loss account.

12. CASH AND BANK BALANCES

	As at 30 June 2001 HK\$'000 (Unaudited)	As at 31 December 2000 HK\$'000 (Audited)
Cash and cash equivalents	1,660,996	2,025,407
Pledged bank deposits*	<u>68,309</u>	<u>66,264</u>
	<u>1,729,305</u>	<u>2,091,671</u>

* Pledged to banks as security for banking facilities granted to the Group.

As at 30 June 2001, the Company and certain of its subsidiaries held cash and bank balances of approximately HK\$573 million (as at 31 December 2000: approximately HK\$741 million) which are subject to certain arrangements as set out in their respective debt restructuring documents. Pursuant to their respective debt restructuring documents, the Company and these subsidiaries are required to reserve cash and bank balances, from time to time, up to a maximum of approximately HK\$477 million in total which is applied to be used as working capital for their operations. The remaining portion of their cash and bank balances of approximately HK\$96 million (as at 31 December 2000: approximately HK\$264 million) will be applied to, amongst other things, the payment of interest and repayment of bank borrowings.

In addition to the above-mentioned HK\$573 million, a subsidiary of the Company is also required to reserve certain cash and bank balances for, amongst other things, payment of interest, repayment of debts and distribution to shareholders of that subsidiary pursuant to an agreement dated 22 December 2000 entered into between the subsidiary and other parties. As at 30 June 2001, cash retained for such purpose amounted to approximately HK\$294 million.

13. TRADE PAYABLES

The ageing analysis of the Group's trade payables at the balance sheet date was as follows:

	As at 30 June 2001 HK\$'000 (Unaudited)	As at 31 December 2000 HK\$'000 (Audited)
Within 3 months	194,693	260,437
More than 3 months and less than 6 months	6,952	8,605
More than 6 months and less than 1 year	26,480	16,393
More than 1 year	<u>185,882</u>	<u>202,109</u>
	<u>414,007</u>	<u>487,544</u>

14. SHARE CAPITAL

	As at 30 June 2001 <i>HK\$'000</i> (Unaudited)	As at 31 December 2000 <i>HK\$'000</i> (Audited)
Authorised:		
8,000,000,000 ordinary shares of HK\$0.50 each (the "Ordinary Shares")	4,000,000	4,000,000
200,000 Preference Shares of US\$1 each	1,549	1,549
	4,001,549	4,001,549
Issued and fully paid:		
4,869,732,672 Ordinary Shares (2000: 4,867,636,920 Ordinary Shares)	2,434,866	2,433,818
85,949 Preference Shares (2000: 86,950 Preference Shares) of US\$1 each	666	674
	2,435,532	2,434,492

During the period, 1,001 Preference Shares were converted by way of redemption into 2,095,752 Ordinary Shares at conversion price of HK\$3.7 per Ordinary Share.

Share options

Movements in share options to subscribe for Ordinary Shares in the Company were as follows:

	Number of share options to subscribe for one Ordinary Share at an exercise price* of			
	HK\$4.536	HK\$2.892	HK\$3.024	Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Balance at 1 January 2001	2,020,000	7,675,000	7,850,000	17,545,000
Options cancelled during the period	(330,000)	(1,220,000)	(1,975,000)	(3,525,000)
Balance at 30 June 2001	1,690,000	6,455,000	5,875,000	14,020,000

* *subject to adjustment*

The options outstanding at 30 June 2001 expire at various dates up to the close of business on 17 February 2005, or if that day is not a business day, the expiry date will be the close of the business day preceding 17 February 2005. Assuming that there has been no adjustment to the exercise prices of these options, the exercise in full of the outstanding options at the then respective exercise price would result in the issue of additional 14,020,000 Ordinary Shares and cash proceeds before the related issue expenses of HK\$44,099,700.

14. SHARE CAPITAL (continued)

Share options (continued)

Subsequent to the balance sheet date and up to the date of approval of these financial statements, options to subscribe for a total of 167,000,000 Ordinary Shares of the Company at an exercise price of HK\$0.5312 per share (subject to adjustment), were granted to certain executives and employees pursuant to the Company's share option scheme adopted on 2 February 1994 and amended on 29 December 1997. These options will expire at the close of business on 10 February 2007, or if that day is not a business day, the expiry date will be the close of the business day preceding 10 February 2007.

