Business Review, Discussion and Analysis, and Prospects

RESULTS

The Board of Directors is pleased to report a remarkable growth in the Group's results for the first half of 2005. The Group's unaudited consolidated net profit attributable to shareholders amounted to HK$682 million (2004: HK$453 million (restated)), representing an increase of 50.6% as compared to the same period last year. The basic earnings per share were 12.07 HK cents (2004: 8.20 HK cents (restated)), representing an increase of 47.2% over the same period last year.

INTERIM DIVIDEND

The Board has resolved to declare the payment of an interim dividend of 4.0 HK cents per share for the six months ended 30 June 2005 (2004: 2.5 HK cents).

REVIEW

The consolidated revenue of the Group for the first half of 2005 was HK$2,660 million (2004: HK$2,535 million), an increase of 4.9% as compared to the same period last year. Among the Group's six business sectors, apart from the electric power generation business, all the other businesses, namely water distribution, toll roads and bridges, retail and shopping mall operations, and hotel operations and management, achieved satisfactory growth.

The unaudited consolidated net profit attributable to shareholders amounted to HK$682 million (2004: HK$453 million (restated)), an increase of 50.6% as compared to the same period last year. The increase was mainly attributable to increases in the revenue from water distribution of HK$124 million (an increase of 8.0%), the hotel operations and management business of HK$18 million (an increase of 18.6%) and the retail and shopping mall operations of HK$80 million (an increase of 13.6%) as well as the share of profits from toll roads and bridges projects of HK$5.8 million (an increase of 18.0%). The revenue from the electric power generation business has however dropped by HK$98 million (a decrease of 35.7%). As far as finance costs were concerned, although interest rates are currently in an upward trend, a major portion of the Company's floating rate loans has already been hedged. Accordingly rising interest rates had little impact on the Group's financials. The Group's finance costs for the period under review were about the same as last year.

There was no provision made to the Group's financials for the period under review (2004: HK$43 million).

With the adoption of the new HKFRSs as from 1 January 2005, an additional net gain of HK$40 million has been credited to the Group's results. A write-back of the provision of HK$79 million for the recognition of the fair value, at the period end, of those interest rate swap agreements for the management of our Group's interest rate risk was more than enough to offset the depreciation and amortisation charges of HK$21 million against the hotel properties and the charge of HK$8 million arising from changes in the accounting treatment on goodwill/negative goodwill.

The basic earnings per share were 12.07 HK cents (2004: 8.20 HK cents (restated)), representing an increase of 47.2% over the same period of 2004.

Business Review, Discussion and Analysis, and Prospects

REVIEW (continued)

The earnings before interest, tax, depreciation and amortization ("EBITDA") for the first half of 2005 increased by 10.1% to HK$1.74 billion (2004: HK$1.58 billion).

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

WATER DISTRIBUTION

The profit contribution from the Dongguan Water Supply Project remained significant to the Group. The Group's effective interest in this Dongguan Water Supply Project is 84.04%. The planned annual capacity of water supply is 2.423 billion cubic meters.

Mainly as a result of the increase in the water tariffs for Shenzhen and Dongguan since last October and the addition of new customers, the total water sales to these two regions during the six months ended 30 June 2005 has increased by 20.5% and 11.0% in terms of revenue and volume respectively as compared to the same period last year. The total water sales to Hong Kong, Shenzhen and Dongguan amounted to 1.05 billion cubic meters, an increase of 8.6% over the same period last year. The water sales to these three areas during the period under review were 437 million cubic meters (an increase of 5.3%), 316 million cubic meters (an increase of 17.0%) and 299 million cubic meters (an increase of 5.7%) respectively.

The profit contribution to the Group from the water distribution business for the period under review was HK$463,457,000 (2004: HK$310,136,000), excluding the unrealised gain of HK$78,606,000 on interest rate swap agreements not qualified for hedge accounting, 49.4% higher than the same period last year. The EBITDA of the water distribution business during the period amounted to HK$1,429,726,000 (2004: HK$1,305,623,000), 9.5% higher than the same period last year.

