

# Unaudited Interim Financial Statements

## Condensed Consolidated Income Statement

For the six months ended 30 June 2005

	Notes	For the six months ended 30 June	
		2005 (Unaudited) HK\$'000	2004 (Unaudited) (Restated) HK\$'000
REVENUE	3		
Sale of goods		518,411	444,040
Sale of water and electricity		1,857,620	1,832,710
Hotel and rental income		278,176	253,476
Toll revenue		5,427	4,558
Investment and interest income		14	21
		<b>2,659,648</b>	2,534,805
Cost of sales		<b>(1,350,786)</b>	(1,348,977)
Gross profit		<b>1,308,862</b>	1,185,828
Other income and gains		<b>107,566</b>	30,035
Selling and distribution costs		<b>(31,601)</b>	(25,664)
Administrative expenses		<b>(170,234)</b>	(142,554)
Other expenses, net		<b>(1,359)</b>	(44,481)
Finance costs	4	<b>(367,069)</b>	(405,136)
Share of profits of jointly-controlled entities		<b>38,001</b>	32,210
Share of profits less losses of associates		<b>11,855</b>	27,512
PROFIT BEFORE TAX	5	<b>896,021</b>	657,750
Tax	6	<b>(86,920)</b>	(74,090)
PROFIT FOR THE PERIOD		<b>809,101</b>	583,660
ATTRIBUTABLE TO:			
Equity holders of the parent		<b>681,514</b>	452,611
Minority interests		<b>127,587</b>	131,049
		<b>809,101</b>	583,660
EARNINGS PER SHARE	7		
Basic		<b>12.07 cents</b>	8.20 cents
Diluted		<b>11.32 cents</b>	7.84 cents
DIVIDENDS — interim	8	<b>225,160</b>	136,997

# Unaudited Interim Financial Statements

## Condensed Consolidated Balance Sheet

30 June 2005

	Notes	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Unaudited) (Restated) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets:			
Property, plant and equipment		7,765,715	7,978,794
Properties under development		5,546	4,631
Investment properties		2,151,666	2,085,292
Prepaid land premiums/land lease payments		4,128,097	4,199,344
Goodwill:			
Goodwill		33,936	1,399
Negative goodwill		—	(177,469)
Interests in jointly-controlled entities		1,052,863	1,014,362
Interests in associates		461,168	452,679
Contractual joint venture		—	—
Available-for-sale investments	9	18,646	18,646
Operating right		12,397,046	12,641,662
Other long term assets		2,472	2,491
Deferred tax assets		5,547	4,562
<b>Total non-current assets</b>		<b>28,022,702</b>	<b>28,226,393</b>
<b>CURRENT ASSETS</b>			
Loan receivables		280	327
Available-for-sale investments	9	109,621	102,994
Due from the ultimate holding company	22(b)	75	—
Due from the immediate holding company	22(b)	716	1,941
Due from fellow subsidiaries	22(b)	3,834	2,987
Tax recoverable		5,301	5,302
Inventories		38,808	43,600
Receivables, prepayments and deposits	10	501,768	303,378
Restricted cash and bank balances	11	25,544	25,509
Cash and cash equivalents	11	1,905,403	1,642,688
<b>Total current assets</b>		<b>2,591,350</b>	<b>2,128,726</b>

# Unaudited Interim Financial Statements

## Condensed Consolidated Balance Sheet (continued)

30 June 2005

	Notes	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Unaudited) (Restated) HK\$'000
<b>CURRENT LIABILITIES</b>			
Trade payables	12	(81,185)	(114,223)
Accruals and other liabilities		(718,877)	(660,214)
Tax payable		(35,898)	(50,555)
Interest rate swap agreements	13	(435,343)	—
Due to fellow subsidiaries	22(b)	(1,377)	(2,372)
Due to the immediate holding company	22(b)	(471)	(218)
Due to the ultimate holding company	22(b)	(94)	(2,113)
Due to minority shareholders of subsidiaries	22(b)	(287,990)	(288,032)
Bank and other interest-bearing borrowings	14	—	(41,742)
Non-interest-bearing borrowing	15	(118,200)	(118,200)
Total current liabilities		(1,679,435)	(1,277,669)
<b>NET CURRENT ASSETS</b>		<b>911,915</b>	<b>851,057</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>28,934,617</b>	<b>29,077,450</b>
<b>NON-CURRENT LIABILITIES</b>			
Bank and other interest-bearing borrowings	14	(14,243,154)	(14,585,511)
Non-interest-bearing borrowing	15	(2,009,400)	(2,009,400)
Due to fellow subsidiaries	22(b)	(4,662)	(176)
Due to the immediate holding company	22(b)	(828)	(828)
Due to minority shareholders of subsidiaries	22(b)	(34,505)	(34,512)
Deferred tax liabilities		(532,174)	(527,113)
Total non-current liabilities		(16,824,723)	(17,157,540)
		<b>12,109,894</b>	<b>11,919,910</b>

# Unaudited Interim Financial Statements

## Condensed Consolidated Balance Sheet (continued)

30 June 2005

	Notes	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Unaudited) (Restated) HK\$'000
<b>EQUITY</b>			
Equity attributable to equity holders of the parent:			
Issued capital	16	<b>2,807,246</b>	2,780,806
Other reserves	18	<b>3,517,719</b>	5,486,070
Retained profits	18	<b>3,779,034</b>	1,582,816
Proposed dividends		<b>225,160</b>	194,990
		<b>10,329,159</b>	10,044,682
Minority interests	18	<b>1,780,735</b>	1,875,228
		<b>12,109,894</b>	11,919,910

# Unaudited Interim Financial Statements

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2005

	Notes	For the six months ended 30 June	
		2005 (Unaudited) HK\$'000	2004 (Unaudited) (Restated) HK\$'000
Total equity at 1 January:			
As previously reported as equity		10,001,220	8,932,305
As previously reported separately as minority interests		1,847,139	1,969,304
		11,848,359	10,901,609
Prior period and opening adjustments	2	(507,525)	376,666
As restated		11,340,834	11,278,275
Changes in equity during the period:			
Exchange differences on translation of the financial statements of subsidiaries and associates operating in Mainland China and overseas	18	423	4,212
Change in fair values on cash flow hedges	18	229,843	—
Net income recognised directly in equity		230,266	4,212
Profit for the period	18	809,101	583,660
Total recognised income and expense for the period		1,039,367	587,872
Issue of new shares, including share premium, upon exercise of share options, net of share issue expenses	16	53,597	16,626
Acquisition of additional interests in subsidiaries	18	(81,660)	(117,111)
Employee share option scheme	18	1,260	—
Dividend paid		(196,293)	—
Dividends paid to minority interests	18	(47,211)	(162,190)
Total equity at 30 June		12,109,894	11,603,472

# Unaudited Interim Financial Statements

## Condensed Consolidated Statement of Changes in Equity (continued)

For the six months ended 30 June 2005

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) (Restated) HK\$'000
Total recognised income and expense for the period attributable to:		
Equity holders of the parent	874,944	455,169
Minority interests	164,423	132,703
	1,039,367	587,872
Effects of prior period and opening adjustments attributable to:		
Equity holders of the parent	(405,569)	309,571
Minority interests	(101,956)	67,095
	(507,525)	376,666

# Unaudited Interim Financial Statements

## Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2005

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	1,403,448	1,610,887
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(246,830)	(13,239)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(944,457)	(1,712,571)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	212,161	(114,923)
Cash and cash equivalents at beginning of period	1,567,557	1,270,629
Effect of foreign exchange rate changes, net	1,093	5,063
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,780,811	1,160,769
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	670,938	775,673
Non-pledged bank deposits with original maturity of less than three months when acquired	1,109,873	385,096
	1,780,811	1,160,769

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements

30 June 2005

### 1. ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 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 2004, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 1	The Appropriate Accounting Policies for Infrastructure Facilities
HK-Int 2	The Appropriate Accounting Policies for Hotel Properties
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases



# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 1. ACCOUNTING POLICIES (continued)

The adoption of HKASs 2, 7, 8, 10, 12, 18, 19, 20, 21, 23, 24, 28, 31, 33, 37, 38 and HK-Int 1 has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated interim financial statements. The material impact of adopting the other HKFRSs is summarised as follows:

**(a) HKAS 16 – Property, Plant and Equipment and HK-Int 2 – The Appropriate Accounting Policies for Hotel Properties**

***Hotel properties***

In prior periods, hotel properties were stated at their open market values, based on their existing use, on the basis of annual professional valuations. Movements in the values of the hotel properties were dealt with in the hotel property revaluation reserve, unless the applicable reserve balance was exhausted, in which case the decrease was charged to the income statement as incurred. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

The adoption of HKAS 16 and HK-Int 2 has resulted in a change in the accounting policy for the Group's hotel properties, which are now stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over the shorter of the unexpired period of the land lease and the estimated useful life. The principal annual rates used for this purpose are summarised as follows:

- |                   |                |
|-------------------|----------------|
| • leasehold land  | 0.75% to 3.39% |
| • hotel buildings | 2.30% to 3.39% |

The effects of the above changes are summarised in note 2 to the condensed consolidated interim financial statements.