15. RESERVES

	Preference share premium account HK\$'000 (Unaudited)	Ordinary share premium account HK\$'000 (Unaudited)	Capital reserve HK\$'000 (Unaudited)	Fixed assets revaluation reserve HK\$'000 (Unaudited)	Expansion fund reserve HK\$'000 (Unaudited)	Exchange fluctuation reserve HK\$'000 (Unaudited)	Special reserve HK\$'000 (Unaudited)	Accumulated losses HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
At 1 January 2001	672,888	5,841,351	3,913,564	13,135	95,139	(121,692)	145,993	(4,477,737)	6,082,641
Adjustment for reversal of accrued dividend — note 7	—	—	—	—	—	—	—	49,096	49,096
Transfer from special reserve*	—	—	—	—	—	—	(145,993)	145,993	—
Conversion of Preference Shares into Ordinary Shares	(7,746)	6,706	—	—	—	—	—	—	(1,040)
Share issue expenses	—	(30)	—	—	—	—	—	—	(30)
Disposal of subsidiaries	—	—	(21,401)	—	(8,332)	41,839	—	—	12,106
Release on disposal of certain interest in a subsidiary — note 16 (b)	—	—	(2,542)	—	(115)	(67)	—	—	(2,724)
Net profit for the period	—	—	—	—	—	—	—	128,734	128,734
Transfer from the profit and loss account	—	—	—	—	1,886	—	—	(1,886)	—
Exchange adjustments	—	—	—	—	—	(702)	—	—	(702)
At 30 June 2001	665,142	5,848,027	3,889,621	13,135	88,578	(80,622)	—	(4,155,800)	6,268,081

* Pursuant to Article 5(A)(x)(viii) of the Company's Articles of Association, the Company was required to establish a Preference Share Redemption Account and, subject to applicable laws, transfer into such account annually one-fifth of the redemption premium payable on maturity of the Preference Shares.

To date the Company has not had sufficient distributable profits from which it could credit the appropriate amount to the Preference Share Redemption Account. Therefore, the directors established a special reserve which represented the amount that the Company would have been obliged to transfer into the Preference Share Redemption Account, had the Company had sufficient reserves available for the purpose. The amount standing to the credit of the special reserve was only to be transferred to the Preference Share Redemption Account if the Company no longer had accumulated losses (excluding losses attributable to the balance of the provision in the special reserve).

However, due to certain amendments to the Companies Ordinance, the Company may no longer repay the premium on redemption of the Preference Shares from the Preference Share Redemption Account. Therefore, the directors have concluded that such special reserve may no longer assist in the redemption of the Preference Shares and the balance of the amount standing to the credit of such special reserve as at 1 January 2001 has been transferred to accumulated losses in the current period.



15. RESERVES *(continued)*

On maturity, the Company may only redeem the Preference Shares to the extent it is permitted to do so under the Companies Ordinance or other applicable legislation. The redemption of the Preference Shares may now only be made in accordance with Section 49A of the Companies Ordinance. Pursuant to this section, the capital and premium paid on issue of the Preference Shares may only be repaid out of the Company's distributable profits or a fresh issue of shares by the Company made for such purpose. The premium payable on redemption of the Preference Shares may only be paid out of the Company's distributable profits.

16. NOTES TO CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition and disposal of subsidiaries

During the period, the Group further acquired additional equity interests in certain subsidiaries at a total consideration of HK\$34,134,000 and recognised negative goodwill of HK\$105,646,000, of which HK\$9,557,000 was amortised as income during the period.

In addition to the Group's disposal of its entire equity interest in GD Building as detailed in note 3(i) to these financial statements, the Group also disposed of its entire 70% equity interest in Guangdong Group (Shenzhen) Ltd. ("GD Shenzhen") to GDH Limited at a cash consideration of HK\$206,000,000, a loss of HK\$4,628,000 was recognised on disposal of this subsidiary.

(b) Major non-cash transactions

The Group had the following significant major non-cash transactions during the period:

- (i) The Group settled a debt of HK\$12,293,000 by a transfer of certain equity interests of the Group in a subsidiary to the creditor and a loss of HK\$2,972,000 was recognised as a result of this transaction.
- (ii) The Group agreed to assign its receivable from a customer of HK\$40,874,000, of which full provision was made in prior year, by installments to an independent third party as a result of a conditional sale and purchase agreement entered into between the Group and the independent third party on 9 April 2001 in connection with the Group's disposal of 25% interest in Chapel Hill Developments Limited ("Chapel Hill"), a non wholly owned subsidiary of the Group. Chapel Hill holds certain leather ware trademarks of the Group and the customer used to be the sole distributor of leather ware products in Mainland China using these trademarks.