ELECTRIC POWER GENERATION

Shaoguan Power Plant D ("Shaoguan PPD")

The Group's effective interest in Shaoguan PPD is 45.9% (a 51% owned subsidiary of the Company holding a 90% interest in the project joint venture company). Shaoguan PPD had 2 power units with a total annual power generating capacity of 2,190 million kwh. The smaller of those power units with an annual power generating capacity of 438 million kwh was closed in March 2005 in accordance with the PRC government policy for the closure of small power units. In addition, the other power units had to undergo a major repair from late May to early August. As a result, the sales of electricity during the first six months of 2005 dropped to 523 million kwh (2004: 840 million kwh). Sales revenue amounted to HK$178,341,000 (2004: HK$277,680,000), a decrease of 35.8%. The loss before tax for the period was HK$29,043,000 (2004: profit before tax of HK$59,961,000). The Group's share of the loss before tax was HK$13,331,000 (2004: profit before tax of HK$27,522,000).

ELECTRIC POWER GENERATION (continued)

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

Yue Jiang Power Plant is a 25% associate held by Shaoguan PPD. Yue Jiang Power Plant has a power unit with an annual power generating capacity of 2,628 million kwh. In the first six months of 2005, the sales of electricity amounted to 760 million kwh (2004: 846 million kwh), a decrease of 10.2%. This was mainly due to a temporarily suspension of the operation of the power plant in February and March for special repair and maintenance work. Sales revenue for the period under review amounted to HK$285,453,000 (2004: HK$307,420,000), a decrease of 7.2%. The Group's share of the loss before tax from this associate was HK$341,000 (2004: profit before tax of HK$8,361,000).

Meixian Power Plant

The Group's effective interest in Meixian Power Plant is 12.25% (a 49% associate of the company, Guangdong Power Investment Limited ("GD Power Investment"), holding a 25% interest in the project joint venture company).

After a new power unit coming into operation last October, the Meixian Power Plant has a total of 3 power units with a total annual power generating capacity of 3,373 million kwh. Sales of electricity by the Meixian Power Plant during the first six months of 2005 amounted to 1,275 million kwh (2004: 956 million kwh), an increase of 33.4%. This is mainly because of the additional generating capacity of the aforesaid new power unit. Sales revenue for the period reached HK$441,233,000 (2004: HK$325,125,000), an increase of 35.7%. However, because of the high coal prices, the profit before tax was only HK$63,669,000 (2004: HK$148,280,000), a decrease of 57.1%. During the period, GD Power Investment received dividend income of HK$16,508,000 (2004: HK$26,562,000) from this investment.

In addition, another new power unit with an annual power generating capacity of 1,182 million kwh has been commissioned. Construction has already been completed. However commercial operation will only be able to commence when all the new approval requirements that have since come into force are also met.

TOLL ROADS AND BRIDGES

"2 Roads and 2 Bridges"

In the first six months of 2005, the profit before tax generated by the Group's two 51% jointly-controlled entities (each a "JCE") which hold interest in the "2 Roads and 2 Bridges" project amounted to HK$79,252,000 (2004: HK$70,515,000). The Humen Bridge recorded growth in traffic flow and performed well during the period while the Guangzhou-Shantou Highway (Huizhou Section) and the Shantou Haiwan Bridge suffered a drop in traffic flow. The increase in profit was also driven in part by the much lower interest expenses after the full repayment of the remaining outstanding bank debt of US$26,900,000.

TOLL ROADS AND BRIDGES (continued)

"2 Roads and 2 Bridges" (continued)

(i) *Humen Bridge*

A JCE of the Group holds a 30% interest in this project. The Humen Bridge recorded a growth of 11% in traffic flow. The average daily traffic for the first six months of 2005 increased to 41,531 vehicle trips (2004: 37,322 vehicle trips). Revenue for the period reached HK$302,028,000 (2004: HK$274,938,000), an increase of 10%. This is mainly because scheduled ferry service has been reduced due to bad weather and thus making it necessary for more vehicles to use the bridge. The profit before tax for the period was HK$166,306,000 (2004: HK$126,932,000), an increase of 31%.