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 1. ACCOUNTING POLICIES (continued)

#### (b) HKAS 17 – Leases and HK-Int 4 – Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

##### *Leasehold land and buildings and properties under development*

In prior periods, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses while properties under development were classified as non-current assets and stated at cost less any impairment losses.

Upon the adoption of HKAS 17 and HK-Int 4, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from fixed assets to prepaid land premiums/land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums/land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms. When the property is in the course of development, the amortisation charge is included as part of the costs of the property under development. In all other cases, the amortisation charge for the period is recognised in the income statement immediately. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no material effect on the condensed consolidated income statement and retained profits. The comparatives on the condensed consolidated balance sheet as at 31 December 2004 have been restated to reflect the reclassification of leasehold land.

#### (c) HKAS 32 and HKAS 39 – Financial Instruments

##### (i) *Equity and debt investments*

In prior periods, the Group classified its investment securities and other equity and debt investments as other financial assets. Investment securities were listed and unlisted equity securities held for a continuing strategic or long term purpose, and were stated at cost less any impairment losses. Other equity and debt investments comprised those equity and debt securities not classified as investment securities and were stated at their fair values at the balance sheet date.

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 1. ACCOUNTING POLICIES (continued)

#### (c) HKAS 32 and HKAS 39 – Financial Instruments (continued)

##### (i) *Equity and debt investments (continued)*

Upon the adoption of HKASs 32 and 39, these securities are classified as available-for-sale investments. Available-for-sale investments are those non-derivative investments in listed and unlisted equity and debt securities that are designated as available-for-sale or are not classified in any of the other categories of financial assets as defined in HKAS 39. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and option pricing models.

When the fair value of unlisted equity and debt securities cannot be reliably measured because (1) the variability in the range of reasonable fair value estimates is significant for that investment, or (2) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group assesses at each balance sheet date whether there is any objective evidence that an available-for-sale investment is impaired as a result of one or more events that occurred after the initial recognition of the assets ("loss events"), and that the loss event has an impact on the estimated future cash flows that can be reliably estimated.

If there is objective evidence of impairment, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in the income statement. The amount of the loss recognised in the income statement shall be the difference between the acquisition cost and current fair value, less any impairment loss on that available-for-sale investment previously recognised in the income statement.

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 1. ACCOUNTING POLICIES (continued)

#### (c) HKAS 32 and HKAS 39 – Financial Instruments (continued)

##### (i) *Equity and debt investments (continued)*

This change in accounting policy has had no effect on the condensed consolidated income statement and retained profits. In accordance with HKAS 32, comparative amounts have been reclassified for presentation purpose, but have not been restated in accordance with the transitional provisions of HKAS 39.

##### (ii) *Convertible bonds*

In prior periods, convertible bonds were stated at cost. Upon the adoption of HKASs 32 and 39, convertible bonds issued are split into liability and equity components.

On the issue of the convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount after deduction of transaction costs is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

The effects of the above changes are summarised in note 2 to the condensed consolidated interim financial statements. In accordance with HKAS 32, comparative amounts have been restated.

##### (iii) *Derivative financial instruments – Interest rate swap agreements*

The Group uses interest rate swap agreements to hedge its risks associated with interest rate fluctuations. In prior periods, these agreements were entered into for the purpose of hedging the Group's interest rate risk arising from certain floating-rate loans and borrowings. The interest rate differentials arising from these agreements were recognised in the income statement, in finance costs, on a cash basis, offsetting the effects of the hedged transactions.

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 1. ACCOUNTING POLICIES (continued)

#### (c) HKAS 32 and HKAS 39 – Financial Instruments (continued)

##### (iii) *Derivative financial instruments – Interest rate swap agreements (continued)*

Upon the adoption of HKAS 39, such existing agreements entered into before HKAS 39 is initially applied and qualified for hedge accounting are classified as hedging instruments. However, interest rate swap agreements that do not qualify for hedge accounting are accounted for as “instruments not qualified for hedge accounting”. In accordance with HKAS 39, interest rate swap agreements are initially recognised at fair value on the date on which a swap contract is entered into and are subsequently remeasured at fair value. The fair value of interest rate swap agreements is estimated at the amount that the Group would receive or pay to terminate the agreement at the balance sheet date, taking into account the current market conditions and the current creditworthiness of the counterparties. Interest rate swap agreements are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair values on interest rate swap agreements that do not qualify for hedge accounting are taken directly to net profit or loss for the period.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. Hedges are expected to be highly effective and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The Group's hedges of the interest rate risk relating to the exposure to variability in cash flows associated with a recognised asset or liability or a highly probable forecast transaction, which meet the strict criteria for hedge accounting are accounted for as cash flow hedges.

When accounting for cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the income statement.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised directly in equity are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 1. ACCOUNTING POLICIES (continued)

#### (c) HKAS 32 and HKAS 39 – Financial Instruments (continued)

##### (iii) *Derivative financial instruments – Interest rate swap agreements (continued)*

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, then the Group removes the associated gains and losses that were recognised directly in equity, and includes them in the initial cost or other carrying amount of the asset or liability.

For other cash flow hedges, amounts recognised directly in equity are recognised in the income statement in the same period or periods during which the forecast transaction affects profit or loss.

Cash flow hedge accounting shall be discontinued prospectively if the hedging instrument is sold, terminated or exercised or the hedge no longer meets the criteria for hedge accounting. The cumulative gain or loss on the hedging instrument remains separately recognised in equity until the forecast transaction occurs at which stage it is accounted for in accordance with the guidance given above depending on whether or not the forecast transaction results in the recognition of an asset or liability.

If the forecast transaction is no longer expected to occur, any related cumulative gain or loss on the hedging instrument that remains in equity is recognised immediately in the income statement. If the Group revokes the designation for a hedge of a forecast transaction, the cumulative gain or loss recognised in equity remains separately recognised in equity until the forecast transaction occurs or is no longer expected to occur. If the transaction occurs, the cumulative gain is accounted for in accordance with the guidance given above depending on whether or not the forecast transaction results in the recognition of an asset or liability. If the forecast transaction is no longer expected to occur, any related cumulative gain or loss on the hedging instrument that remains in equity is recognised immediately in the income statement.

The effects of the above changes are summarised in note 2 to the condensed consolidated interim financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 1. ACCOUNTING POLICIES (continued)

#### (d) HKAS 40 – Investment Property

##### (i) *Accounting for revaluation surplus/deficit*

In prior periods, changes in the fair values of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in fair values of investment properties are included in the income statement in the year in which they arise. Any gains or losses on retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

This change in accounting policy has had no effect on the condensed consolidated income statement and retained profits.

##### (ii) *Reclassification of properties leased to group companies of GDH Limited*

In prior periods, the Group classified properties, or part of a property, which were let to and occupied by GDH Limited, the Company's immediate holding company, and its subsidiaries (collectively the "GDH Group") as fixed assets, which were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 40, these leased properties are classified as investment properties, if they are held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of business. The standard states that properties which are leased to group companies do not qualify as investment properties in the consolidated financial statements. The Basis for Conclusions on HKAS 40 clarifies that the consolidated financial statements include both the lessor and the lessee of these properties. Therefore, the properties leased to the GDH Group are now classified as investment properties in accordance with HKAS 40.

The Group has taken advantage of the transitional provisions of HKAS 40 to adjust the effect of adopting the standard to the opening balances of retained profits as at 1 January 2005 rather than restating the comparative amounts to reflect the changes retrospectively for the earlier period presented in the condensed consolidated interim financial statements.