During the period, the Group assigned its receivable from the customer to the independent third party amounting to HK\$13,625,000.

17. COMMITMENTS

The Group had the following commitments at the balance sheet date:

	As at 30 June 2001 <i>HK\$'000</i> (Unaudited)	As at 31 December 2000 <i>HK\$'000</i> (Audited)
(a) Capital commitments in respect of property, plant and equipment:		
Contracted for	17,770	4,889
Authorised, but not contracted for	—	242,286
	<u>17,770</u>	<u>247,175</u>
(b) Other capital commitments:		
Contracted for	33,219	32,902
Authorised, but not contracted for	993	—
	<u>34,212</u>	<u>32,902</u>
(c) Commitments in respect of properties under development:		
Contracted for	<u>236,708</u>	<u>183,005</u>
(d) As at 30 June 2001, the Group had total commitments payable in the future years under non-cancellable operating leases in respect of land and buildings, as follows:		
		<i>HK\$'000</i> (Unaudited)
Not later than one year		7,709
Later than one year and not later than five years		4,978
		<u>12,687</u>
As at 31 December 2000, the Group had annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:		
		<i>HK\$'000</i> (Audited)
Within one year		8,435
In the second to fifth year, inclusive		13,276
		<u>21,711</u>
(e) As at 30 June 2001, certain subsidiaries of the Group have commitments to make an annual fee payments of approximately HK\$11,002,000 (as at 31 December 2000: approximately HK\$10,869,000) to their joint venture partners in Mainland China in the following year.		

17. COMMITMENTS *(continued)*

- (f) Pursuant to an agreement between the Company and GDH Limited in respect of the Acquisition, the Company is required to issue an aggregate of 330 million Ordinary Shares of the Company (the "Additional Shares") to GDH Limited credited as fully paid at HK\$1.20 each subject to fulfillment of certain future performance of Guangdong Yue Gang Water Supply Company Limited ("WaterCo"). Further details of which are set out in the shareholders' circular of the Company dated 15 September 2000 in respect of the Acquisition.
- (g) Pursuant to a Concession Agreement dated 18 August 2000 entered into between WaterCo and the Guangdong Provincial Government, WaterCo agreed to appoint Guangdong Province Water Supply Project Administration General Bureau (the "Project Bureau") in charge of the organisation and implementation of the engineering, procurement and construction of a Dongshen Water Supply Phase IV Renovation Project (the "Phase IV Renovation Project") according to an Engineering, Procurement and Construction Contract (the "EPC Contract") entered into with the Project Bureau on 15 December 2000. The projected total construction cost is RMB4.7 billion. In the event that the ultimate cost exceeds the projected total cost, the Project Bureau is responsible for funding any overrun cost in accordance with the EPC Contract.

The cost of RMB4.7 billion will be financed by a non-interest bearing loan facility of approximately RMB2.53 billion, which originates from a loan facility granted by the Hong Kong Government to the Guangdong Provincial Government for the Phase IV Renovation Project, and an interest-bearing loan facility of RMB2.17 billion from a group of PRC banks at a rate of 5.589% per annum. An amount of RMB300 million has been drawn from these banks as at 30 June 2001.

18. CONTINGENT LIABILITIES

The Group had the following significant contingent liabilities at the balance sheet date:

	As at 30 June 2001 HK\$'000 (Unaudited)	As at 31 December 2000 HK\$'000 (Audited)
(a) Guarantees given for banking facilities granted, in proportion of equity interest owned by the Company, and utilised by a jointly controlled entity	—	538,700
(b) Guarantees given to banks in respect of performance bonds issued for a subsidiary of GD Building – <i>Note 3 (i)</i>	19,819	19,819
(c) Guarantees given for banking facilities granted to a fellow subsidiary	16,586	19,723
(d) Guarantees given in respect of mortgage loans made by banks to the Group's purchasers of properties	769,031	674,495
	<u>805,436</u>	<u>1,252,737</u>



18. CONTINGENT LIABILITIES *(continued)*

- (e) In June 2000, a claim for approximately RMB13,768,000 was brought by a sub-contractor of a toll road construction project against both the main contractor of the project and Guangdong Yingde Highway Ltd. ("Yingde"), a 70% owned subsidiary of the Group and the owner of the toll road, in relation to the alleged non-payment by the said main contractor for certain construction works carried out and for the return of certain deposit plus interest. As at 30 June 2001, the proceedings were still in progress.