(ii) *Shantou Haiwan Bridge*

The aforesaid JCE holds a 30% interest in this project. The Shantou Haiwan Bridge recorded a 26% decrease in traffic flow. The average daily traffic for the first six months of 2005 was 10,311 vehicle trips (2004: 13,889 vehicle trips). The revenue for the period was HK$58,743,000 (2004: HK$72,814,000), a decrease of 19% as compared to the same period last year. This is mainly because the bridge has not been able to enjoy the benefit of the government subsidized annual pass scheme for local commuters. The profit before tax for the period was HK$41,545,000 (2004: HK$52,124,000), a decrease of 20%.

(iii) *Guangzhou-Shantou Highway (Huizhou Section)*

The aforesaid JCE holds a 51% interest in this project. The Guangzhou-Shantou Highway (Huizhou Section) suffered a 8% drop in traffic flow in the first six months of 2005. The average daily traffic for the period was 18,255 vehicle trips (2004: 19,907 vehicle trips). Revenue for the period was HK$33,543,000 (2004: HK$36,958,000), a decrease of 9%. The drop was mainly due to the opening of the Guangzhou-Huizhou Expressway. The profit before tax for the period was HK$7,315,000 (2004: HK$13,289,000), a decrease of 45%.

(iv) *Qinglian Highway*

As at the balance sheet date, the other JCE of the Group held a 14.18% interest in this project. As reported in the Annual Report of last year, the Group entered into an agreement in January 2005 to dispose of its entire equity interest in Qinglian Highway to an independent third party and a write-back provision of HK$24,800,000 was credited to the Group's result in 2004. The disposal has since been completed.

TOLL ROADS AND BRIDGES (continued)

Yingkeng Highway

The Group's effective interest in this project is 70%. The traffic flow of the Yingkeng Highway for the first six months of 2005 was slightly higher than that for the same period last year. The average daily traffic for the period under review was 4,414 vehicle trips (2004: 4,397 vehicle trips). Revenue for the period was HK$5,427,000 (2004: HK$4,558,000), an increase of 19%. The reason why the revenue increase is higher than the traffic increase is because there are now more heavy vehicles paying a higher tariff that use the road. The profit before tax for the period was HK$1,308,000 (2004: HK$917,000), an increase of 43%. Apart from the traffic and revenue growth, there has also been some savings in maintenance costs during the period.

Panyu Bridge

Following the acquisition by the Group last October, the Panyu Bridge has been a 20% associate of the Group. The traffic flow of the Panyu Bridges during the first six months of 2005 remained stable. The average daily traffic for the period was 62,362 vehicle trips (2004: 61,129 vehicle trips). Revenue for the period was HK$71,560,000 (2004: HK$77,004,000), a decrease of 7%. The decrease was mainly because of the traffic flow there are now more light vehicles paying a lower tariff. The profit before tax for the period was HK$26,700,000 (2004: HK$33,949,000), a decrease of 21%. The profit attributable to the Group for the period amounted to HK$5,340,000.

Two Pak Kong Bridges

The Group's effective interest in this project is 24.5%, which is classified as other investment. The actions taken by the local government have created problems in operating the Two Pak Kong Bridges in Qingyuan as toll bridges and collecting toll revenue from those bridges since 1 October 2004. The local government however intends to buy out the interest of the foreign parties, including the Group, in the project. The local government also offers to compensate the foreign parties for their losses. The parties are accordingly still in the course of seeking to resolve the matter through negotiation.