The effects of the above changes are summarised in note 2 to the condensed consolidated interim financial statements.

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 1. ACCOUNTING POLICIES (continued)

#### (e) HKFRS 2 – Share-based Payment

##### *Employee share options*

In prior periods, no recognition and measurement of share-based transactions in which employees (including directors) were granted share options over shares in the Company was required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments (“equity-settled transactions”), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted. The fair value is determined by using the Black-Scholes Model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the “vesting date”). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The adoption of HKFRS 2 resulted in the recognition of expenses of HK\$1,260,000 for the current period in relation to the employee share options granted during the period. There were no share options granted by the Group to employees after 7 November 2002 but had not vested by 1 January 2005. Accordingly, the adoption of HKFRS 2 has had no effect on the prior periods’ consolidated financial statements.



# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 1. ACCOUNTING POLICIES (continued)

#### (f) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

##### *Goodwill/negative goodwill*

In prior periods, goodwill/negative goodwill arising on acquisitions prior to 1 January 2001 was eliminated against/credited to the consolidated reserves in the year of acquisition and was not recognised in the consolidated income statement until disposal or impairment of the acquired business/entity.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets, except to the extent it related to expectations of future losses and expenses that were identified in the acquisition plan and that could be measured reliably, in which case, it was recognised as income in the consolidated income statement when the future losses and expenses were recognised.

Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries, associates, and jointly-controlled entities (previously referred to as "negative goodwill"), after reassessment, is recognised immediately in the consolidated income statement.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill and to derecognise the carrying amounts of negative goodwill (including that remaining in the consolidated capital reserve) against retained profits. Goodwill previously eliminated against the consolidated reserves remains eliminated against the consolidated reserves and is not recognised in the consolidated income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 2 to the condensed consolidated interim financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 1. ACCOUNTING POLICIES (continued)

#### (g) HK(SIC)-Int 21 – Income Taxes – Recovery of Revalued Non-depreciable Assets

##### *Deferred tax*

In prior periods, deferred tax arising on the revaluation of investment properties was recognised based on the tax rate that would be applicable upon the sale of the investment properties.

Upon the adoption of HK(SIC)-Int 21, deferred tax arising on the revaluation of the Group's investment properties is determined depending on whether the properties will be recovered through use or through sale. The Group has determined that its investment properties will be recovered through use, and accordingly the profits tax rate has been applied to the calculation of deferred tax.

The effects of the above changes are summarised in note 2 to the condensed consolidated interim financial statements. The change has been adopted retrospectively from the earliest period presented and comparative amounts have been restated.

#### (h) HKAS 1 – Presentation of Financial Statements and HKAS 27 – Consolidated and Separate Financial Statements

##### *Minority interests*

In prior periods, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the period were also separately presented in the consolidated income statement as a deduction before arriving at the net profit attributable to shareholders.

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, minority interests at the balance sheet date are presented in the condensed consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the parent, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the profit or loss for the period between the minority interests and the equity holders of the parent.

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 1. ACCOUNTING POLICIES (continued)

- (h) **HKAS 1 – Presentation of Financial Statements and HKAS 27 – Consolidated and Separate Financial Statements (continued)**

***Minority interests (continued)***

The presentation of minority interests in the condensed consolidated balance sheet as at 31 December 2004 and in the condensed consolidated income statement and condensed consolidated statement of changes in equity for the comparative period ended 30 June 2004 has been restated accordingly.

***Share of results of associates/jointly-controlled entities***

In prior periods, the Group's share of tax attributable to associates/jointly-controlled entities was presented as a component of the Group's total tax charge/(credit) in the consolidated income statement. On the adoption of HKAS 1, the Group's share of the post-acquisition results of the associates/jointly-controlled entities are presented net of the Group's share of tax attributable to associates/jointly-controlled entities.

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 2. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

Following the adoption of the HKFRSs, the opening balances of the following accounts were adjusted accordingly. The details of the prior period adjustments and opening adjustments are summarised as follows:

#### (a) Effect on opening balance of total equity at 1 January 2005

Effect of new policies (Increase/(decrease))	Notes	Equity component of convertible bonds (Unaudited) HK\$'000	Hedging reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Hotel property revaluation reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
<b>Prior period adjustments:</b>									
HKAS 16 and HK-Int 2									
Hotel properties	1(a)	—	—	—	(12,182)	(899)	(66,589)	(6,287)	(85,957)
HKAS 32									
Convertible bonds	1(c)(ii)	67,291	—	—	—	—	(12,138)	—	55,153
HK(SIC)-Int 21									
Deferred tax arising from revaluation of investment properties	1(g)	—	—	—	—	—	67,979	34,376	102,355
Net increase/(decrease) in total equity before opening adjustments		67,291	—	—	(12,182)	(899)	(10,748)	28,089	71,551
<b>Opening adjustments:</b>									
HKAS 39									
Cash flow hedges	1(c)(iii)	—	(500,727)	—	—	—	—	(103,578)	(604,305)
Interest rate swap agreements not qualified for hedge accounting	1(c)(iii)	—	—	—	—	—	(127,948)	(26,467)	(154,415)
HKAS 40									
Reclassification of leased properties	1(d)(ii)	—	—	—	—	—	2,175	—	2,175
HKFRS 3									
Derecognition of negative goodwill	1(f)	—	—	(1,652,608)	—	—	1,830,077	—	177,469
Total effect at 1 January 2005		67,291	(500,727)	(1,652,608)	(12,182)	(899)	1,693,556	(101,956)	(507,525)

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 2. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

#### (b) Effect on opening balance of total equity at 1 January 2004

Effect of new policies (Increase/ (decrease))	Notes	Equity component of convertible bonds (Unaudited) HK\$'000	Hedging reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Hotel property revaluation reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
<b>Prior period adjustments:</b>									
HKAS 16 and HK-Int 2									
Hotel properties	1(a)	—	—	—	—	(895)	57,751	(5,929)	50,927
HKAS 32									
Convertible bonds	1(c)(ii)	67,291	—	—	—	—	—	—	67,291
HK(SIC)-Int 21									
Deferred tax arising from revaluation of investment properties	1(g)	—	—	—	—	—	185,424	73,024	258,448
Total effect at 1 January 2004		67,291	—	—	—	(895)	243,175	67,095	376,666

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 2. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

The following tables summarise the impact on profit after tax, income or expenses recognised directly in equity and capital transactions with equity holders for the six-month period ended 30 June 2005 and 2004 upon the adoption of the new HKFRSs. As no retrospective adjustments have been made for the adoption of HKASs 39, 40 and HKFRS 3, the amounts shown for the six months ended 30 June 2004 may not be comparable to the amounts shown for the current interim period.

#### (c) Effect on profit after tax for the six months ended 30 June 2005 and 2004

For the six months ended 30 June							
Effect of new policies (Increase/(decrease))	Notes	Equity holders of the parent (Unaudited) HK\$'000	2005 Minority interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Equity holders of the parent (Unaudited) HK\$'000	2004 Minority interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
<b>Effect on profit after tax:</b>							
HKAS 16 and HK-Int 2							
Hotel properties	1(a)	(20,809)	—	(20,809)	(16,919)	14	(16,905)
HKAS 32							
Convertible bonds	1(c)(ii)	(6,302)	—	(6,302)	(5,993)	—	(5,993)
HKAS 39							
Interest rate swap agreements not qualified for hedge accounting	1(c)(iii)	78,606	14,928	93,534	—	—	—
HKFRS 2							
Employee share option scheme	1(e)	(1,260)	—	(1,260)	—	—	—
HKFRS 3							
Discontinuation of amortisation of goodwill/ recognition of negative goodwill as income	1(f)	(7,888)	—	(7,888)	—	—	—
HK(SIC)-Int 21							
Deferred tax arising from revaluation of investment properties	1(g)	(2,594)	(3,404)	(5,998)	7,047	3,975	11,022
Total effect for the period		39,753	11,524	51,277	(15,865)	3,989	(11,876)
<b>Effect on earnings per share:</b>							
Basic		0.70 HK cents			(0.29 HK cents)		
Diluted		0.75 HK cents			(0.16 HK cents)		

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 2. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

- (d) Effect on income or expenses recognised directly in equity and capital transactions with equity holders for the six months ended 30 June 2005 and 2004

		For the six months ended 30 June					
Effect of new policies (Increase/(decrease))	Notes	2005			2004		
		Equity holders of the parent (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Equity holders of the parent (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
<b>Effect on income or expenses recognised directly in equity:</b>							
HKAS 39							
Cash flow hedges	1(c)(iii)	193,160	36,683	229,843	—	—	—
<b>Effect on capital transactions with equity holders:</b>							
HKFRS 2							
Employee share option scheme	1(e)	1,260	—	1,260	—	—	—
Total effect for the period		194,420	36,683	231,103	—	—	—

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 3. SEGMENT INFORMATION

Segment information is presented on a primary segment reporting basis, by business segment.