Based on legal advice, the directors are of the view that since the dispute is one between the subcontractor and the main contractor, no recourse should rise against Yingde. No provision is therefore considered necessary as at 30 June 2001.

- (f) In March 2001, Yue Sheng Finance Limited ("Yue Sheng"), a wholly owned subsidiary of the Company, carried out a legal proceeding in Mainland China against guarantors of its two loans advanced to a borrower for the recovery of the two loans in a total sum of HK\$40,000,000 together with interest thereon.

In July 2001, the guarantors and the borrower of the two loans issued a writ of summons against Yue Sheng and a company, which was a former subsidiary of the Group, in Hong Kong. No statement of claim has ever been served by plaintiffs.

Based on legal advice, the directors are of the view that the claim brought against Yue Sheng is without merit and that steps will be taken to strike out the claim in due course. Accordingly, no provision is considered necessary as at 30 June 2001.

- (g) In January 2001, Guangdong Enterprises (North America) Fur Holdings Limited ("GDNA") and Harbour Hill International Limited ("HHL"), subsidiaries indirectly held by the Company, filed suit to the United States District Court in the Southern District of New York to recover approximately US\$2.25 million loaned to Hennessy International Group, Inc. ("HIGI"). HIGI is one-third held by GDNA and is an associate of the Group. GDNA and HHL also asserted claims against a corporate shareholder of HIGI and two individuals, who have interests in the corporate shareholder of HIGI (the "Defendants"), based on their guarantees of one-half of HIGI's obligation.

In March 2001, the Defendants answered the complaint denying all liabilities and asserted a counterclaim approximately US\$2 million against GDNA for alleged failure to continue financing HIGI. The parties involved are engaged in discovery with depositions scheduled to begin around 24 September 2001.

19. RELATED PARTY TRANSACTIONS

In addition to the transactions set out elsewhere in these financial statements, the Group has the following significant related party transactions during the period:

(a)

		For the six months ended 30 June	
		2001	2000
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
	<i>Notes</i>		
Sale of electricity to a minority shareholder of a subsidiary	(i)	(204,072)	(264,193)
Interest expense to minority shareholders of subsidiaries	(ii)	2,146	2,097
Interest expense to GDH Limited and its subsidiaries	(iii)	65,295	—
Interest income from a fellow subsidiary	(iv)	(4,076)	(6,744)
Annual fees to minority shareholders of subsidiaries	(v)	5,252	5,082
Rental income from GDH Limited and its subsidiaries	(vi)	(3,764)	—

Notes:

- (i) Under an operating agreement between the subsidiary and its minority shareholder dated 23 April 1994, the minority shareholder agreed to purchase all the electricity generated by the subsidiary. Sale of electricity was made at the price stipulated by the relevant government authority in Mainland China. The amount due to the minority shareholder was HK\$18,692,000 as at 30 June 2001.
- (ii) The interest expense during the period arose from funds advanced by certain minority shareholders of the Group, which are unsecured, bear interest at London Inter Bank Offer Rate ("LIBOR") plus a margin of 2.375% per annum. The amount due to these minority shareholders was HK\$56,179,000 as at 30 June 2001.
- (iii) The interest expense in respect of the "Tranche A Credit" and "Tranche B Credit" (the "Credits") issued by GH Holdings to GDH Limited and certain of its subsidiaries, as a result of the debt restructuring of Guangdong Enterprises (Holdings) Limited ("GDE"), a former substantial shareholder of the Company, and its subsidiaries (the "GDE Group"). The Credits were issued by GH Holdings in connection with the Acquisition. A summary of the principal terms of the Credits were set out in the shareholders' circular of the Company in respect of the Acquisition dated 15 September 2000. The outstanding balance of the Credits so held by GDH Limited and certain of its subsidiaries as at 30 June 2001, in aggregate, amounted to HK\$1,618,612,000, included in the Group's bank and other interest-bearing borrowings, which bears interest at 8% per annum and is repayable till 2011.
- (iv) The interest income arose from unsecured loans advanced to Guangdong Finance Co., Limited ("GD Finance"), an existing fellow subsidiary and a former subsidiary of the Company. The loans bear interest at rates ranging from LIBOR plus 2% per annum to Hong Kong Inter Bank Offer Rate ("HIBOR") plus 2% per annum and are repayable in accordance with the terms set out in the bank debt restructuring agreement of GD Finance. The balance with GD Finance amounted to HK\$43,183,000, after a provision of HK\$56,156,000, as at 30 June 2001.