PROPERTY INVESTMENT

Mainland China

Guangzhou Teemall Plaza

Guangzhou Teemall Plaza, one of the most popular shopping malls in the premier area of Guangzhou, has a total gross floor area and lettable area of approximately 160,000 square metres and 95,746 square metres respectively. The Plaza continued to enjoy high average occupancy rate of approximately 98% during the first half of 2005 (2004: 99%). Revenue of the Plaza during the period reached HK$150,123,000 (2004: HK$144,222,000). The profit before tax for the period increased by HK$4,875,000 to HK$143,056,000 (2004: HK$138,181,000). The ability of the Plaza to attract brand-name tenants such as Swatch, Starbucks and the like is also part of the reason for such increases.

The Group holds an effective equity interest of 69.56% in the Plaza.

PROPERTY INVESTMENT (continued)

Hong Kong

Guangdong Investment Tower

The average occupancy rate at the Guangdong Investment Tower for the first six months of 2005 was 93.2% (2004: 86.7%), 6.5% better than last year. The total rental income for the period was HK$9,417,000 (2004: HK$9,055,000), an increase of 4%.

HOTEL OPERATIONS AND MANAGEMENT

As at 30 June 2005, our hotel management team managed a total of 14 hotels (as at 31 December 2004: 13 hotels), of which 2 were in Hong Kong, 1 in Macau and 11 in Mainland China (located in Shenzhen, Zhuhai, Dongguan, Guangzhou, Qingdao, Jilin, Dalian, Shanghai and Beijing). 4 of the hotels were owned by the Group (2 in Hong Kong, 1 in Shenzhen and 1 in Zhuhai).

Because of the continuous influx of Mainland visitors to Hong Kong following the introduction of the new ‘free travel’ policy, the average occupancy rate and room rate of our hotels increased by 3.3% and 16.0% respectively. The average occupancy rate during the period was 84.9% (2004: 82.2%). The turnover for our hotel business for the period increased by 18.7% to HK$112,980,000 (2004: HK$95,202,000). The profit before tax increased by 46.3% to HK$29,001,000 (2004: HK$19,827,000 (restated)).

To meet the strong demands of a growing number of budget conscious travellers in the PRC, the Group is in the course of setting up a chain of limited service hotels under the “粵海之星商務快捷連鎖酒店” brand name to provide a basic, but quality, bed-and-breakfast type service. The first 4 of such hotels will be in Shenzhen. The number of rooms in each of those four hotels ranges from 80 to 230 and the total capital expenditure required for each of them is in the range of RMB5 –14 million. Their renovations are currently under way.

DEPARTMENT STORES

廣東天河城百貨有限公司 (Guangdong Teemall Department Stores Ltd.) (the “Teemall Department Store”) operates as a large department store with a total business area of approximately 34,509 square metres selling a wide ranges of products. It is ranked, in terms of sales, as one of the major department stores in Guangzhou. During the first six months of 2005, the Teemall Department Store continued to enjoy record high revenue of HK$518,411,000 (2004: HK$444,040,000), an increase of 16.8%. The increase in revenue arose from the addition of about 3,967 square metres gross store area and the launching of the new sport outlet and trendy fashion corner. Besides, the holding of different trade fairs and festival shows throughout the period and the regular change in the products mix also helped to increase the customer traffic and turnover. The profit before tax for the period was HK$36,396,000 (2004: HK$31,857,000), an increase of 14.3%.

廣東吉之島天貿百貨有限公司 (Guangdong Jusco Teem Stores Co., Ltd.) (“Jusco Teem”), an associate of the Group, is jointly managed by 廣東天貿(集團)股份有限公司 (Guang Dong Teem (Holdings) Ltd.), the Group’s 69.56%-owned subsidiary, and JUSCO Japan. It has achieved a satisfactory growth in business since its establishment in 1996.

The Group holds a respective effective equity interest of 81.13% and 24.35% in the Teemall Department Store and Jusco Teem.