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

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 3. SEGMENT INFORMATION (continued)

The following tables present revenue and results for the Group's primary segments, business segments.

	Property Investment For the six months ended 30 June		Property Development For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Segment revenue:				
Sales to external customers	165,196	158,274	—	—
Intersegment sales	38,817	31,205	—	—
Other revenue from external sources (note)	3,027	3,375	—	—
Other revenue from intersegment (note)	—	—	—	—
Exchange gains/(losses), net	(1)	6	—	—
Total	207,039	192,860	—	—
Segment results	153,810	127,226	(64)	(95)
Interest income				
Unallocated other income and gains				
Finance costs				
Share of profits less losses of:				
Jointly-controlled entities	—	—	—	—
Associates	—	—	—	—
Profit before tax				
Tax				
Profit for the period				

Note: Excluding exchange gains/(losses), net

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 3. SEGMENT INFORMATION (continued)

	Toll Roads and Bridges For the six months ended 30 June		Water Distribution For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) (Restated) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Segment revenue:				
Sales to external customers	5,427	4,558	1,679,279	1,555,030
Intersegment sales	—	—	—	—
Other revenue from external sources (note)	2,377	25	2,000	—
Other revenue from intersegment (note)	—	—	—	—
Exchange gains/(losses), net	—	(593)	419	(8,992)
Total	7,804	3,990	1,681,698	1,546,038
Segment results	3,626	277	968,105	787,474
Interest income				
Unallocated other income and gains				
Finance costs				
Share of profits less losses of:				
Jointly-controlled entities	38,001	32,210	—	—
Associates	5,340	—	—	—
Profit before tax				
Tax				
Profit for the period				

Note: Excluding exchange gains/(losses), net

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 3. SEGMENT INFORMATION (continued)

	Electric Power Generation For the six months ended 30 June		Hotel Operations and Management For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) (Restated) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) (Restated) HK\$'000
Segment revenue:				
Sales to external customers	178,341	277,680	112,980	95,202
Intersegment sales	—	—	—	—
Other revenue from external sources (note)	2,733	—	1,208	2,176
Other revenue from intersegment (note)	—	—	—	—
Exchange gains/(losses), net	48	22	255	243
Total	181,122	277,702	114,443	97,621
Segment results	(29,244)	29,726	28,473	19,460
Interest income				
Unallocated other income and gains				
Finance costs				
Share of profits less losses of:				
Jointly-controlled entities	—	—	—	—
Associates	6,515	25,132	—	—
Profit before tax				
Tax				
Profit for the period				

Note: Excluding exchange gains/(losses), net

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 3. SEGMENT INFORMATION (continued)

	Department Stores For the six months ended 30 June		Others For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) (Restated) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Segment revenue:				
Sales to external customers	518,411	444,040	14	21
Intersegment sales	—	—	—	—
Other revenue from external sources (note)	3,978	2,849	4,230	4,856
Other revenue from intersegment (note)	—	—	—	2,410
Exchange gains/(losses), net	—	(5)	52	(1,236)
Total	522,389	446,884	4,296	6,051
Segment results	34,843	34,740	(34,328)	(12,398)
Interest income				
Unallocated other income and gains				
Finance costs				
Share of profits less losses of:				
Jointly-controlled entities	—	—	—	—
Associates	—	2,380	—	—
Profit before tax				
Tax				
Profit for the period				

Note: Excluding exchange gains/(losses), net

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 3. SEGMENT INFORMATION (continued)

	Eliminations For the six months ended 30 June		Total For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) (Restated) HK\$'000
Segment revenue:				
Sales to external customers	—	—	2,659,648	2,534,805
Intersegment sales	(38,817)	(31,205)	—	—
Other revenue from external sources (note)	—	—	19,553	13,281
Other revenue from intersegment (note)	—	(2,410)	—	—
Exchange gains/(losses), net	—	—	773	(10,555)
Total	(38,817)	(33,615)	2,679,974	2,537,531
Segment results	—	—	1,125,221	986,410
Interest income			14,427	6,428
Unallocated other income and gains			73,586	10,326
Finance costs			(367,069)	(405,136)
Share of profits less losses of:				
Jointly-controlled entities			38,001	32,210
Associates			11,855	27,512
Profit before tax			896,021	657,750
Tax			(86,920)	(74,090)
Profit for the period			809,101	583,660

Note: Excluding exchange gains/(losses), net

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 4. FINANCE COSTS

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) (Restated) HK\$'000
Interest on bank loans and other borrowings wholly repayable:		
Within five years*	11,366	15,503
Over five years**	224,366	168,678
	235,732	184,181
Finance charges on cash flow hedges, net	131,337	—
Finance charges incurred on interest rate swap agreements, net	—	220,955
Total finance costs for the period	367,069	405,136

\* Include interest on convertible bonds of HK\$4,933,000 (six months ended 30 June 2004: straight bonds of HK\$4,550,000 and convertible bonds of HK\$4,946,000) and amortisation on convertible bonds of HK\$6,302,000 (six months ended 30 June 2004 (restated): HK\$5,993,000).

\*\* Net of government grants of HK\$29,453,000 (six months ended 30 June 2004: HK\$33,613,000) in respect of subsidies for interest expense. There are no unfulfilled conditions or contingencies relating to these grants.

As a result of the adoption of HKAS 39, the realised finance charges of HK\$30,064,000 incurred in the current period on interest rate swap agreements not qualified for hedge accounting were included as part of the changes in fair values of interest rate swap agreements not qualified for hedge accounting in note 5 below. In the prior periods, such charges were included as part of the net finance charges incurred on interest rates swap agreements, as disclosed above.

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 5. PROFIT BEFORE TAX

Profit before tax was determined after charging/(crediting) the following:

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) (Restated) HK\$'000
Cost of inventories sold*	545,185	495,892
Depreciation	206,459	208,506
Amortisation of deferred expenses*	20	18
Amortisation of operating right*	244,616	245,967
Amortisation of prepaid land premiums/land lease payments	71,235	71,584
Amortisation of prepaid rental*	—	55,352
Interest income	(14,427)	(6,428)
Negative goodwill recognised as income**	—	(5,825)
Excess over the cost of business combinations***	(9,844)	—
Changes in fair values of interest rate swap agreements not qualified for hedge accounting***	(63,470)	—
Amortisation of goodwill	—	120
Investment property revaluation deficit	—	10,602
Impairment of fixed assets	—	30,000
Loss/(gain) on disposal of fixed assets, net	(2,799)	3,210
Provision for doubtful debts	—	2,657
Write-back of provision against an amount due from a fellow subsidiary	(1,910)	—

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

\*\* The negative goodwill recognised as income for the prior period is included in "Other income and gains" on the face of the condensed consolidated income statement.

\*\*\* The gains are included in "Other income and gains" on the face of the condensed consolidated income statement.

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 6. TAX

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) (Restated) HK\$'000
Current – Hong Kong profits tax	506	—
Current – PRC corporate income tax	82,432	73,762
Deferred	3,982	328
Total tax charge for the period	86,920	74,090

Hong Kong profits tax has been provided at a rate of 17.5% (six months ended 30 June 2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable in Mainland China and elsewhere have been calculated at the rates of tax prevailing in those places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Share of tax attributable to jointly-controlled entities and associates amounting to HK\$2,416,000 (six months ended 30 June 2004: HK\$1,659,000) and HK\$1,002,000 (six months ended 30 June 2004: HK\$7,493,000) 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, respectively.



# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 7. EARNINGS PER SHARE

The calculations of the basic and diluted earnings per share for the six months ended 30 June 2005 and 2004 are based on:

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) (Restated) HK\$'000
Earnings:		
Profit attributable to holders of ordinary shares of the parent	681,514	452,611
Add: Interest on convertible bonds	11,235	10,939
Earnings for the purpose of diluted earnings per share	692,749	463,550
Number of shares:		
Weighted average number of ordinary shares in issue	5,581,787,147	5,389,910,199
Effect of Additional Shares (as defined below) to be issued arising from the Acquisition (as defined below) from the beginning of period	66,000,000	132,000,000
For the purpose of basic earnings per share	5,647,787,147	5,521,910,199
Weighted average number of ordinary shares in issue	5,581,787,147	5,389,910,199
Assumed issued at no consideration on deemed exercise of share options with dilutive effect outstanding during the period	202,653,238	121,131,210
Assumed issued on deemed conversion of convertible bonds into ordinary shares	268,801,460	268,801,460
Effect of Additional Shares to be issued arising from the Acquisition from the beginning of period	66,000,000	132,000,000
For the purpose of diluted earnings per share	6,119,241,845	5,911,842,869

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 7. EARNINGS PER SHARE (continued)

As part of the consideration for the acquisition of an 81% interest in GH Water Supply (Holdings) Limited ("GH Holdings") in 2000 (the "Acquisition"), the Company is committed to issue 66 million Ordinary Shares (as defined in note 16) (each such share, an "Additional Share") for each of the five years commencing from 22 December 2000 (the "Earnout Period") to GDH Limited subject to the performance of 廣東粵港供水有限公司 (Guangdong Yue Gang Water Supply Company Limited) ("WaterCo"), a subsidiary of GH Holdings, meeting the milestones as set out in an earnout agreement between the Company and GDH Limited dated 22 December 2000 (the "Earnout Agreement"). Further details of this obligation are set out in the shareholders' circular of the Company in respect of the Acquisition dated 15 September 2000 (the "Acquisition Circular").

Since WaterCo had already met all the performance milestones specified under the Earnout Agreement in prior years, the effect of the remaining 66,000,000 (six months ended 30 June 2004: 132,000,000) Additional Shares to be issued has been incorporated in the computations of the basic and diluted earnings per share for the current and prior periods.

The share options expiring on 19 April 2010 (six months ended 30 June 2004: share options expiring on 6 May 2009) had an anti-dilutive effect on the basic earnings per share and have not been included in the diluted earnings per share calculation for the current period.

### 8. DIVIDENDS

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Interim dividend of 4.0 HK cents (2004: 2.5 HK cents) per ordinary share	225,160	136,997

At a meeting of the board of directors held on 16 September 2005, the directors resolved to pay an interim dividend to shareholders of 4.0 HK cents (2004: 2.5 HK cents).

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 9. AVAILABLE-FOR-SALE INVESTMENTS

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Unaudited) (Restated) HK\$'000
Unlisted equity investments outside Hong Kong, at fair value	19	19
Unlisted equity investment outside Hong Kong, at cost (see Note)	96,325	96,325
Less: Impairment	(77,679)	(77,679)
	18,646	18,646
Unlisted debt securities outside Hong Kong, at fair value	109,602	102,975
Total available-for-sale investments	128,267	121,640
Portion classified as current assets	(109,621)	(102,994)
Non-current portion	18,646	18,646

Note: As at 30 June 2005, included in the Group's available-for-sale investments was a 24.5% equity interest in Pak Kong Transco Limited, a company established in Mainland China with an investment in the Pak Kong Bridges in Qingyuan, Mainland China, of HK\$18,646,000. In the opinion of the directors, the Group does not exercise any significant influence over the financial and operating policies of Pak Kong Transco Limited and accordingly, this investment has not been equity accounted for as an associate.

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 10. RECEIVABLES, PREPAYMENTS AND DEPOSITS

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Trade receivables, net (see Note)	331,926	172,130
Other receivables, prepayments and deposits	169,842	131,248
	<b>501,768</b>	<b>303,378</b>

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

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

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Within three months	331,083	171,424
More than three months and less than six months	715	276
More than six months and less than one year	34	201
More than one year	10,563	10,705
	<b>342,395</b>	<b>182,606</b>
Less: Provision for doubtful debts	<b>(10,469)</b>	<b>(10,476)</b>
	<b>331,926</b>	<b>172,130</b>

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 11. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND BANK BALANCES

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Cash and bank balances (note (a))	670,938	569,805
Time deposits	1,234,465	1,072,883
Trust account (note (b))	25,544	25,509
	<b>1,930,947</b>	1,668,197
Less: Restricted cash and bank balances (note (b))	<b>(25,544)</b>	(25,509)
Cash and cash equivalents	<b>1,905,403</b>	1,642,688

Notes:

- (a) A subsidiary of the Company is required to reserve certain cash and bank balances for, amongst other things, payment of interest, repayment of debts and distribution to shareholders of that subsidiary pursuant to an agreement entered into between the subsidiary and other parties. As at 30 June 2005, cash and bank balances retained for such purpose amounted to HK\$5,067,000 (31 December 2004: HK\$6,512,000).
- (b) Pursuant to an undertaking given to the court by the Company in its capital reduction application on 17 December 2003, the Company set up a separate bank account with a local reputable bank in the name of Guangdong Investment (Nominees) Limited, as trustee and designated such bank account as "Guangdong Investment Limited Capital Reduction Trust Account" (the "Trust Account"). A sum of HK\$34,000,000 was deposited into the Trust Account in accordance with the terms of the trust deed in the form approved by the court (the "Trust Deed"). Unless and until all amounts due to those creditors of the Company who would be entitled to prove in a notional winding-up of the Company were one to commence on 24 December 2003 (the "Effective Date") and who have not consented to the proposed reduction shall have been paid or satisfied or otherwise extinguished, or such creditors shall subsequently give their consent, or any period of limitation shall have expired, the Company shall retain to the credit of the Trust Account a sum in cash equal to the amount due to such non-consenting creditors for the time being unpaid. As at 30 June 2005, the amount standing to the credit of the Trust Account was HK\$25,544,215 (31 December 2004: HK\$25,509,167). The Trust Account shall be maintained for a period of six years from the Effective Date or such shorter period as provided under the Trust Deed. The Trust Account balance was classified as restricted cash and bank balances.

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 12. TRADE PAYABLES

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

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Within three months	71,088	107,155
More than three months and less than six months	4,598	4,257
More than six months and less than one year	397	499
More than one year	5,102	2,312
	81,185	114,223

### 13. INTEREST RATE SWAP AGREEMENTS

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Unaudited) HK\$'000
Cash flow hedges	374,462	—
Not qualified for hedge accounting, at fair value through profit or loss	60,881	—
	435,343	—

### 14. BANK AND OTHER INTEREST-BEARING BORROWINGS

	As at 30 June 2005			As at 31 December 2004		
	Current liabilities (Unaudited) HK\$'000	Non-current liabilities (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Current liabilities (Unaudited) (Restated) HK\$'000	Non-current liabilities (Unaudited) (Restated) HK\$'000	Total (Unaudited) (Restated) HK\$'000
Bank loans — secured	—	12,563,401	12,563,401	41,742	12,912,060	12,953,802
Convertible bonds	—	448,469	448,469	—	442,167	442,167
The Tranche B Credit	—	1,231,284	1,231,284	—	1,231,284	1,231,284
	—	14,243,154	14,243,154	41,742	14,585,511	14,627,253

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 15. NON-INTEREST-BEARING BORROWING

The non-interest-bearing borrowing represents a loan facility granted by the Government of the Hong Kong Special Administrative Region (the "HKSAR") to the Guangdong Provincial Government for the Dongshen Water Supply Phase IV Renovation Project (the "Phase IV Renovation Project") with a principal amount of HK\$2,364 million. Pursuant to the concession agreement in respect of the granting of concession by the Guangdong Provincial Government to the Group for the supply of natural water, WaterCo utilised the aforesaid loan facility for the construction of the Phase IV Renovation Project and agreed to bear the repayment obligation of the Guangdong Provincial Government to the Government of the HKSAR in respect of such loan on the earlier of the commencement of operation of the Phase IV Renovation Project and the end of 2003. The loan is repayable by 20 consecutive instalments within 20 years.