INTERIM CONDENSED FINANCIAL STATEMENTS *(continued)*

19. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

- (v) The annual fees paid by the Group are in accordance with the respective Sino-foreign Co-operative joint venture agreements. The Group had amounts due from these minority shareholders amounting to HK\$2,658,000 as at 30 June 2001.
- (vi) The rental income arose from letting of certain of the Group's office premises to GDH Limited and certain of its subsidiaries. Details of the terms of these leases are set out in the Company's announcement dated 21 August 2000 and annual report for the year ended 31 December 2000.
- (b) A minority shareholder of a Company's subsidiary has guaranteed a bank loan of that subsidiary at nil consideration. The outstanding bank loan guaranteed by the minority shareholder as at 30 June 2001 amounting to HK\$12,054,000.
- (c) A minority shareholder of a Company's subsidiary has provided a guarantee to an independent third party for a loan made available to that subsidiary amounting to RMB5,000,000 as at 30 June 2001.
- (d) In January 1999, while GD Finance was a wholly owned subsidiary of the Company, the Company has, jointly and severally with GDE, guaranteed certain bank loans to GD Finance at nil consideration. As at 30 June 2001, the outstanding balances of these bank loans so guaranteed were HK\$2,418,000 and US\$1,817,000.
- (e) The Group entered into an agreement with its fellow subsidiary for the provision of property management services performed by the fellow subsidiary at an estimated value of HK\$2,101,000 which is determined based on the terms of the agreement.
- (f) The Group entered into an agreement with its fellow subsidiary for certain construction works performed by the fellow subsidiary at an estimated value of HK\$11,209,000 which is determined based on the terms of the agreement.

20. POST BALANCE SHEET EVENTS

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

- (i) Subsequent to the balance sheet date, the Group has been negotiating with a joint venture partner in Mainland China to disengage from the operations of a subsidiary which operates a tannery plant in Qingdao, Mainland China (the "Qingdao Tannery Plant").

The Group intends to transfer the majority of the existing assets in the Qingdao Tannery Plant to other tannery plants of the Group and the Group has paid an interim compensation in an amount of HK\$1,601,000 to the staff of the Qingdao Tannery Plant in August 2001.

No provision for staff redundancy payment has been made in these financial statements as the Group had no constructive obligation in respect of staff redundancy payment at the balance sheet date.

- (ii) On 22 July 2001, the Group entered into a sale and purchase agreement with an independent third party for a disposal of a land and factory complex located in Zhongshan, Mainland China, at a consideration of approximately RMB15,700,000. Such disposal would not have any significant loss to the Group as a result of the impairment accounted for as at 30 June 2001.

20. POST BALANCE SHEET EVENTS *(continued)*

- (iii) On 22 December 2000, as part of the restructuring of the US\$27,000,000 floating rate convertible bonds due 2005 (the “2005 CBs”) issued by the Company, a call option (the “Call Option”) to acquire the 2005 CBs was granted by the holders of the 2005 CBs (the “Holders”) to GDH Limited. On 13 June 2001, GDH Limited exercised the Call Option to purchase the 2005 CBs from the Holders. This transaction was completed on 3 July 2001.

GDH Limited informed the Company that it might exercise the conversion right if GDH Limited considered market conditions suitable. Should any exercise by GDH Limited of the conversion right under the 2005 CBs, it will constitute a connected transaction. Nevertheless, necessary approval of independent shareholders of the Company was obtained on 13 August 2001.

Details of this transaction are also set out in the Company’s announcement dated 24 July 2001 and the Company’s circular to its shareholders dated 25 July 2001.

21. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements were approved by the Board of Directors on 21 September 2001.