Business Review, Discussion and Analysis, and Prospects

LIQUIDITY, GEARING AND FINANCIAL RESOURCES

As at 30 June 2005, the cash and bank balances of the Group increased by HK$263 million to HK$1,931 million (31 December 2004: HK$1,668 million), of which 34% in Hong Kong dollars, 58% in Renminbi and 8% in US dollars.

As at 30 June 2005, the level of the Group's financial borrowing decreased by HK$384 million. The decrease was mainly due to the repayment of interest-bearing debts.

As at 30 June 2005, the Group had financial borrowings amounting to HK$16,371 million (31 December 2004: HK$16,755 million (restated)), including non-interest-bearing borrowing of HK$2,127.6 million. Of the Group's total financial borrowings, HK$118 million was repayable within one year while the remaining balance of HK$3,521 million and HK$12,732 million are repayable within two to five years and beyond five years from the balance sheet date, respectively.

Save for the bank debts incurred in our water distribution business, the Group maintained nil credit facilities as at 30 June 2005 (31 December 2004: nil).

The gearing for the Group as at 30 June 2005 was 1.43 times (31 December 2004: 1.54 times (restated)). The improvement mostly reflected the reduction in the level of the Group's financial borrowings, together with an increase in net asset value of the Group. The Group is in a healthy debt servicing position as the EBITDA/ finance cost is 4.73 times (30 June 2004: 3.91 times).

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

PLEDGE OF ASSETS

As at 30 June 2005, none of the Group's fixed assets, investment properties and bank deposits were pledged to secure general banking facilities granted to the Group (31 December 2004: nil).

CAPITAL EXPENDITURE

The Group's capital expenditure in the first half of 2005 amounted to HK$60 million principally related to the construction in progress of the East Tower at Guangzhou Teemall Plaza, the additions of plant and machinery for the power plant and renovation works for our hotels.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE AND INTEREST RATES AND RELATED HEDGES

As at 30 June 2005, the Group had total Renminbi borrowings amounted to HK$1,423 million (31 December 2004: HK$1,422 million).

As at 30 June 2005, the Group's total floating rate borrowings amounted to HK$12,563 million (31 December 2004: HK$12,954 million). For the purpose of interest rate risk management, the group entered certain fixed or re-indexing interest rate swap agreements, contract amounted to HK$10,700 million (31 December 2004: HK$11,700 million), with an average remaining life ranging from $2\frac{1}{2}$ – $7\frac{1}{2}$ years.

Business Review, Discussion and Analysis, and Prospects

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2005, the Group had a total of 3,566 employees. Among the employees, 3,341 were employed by subsidiaries in Mainland China and 225 were employed by the head office and subsidiaries in Hong Kong. Out of the total number, 485 were managerial employees of the head office and its subsidiaries. Total remuneration paid for the period under review was approximately HK$103,867,000.

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

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

PROSPECTS

Looking ahead, the overall performance of the Group's businesses as a whole is expected to continue a healthy growth. As a result of the unusually heavy rainfall this year, the growth rate for our water distribution business in Shenzhen and Dongguan is likely to become more gradual. However, given the addition of new customers, management remains cautiously optimistic regarding the revenue growth of our water distribution business for the year. For our electric power generation business, management will endeavor to further strengthen cost control and improve facility maintenance arrangements so as to reduce production down time and to enhance overall operating efficiency. The upward momentum we have seen in the businesses of our toll roads and bridges, hotel operations and management and retail and shopping mall operations during the first half of the year are likely to continue into the second half of 2005.

In addition, with the debt level of the Group gradually coming down and the credit standing of the Group continuing to improve, the Group is in the course of finalizing an agreement with the Industrial and Commercial Bank of China (Asia) Limited and the Industrial and Commercial Bank of China, Shenzhen Branch for reducing the interest margin of the aggregate outstanding loans, as at the date of our report, of HK$10.9 billion and thereby achieving substantial interest savings.

For the future growth of the Group, management is further actively following up on new investment opportunities in the Group's core businesses.