### 16. SHARE CAPITAL

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Authorised:		
8,000,000,000 (31 December 2004: 8,000,000,000) ordinary shares of HK\$0.50 each ("Ordinary Shares")	4,000,000	4,000,000
Issued and fully paid:		
5,614,492,672 (31 December 2004: 5,561,612,672) Ordinary Shares	2,807,246	2,780,806

During the six months ended 30 June 2005, the subscription rights attaching to 52,880,000 share options were exercised at subscription prices ranging from HK\$0.814 to HK\$1.59 per Ordinary Share (note 17), resulting in the issue of 52,880,000 new Ordinary Shares for a total consideration, net of expenses, of HK\$53,597,000.

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 16. SHARE CAPITAL (continued)

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 shares (Unaudited) HK\$'000	Ordinary Share premium account (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2005	5,561,612,672	2,780,806	1,857,716	4,638,522
Share options exercised	52,880,000	26,440	27,183	53,623
Share issue expenses	—	—	(26)	(26)
At 30 June 2005	5,614,492,672	2,807,246	1,884,873	4,692,119

### 17. 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 expense recognised in the condensed consolidated income statement for employee services received during the period is HK\$1,260,000 (six months ended 30 June 2004: Nil).



# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 17. SHARE OPTION SCHEME (continued)

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\$	Price of the Company's Ordinary Shares***	
	At 1 January 2005	Granted during the period##	Cancelled/ lapsed during the period	Exercised during the period	At 30 June 2005				At grant date of options HK\$	At exercise date of options HK\$
Directors										
LI Wenyue	7,000,000	—	—	—	7,000,000	10.08.2001	11.02.2002 to 10.02.2007	0.5312	0.66	
	9,000,000	—	—	—	9,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81	—
	6,000,000	—	—	—	6,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	—
	3,000,000	—	—	—	3,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	—
	3,000,000	—	—	—	3,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	—
	2,500,000	—	—	—	2,500,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	—
ZHANG Hui	5,000,000	—	—	—	5,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	—
	3,000,000	—	—	—	3,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	—
	3,000,000	—	—	—	3,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	—
	2,500,000	—	—	—	2,500,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	—
CHAN Cho Chak, John	1,000,000	—	—	—	1,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	—
	1,000,000	—	—	—	1,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	—
	1,000,000	—	—	—	1,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	—
	450,000	—	—	—	450,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	—
LI Kwok Po, David	1,000,000	—	—	—	1,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	—
	1,000,000	—	—	—	1,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	—
	1,000,000	—	—	—	1,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	—
	450,000	—	—	—	450,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	—
FUNG, Daniel R.	1,000,000	—	—	(1,000,000)	—	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	2.55
	1,000,000	—	—	—	1,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	—
	1,000,000	—	—	—	1,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	—
	450,000	—	—	—	450,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	—
CHENG Mo Chi, Moses	1,000,000	—	—	—	1,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	—
	1,000,000	—	—	—	1,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	—
	1,000,000	—	—	—	1,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	—
	450,000	—	—	—	450,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	—

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 17. SHARE OPTION SCHEME (continued)

Name or category of participants	Number of share options				At 30 June 2005	Date of grant of share options* (DD.MM.YYYY)	Exercise period of share options (both dates inclusive)# (DD.MM.YYYY)	Exercise price of share options** HK\$	Price of the Company's Ordinary Shares***	
	At 1 January 2005	Granted during the period##	Cancelled/ lapsed during the period	Exercised during the period					At grant date of options HK\$	At exercise date of options HK\$
LI Wai Keung	700,000	—	—	—	700,000	01.11.2001	02.05.2002 to 01.05.2007	0.74	0.73	—
	1,500,000	—	—	—	1,500,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81	—
	1,500,000	—	—	—	1,500,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	—
	1,500,000	—	—	—	1,500,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	—
	1,500,000	—	—	—	1,500,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	—
	1,000,000	—	—	—	1,000,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	—
FUNG Sing Hong, Stephen	—	1,500,000	—	—	1,500,000	19.01.2005	20.04.2005 to 19.04.2010	2.575	2.60	—
WANG Xiaofeng	1,000,000	—	—	—	1,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81	—
	1,000,000	—	—	—	1,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	—
	1,000,000	—	—	—	1,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	—
	1,000,000	—	—	—	1,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	—
	650,000	—	—	—	650,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	—
	70,150,000	1,500,000	—	(1,000,000)	70,650,000					
<b>Others</b>										
Former Directors (Note)	19,000,000	—	—	—	19,000,000	10.08.2001	11.02.2002 to 10.02.2007	0.5312	0.66	—
	18,000,000	—	—	—	18,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81	—
	18,000,000	—	—	(6,000,000)	12,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	2.20
	8,000,000	—	—	(3,000,000)	5,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	2.20
	10,000,000	—	—	(5,000,000)	5,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	2.31
	2,500,000	—	—	(2,500,000)	—	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	2.20
Employees	30,000,000	—	—	—	30,000,000	10.08.2001	11.02.2002 to 10.02.2007	0.5312	0.66	—
	7,250,000	—	—	(7,250,000)	—	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81	2.24
	57,200,000	—	(800,000)	(8,000,000)	48,400,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	2.24
	28,570,000	—	(800,000)	(4,470,000)	23,300,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	2.26
	39,600,000	—	(900,000)	(200,000)	38,500,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	2.60
	49,460,000	—	—	(460,000)	49,000,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	2.47
Consultant	31,393,939	—	—	(15,000,000)	16,393,939	03.06.2002	21.12.2002 to 03.06.2007	0.816	0.81	2.40
	318,973,939	—	(2,500,000)	(51,880,000)	264,593,939					
<b>Total</b>	<b>389,123,939</b>	<b>1,500,000</b>	<b>(2,500,000)</b>	<b>(52,880,000)</b>	<b>335,243,939</b>					

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 17. SHARE OPTION SCHEME (continued)

- \* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- \*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- \*\*\* The price of the Company's ordinary shares disclosed as at the date of grant of the share options is the closing price on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the business day prior to which the options were granted.
- The price of the Company's ordinary shares disclosed as at the date of exercise of the share options is the weighted average of the Stock Exchange closing prices (immediately before the dates on which the options were exercised) over all the exercises of options within the disclosure line.
- # If the last day of the option period is not a business day in Hong Kong, the option period expires at 5:01 p.m. on the business day preceding that day (Hong Kong time).
- ## HK\$1.00 is payable by the grantee on acceptance of the offer in respect of the options granted on 19 January 2005.
- Note: As at 1 January 2005, Wu Jiesi and Gu Shunan, directors of the Company who resigned during the period, had a total of 15,500,000 share options. These share options were reclassified and included in the "Former directors" category in the above movement schedule.

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 18. RESERVES

	Ordinary Share premium account (Unaudited) HK\$'000	Ordinary Shares to be issued (Unaudited) HK\$'000	Equity component of convertible bonds (Unaudited) HK\$'000	Hedge reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Hotel property revaluation reserve (Unaudited) HK\$'000	Employee share option scheme (Unaudited) HK\$'000	Expansion fund reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Special reserve (Unaudited) HK\$'000 (Note)	Total (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000
At 1 January 2004:													
As previously reported	1,730,646	303,600	—	—	3,082,617	—	—	157,711	(55,508)	119,721	5,338,787	971,257	1,969,304
Prior period adjustments (Note 2(b))	—	—	67,291	—	—	—	—	—	(895)	—	66,396	243,175	67,095
As restated	1,730,646	303,600	67,291	—	3,082,617	—	—	157,711	(56,403)	119,721	5,405,183	1,214,432	2,036,399
Share options exercised, net of share issue expenses	6,196	—	—	—	—	—	—	—	—	—	6,196	—	—
Issue of Additional Shares	83,160	(182,160)	—	—	—	—	—	—	—	—	(99,000)	—	—
Acquisition of additional interests in subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	(117,111)
Profit for the period (as restated)	—	—	—	—	—	—	—	—	—	—	—	452,611	131,049
Transfer from the income statement	—	—	—	—	—	—	—	1,123	—	—	1,123	(1,123)	—
Interim 2004 dividend declared	—	—	—	—	—	—	—	—	—	—	—	(136,997)	—
Dividends paid to minority interests	—	—	—	—	—	—	—	—	—	—	—	—	(162,190)
Transfer from retained profits during the period in accordance with the Undertaking	—	—	—	—	—	—	—	—	—	366,071	366,071	(366,071)	—
Transfer to retained profits upon issue of new Ordinary Shares during the period	—	—	—	—	—	—	—	—	—	(198,791)	(198,791)	198,791	—
Exchange realignment	—	—	—	—	—	—	—	—	2,558	—	2,558	—	1,654
At 30 June 2004 and 1 July 2004 (as restated)	1,820,002	121,440	67,291	—	3,082,617	—	—	158,834	(53,845)	287,001	5,483,340	1,361,643	1,889,801
Share options exercised, net of share issue expenses	9,994	—	—	—	—	—	—	—	—	—	9,994	—	—
Issue of Additional Shares	27,720	(60,720)	—	—	—	—	—	—	—	—	(33,000)	—	—
Acquisition of additional interests in subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	(4,054)
Profit for the period (as restated)	—	—	—	—	—	—	—	—	—	—	—	443,165	52,033
Transfer from the income statement	—	—	—	—	—	—	—	41,058	—	—	41,058	(41,058)	—
Proposed final 2004 dividend	—	—	—	—	—	—	—	—	—	—	—	(194,990)	—
Dividend paid to minority interests	—	—	—	—	—	—	—	—	—	—	—	—	(62,325)
Transfer from retained profits during the period in accordance with the Undertaking	—	—	—	—	—	—	—	—	—	72,781	72,781	(72,781)	—
Transfer to retained profits upon issue of new Ordinary Shares during the period	—	—	—	—	—	—	—	—	—	(86,837)	(86,837)	86,837	—
Exchange realignment (as restated)	—	—	—	—	—	—	—	—	(1,266)	—	(1,266)	—	(227)
At 31 December 2004 (as restated)	1,857,716	60,720	67,291	—	3,082,617	—	—	199,892	(55,111)	272,945	5,486,070	1,582,816	1,875,228

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 18. RESERVES (continued)

	Ordinary Share premium account (Unaudited) HK\$'000	Ordinary Shares to be issued (Unaudited) HK\$'000	Equity component of convertible bonds (Unaudited) HK\$'000	Hedge reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Hotel property revaluation reserve (Unaudited) HK\$'000	Employee share option scheme (Unaudited) HK\$'000	Expansion fund reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Special reserve (Unaudited) HK\$'000 (Note)	Total (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000
At 1 January 2005:													
As previously reported	1,857,716	60,720	—	—	3,082,617	12,182	—	199,892	(54,212)	272,945	5,431,860	1,593,564	1,847,139
Prior period and opening adjustments (note 2(a))	—	—	67,291	(500,727)	(1,652,608)	(12,182)	—	—	(899)	—	(2,099,125)	1,693,556	(101,956)
As restated	1,857,716	60,720	67,291	(500,727)	1,430,009	—	—	199,892	(55,111)	272,945	3,332,735	3,287,120	1,745,183
Share options exercised, net of share issue expenses	27,157	—	—	—	—	—	—	—	—	—	27,157	—	—
Acquisition of additional interests in subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	(81,660)
Profit for the period	—	—	—	—	—	—	—	—	—	—	—	681,514	127,587
Interim 2005 dividend declared	—	—	—	—	—	—	—	—	—	—	—	(225,160)	—
Final 2004 dividend declared	—	—	—	—	—	—	—	—	—	—	—	(1,303)	—
Dividends paid to minority interests	—	—	—	—	—	—	—	—	—	—	—	—	(47,211)
Employee share option scheme	—	—	—	—	—	—	1,260	—	—	—	1,260	—	—
Change in fair values on cash flow hedges	—	—	—	193,160	—	—	—	—	—	—	193,160	—	36,683
Transfer from retained profits during the period in accordance with the Undertaking	—	—	—	—	—	—	—	—	—	16,760	16,760	(16,760)	—
Transfer to retained profits upon issue of new Ordinary Shares during the period	—	—	—	—	—	—	—	—	—	(53,623)	(53,623)	53,623	—
Exchange realignment	—	—	—	—	—	—	—	—	270	—	270	—	153
At 30 June 2005	1,884,873	60,720	67,291	(307,567)	1,430,009	—	1,260	199,892	(54,841)	236,082	3,517,719	3,779,034	1,780,735

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 18. RESERVES (continued)

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

During the six months ended 30 June 2005, the release of provision as determined above was HK\$16,760,000 and no profit was distributed from the Company's subsidiaries as determined above, resulting in an aggregate transfer from retained profits to the Special Reserve of the Group and the Company of HK\$16,760,000 (six months ended 30 June 2004: HK\$366,071,000).

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

During the six months ended 30 June 2005, the reduction of the Special Reserve and the capitalisation of the same amount to retained profits, which resulted from the increase in paid-up share capital and share premium account due to the issue of the Company's ordinary shares, before any share issue expenses, was HK\$53,623,000 (six months ended 30 June 2004: HK\$198,791,000).

The amount credited to the Special Reserve shall not at any time exceed HK\$2,984,676,517 (the "Limit"). The Limit may be reduced by the amount of any increase, after the Effective Date, in the paid-up share capital or share premium account of the Company which results from 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.

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 on similar terms. As at 30 June 2005, the Limit of the Special Reserve, as adjusted, was HK\$2,595,182,753 (31 December 2004: HK\$2,682,800,113) and the amount standing to the credit of the Special Reserve was HK\$236,082,770 (31 December 2004: HK\$272,945,698).

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 19. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from two to fifteen years. (31 December 2004: term of one year).

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

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Within one year	4,282	177
In the second to fifth years, inclusive	24,177	—
After five years	46,888	—
	<b>75,347</b>	177

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

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 20. COMMITMENTS

In addition to the operating lease commitments detailed in note 19 above, the Group had the following commitments at the balance sheet date:

(a) Capital commitments

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Capital commitments in respect of property, plant and equipment:		
Contracted for	179,469	155,150
Authorised, but not contracted for	1,225,796	672,309
	<b>1,405,265</b>	827,459

- (b) Pursuant to WaterCo's articles of association, Yue Gang Investment, which directly holds a 1% equity interest in WaterCo and is the Company's ultimate holding company, is not entitled to any distributed profits of WaterCo for the first 15 years of operation and 100% of the distributed profits for that period shall be made to GH Holdings. Starting from the 16th year of operation, 1.01% of the distributed profits of WaterCo for the first 15 years of operation plus simple interest of 8% per annum on the unpaid amount of the distributed profits shall be made to Yue Gang Investment (collectively referred to as the "Deferred Dividend"). Once Yue Gang Investment has received the Deferred Dividend in full, all of the WaterCo's distributable profits are to be distributed to GH Holdings and Yue Gang Investment according to their respective equity interests in WaterCo during the remaining operating period.
- (c) The Company, at a consideration of US\$16.76 million, entered into a conditional sale and purchase agreement on 13 February 2001 for the Company's disposal of its entire 95% interest in and its shareholders' loans to Zhongshan Power (Hong Kong) Limited ("ZPHK"). As part of the consideration, the compensation for the discontinuation of certain guaranteed profits in an amount of US\$2.97 million was received in August 2001. In addition, as a condition precedent to the completion of the sale, Zhongshan Power Plant, the contractual joint venture held by ZPHK, is required to fully repay all its indebtedness to Yue Sheng Finance Limited, a wholly-owned subsidiary of the Company, together with interest, in respect of which the loan principal of US\$17.5 million was received in January 2003. Up to the date of these condensed consolidated interim financial statements being approved and authorised for issue by the Company's board of directors, this transaction had not yet been completed.



# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 21. CONTINGENT LIABILITY

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Guarantee given in respect of a bank loan of the Group's contractual joint venture	78,000	78,000

### 22. RELATED PARTY TRANSACTIONS

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

#### (a) Transactions with related parties

	Notes	For the six months ended 30 June 2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Rental income from GDH Limited and certain of its subsidiaries	(i)	(1,461)	(1,944)
Interest income from a contractual joint venture	(ii)	(90)	(96)
Management fees from:			
– a contractual joint venture	(iii)	(1,461)	(1,688)
– a jointly-controlled entity	(iv)	(200)	(1,726)
– a fellow subsidiary	(v)	(376)	—
Hotel management fees received from fellow subsidiaries	(vi)	(797)	(468)
Property management service fees paid to fellow subsidiaries	(vii)	847	915
Interest expense to:			
– GDH Limited and certain of its subsidiaries	(viii)	7,940	12,552
– Yue Gang Investment	(ix)	25	—
General computer and SAP financial system maintenance service fees paid to GDH Limited	(x)	282	313
Finance lease charge paid to a fellow subsidiary	(xi)	33	51
Rental expense paid to an associate	(xii)	3,345	—

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 22. RELATED PARTY TRANSACTIONS (continued)

#### (a) Transactions with related parties (continued)

Notes:

- (i) The rental income arose from the letting of certain of the Group's office premises to GDH Limited and certain of its subsidiaries in accordance with their respective tenancy agreements.
- (ii) The interest income arose from an unsecured loan advanced to a contractual joint venture, which carried a fixed rate of 3.8% (six months ended 30 June 2004: 3.8%) per annum. The loan was fully repaid during the period.
- (iii) The management fee income arose from the accounting and administrative services provided by the Group to a contractual joint venture. The fee charged is calculated with reference to the revenue of the contractual joint venture earned in the period. The contract was terminated in May 2005.
- (iv) The management fee income arose from the administrative services provided by the Group to a jointly-controlled entity. The fee charged is based on the actual costs incurred by the Group during the period.
- (v) The management fee income arose from the accounting and administrative services provided by the Group to a fellow subsidiary. The fee charged is based on the actual costs incurred by the Group during the period.
- (vi) The management fee income arose from the hotel management services rendered by a subsidiary of the Group to certain fellow subsidiaries of the Company in accordance with the terms of agreements entered into between the Group's subsidiary and those fellow subsidiaries.
- (vii) The management fees arose from the property management services rendered by certain fellow subsidiaries of the Company to the Group in accordance with the terms of agreements entered into between the Group and those fellow subsidiaries.
- (viii) The interest expense arose from (a) the Tranche B Credit of HK\$76,262,000 as at 30 June 2005 (31 December 2004: HK\$76,262,000) held by GDH Limited; and (b) the convertible bonds issued by the Group to GDH Limited on 24 December 2003, the par value of which was HK\$497,320,000 as at 30 June 2005 (31 December 2004: par value of HK\$497,320,000); (c) the loans, in aggregate, of RMB6,124,000 (31 December 2004: RMB1,342,000) provided by a fellow subsidiary of the Group.

The interest expense for the six months ended 30 June 2004 included the expense of HK\$4,550,000 also arising from the straight bonds with a par value of HK\$497,320,000 issued by the Group to GDH Limited on 24 December 2003, which had been fully redeemed by the Group on 16 June 2004.
- (ix) The interest expense arose from an entrusted loan of RMB2,000,000 advanced by Yue Gang Investment to WaterCo which was fully repaid during the period.
- (x) GDH Limited provided the Group with certain general computer and SAP financial system maintenance services commencing from May 2003 in accordance with the agreement between the Group and GDH Limited.
- (xi) The charge arose from the leasing of a motor vehicle by the Company's fellow subsidiary to the Group in accordance with the agreement entered into between the Group and that fellow subsidiary.
- (xii) The rental expense arose from the leasing of certain leasehold land and building by Yue Jiang, an associate of the Group, to the Group for the storage and handling of coal ashes for the Group's electric power generation operations. The rentals were calculated with reference to the number of units of electricity generated by the Group's subsidiary and the relevant costs incurred by Yue Jiang.

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 22. RELATED PARTY TRANSACTIONS (continued)

#### (a) Transactions with related parties (continued)

Notes: (continued)

- (xiii) On 3 June 2002, the Company engaged AMRI Financial Group Limited ("AMRI") for the provision of consultancy services in a project at an aggregate consideration of the grant of 31,393,939 share options of the Company. According to the service contract, additional fees may be paid where the outcome of the project exceeds an agreed target. A director of the Company's immediate holding company is also a director and shareholder of AMRI. Each share option granted to AMRI is exercisable to subscribe for an Ordinary Share at an exercise price of HK\$0.816 per Ordinary Share commencing from the date of successful completion of the project to 3 June 2007. The project was completed in 2002 and 15,000,000 of the share options were exercised during the period. Further details of the share options are also set out in note 17 to the condensed consolidated interim financial statements.
- (xiv) During the period, the cash distribution made by GH Holdings out of its distributable profits, amounting to HK\$11,108,000 (six months ended 30 June 2004: HK\$28,351,000), was paid or payable to GDH Limited and certain of its subsidiaries as shareholders of GH Holdings. The distribution is made in accordance with their respective interests in GH Holdings.
- (xv) During the period, the Company paid dividends, in aggregate, of HK\$118,065,000 (six months ended 30 June 2004: Nil) to GDH Limited and certain of its subsidiaries as the Company's shareholders. The distribution is made in accordance with their respective interests in the Company.

#### (b) Outstanding balances with related parties

	Notes	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Balances due from:			
Ultimate holding company	(i)	75	—
Immediate holding company	(ii)	716	1,941
Fellow subsidiaries	(iii)	3,834	2,987
Jointly-controlled entities	(iv)	113,449	112,951
A contractual joint venture	(v)	70,227	70,227
Balances due to:			
Ultimate holding company	(i)	(94)	(2,113)
Immediate holding company	(ii)	(1,299)	(1,046)
Fellow subsidiaries	(iii)	(6,039)	(2,548)
Associates	(vi)	(6,298)	(3,986)
Minority shareholders of subsidiaries	(vii)	(322,495)	(322,544)

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 22. RELATED PARTY TRANSACTIONS (continued)

#### (b) Outstanding balances with related parties (continued)

Notes:

- (i) At 31 December 2004, included in the amount due to the ultimate holding company was an entrusted loan amounting to RMB2,000,000 (approximately equivalent to HK\$1,878,000) which was unsecured, bore interest at the designated rates as published by the People's Bank of China from time to time and was repayable within one year. The entrusted loan was settled in the current period. The remaining balances with the ultimate holding company are unsecured, interest-free and have no fixed terms of repayment.
- (ii) Except for the amount due to the immediate holding company of HK\$828,000 which is not repayable within one year, the remaining balances with the immediate holding company are unsecured, interest-free, and have no fixed terms of repayment.
- (iii) The balances with fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for loans from a fellow subsidiary, in aggregate, of RMB6,124,000 (31 December 2004: RMB1,342,000) which bear interest at a rate of 4.5% (31 December 2004: 4.5%) per annum and are repayable in one to two years (31 December 2004: within three months).
- (iv) Except for the balance of HK\$39,219,000 (31 December 2004: HK\$38,636,000) which bears interest at LIBOR per annum, amounts due from the jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.
- (v) The amounts due from a contractual joint venture are unsecured, interest-free and have no fixed terms of repayment. The amounts due were fully provided for in prior years.
- (vi) The amounts due to associates are unsecured, interest-free, and have no fixed terms of repayment.
- (vii) Except for a loan from a minority shareholder of a subsidiary of HK\$34,505,000 (31 December 2004: HK\$34,512,000) which is not repayable within five years, the balances with minority shareholders of subsidiaries as at 30 June 2005 are unsecured, interest-free, and have no fixed terms of repayment.

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 2005

### 22. RELATED PARTY TRANSACTIONS (continued)

#### (c) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Short term employment benefits	3,960	5,081
Post-employment benefits	612	625
Share-based payments	1,260	—
	<b>5,832</b>	<b>5,706</b>

### 23. CAPITAL EXPENDITURE

During the six months ended 30 June 2005, the Group acquired fixed assets of approximately HK\$60,979,000, in aggregate.

### 24. POST BALANCE SHEET EVENT

In January 2005, the Group's jointly-controlled entity entered into an agreement to dispose of (1) its entire 14.18% equity interest in an investee company (the "Project") and (2) its right in respect of the outstanding loans owed from the Project, at an aggregate consideration of HK\$322,866,000 to an independent third party. The disposal resulted in a gain of HK\$24,800,000, which was accounted for in the consolidated income statement for the year ended 31 December 2004 as a write-back of the provision for the impairment of the Group's interest in a jointly-controlled entity.

The transaction was completed in July 2005.

### 25. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 16 September 2005.