



Guangdong Investment Limited

粵海投資有限公司



2006

Interim Report  
中期報告

Stock Code 股份代號: 270

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# Corporate Information

(as at 13 September 2006)

## Board of Directors

LI Wenyue (*Chairman*)

ZHANG Hui (*Managing Director*)

LI Wai Keung (*Chief Financial Officer*)

\* CHAN Cho Chak, John, *GBS, JP*

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

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

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

# ZHAI Zhiming

# WANG Xiaofeng

# XU Wenfang

\* *Independent non-executive director*

# *Non-executive director*

## Company Secretary

HO LAM Lai Ping, Theresa

## Auditors

Ernst & Young

## Principal Bankers

Bank of China (Hong Kong) Limited

Bank of China, Shenzhen Branch

China Merchants Bank

CITIC Bank, Guangzhou Branch

Goldman Sachs Capital Markets, L.P.

The Hongkong and Shanghai Banking Corporation Limited

Industrial and Commercial Bank of China (Asia) Limited

Industrial and Commercial Bank of China, Shenzhen Branch

Standard Chartered Bank

## Registered Office

28/F. and 29/F.

Guangdong Investment Tower

148 Connaught Road Central

Hong Kong

Telephone : (852) 2860 4368

Facsimile : (852) 2528 4386

## Registrar and Share Transfer Office

Tengis Limited

26/F., Tesbury Centre

28 Queen's Road East

Hong Kong

## Share Information

### Place of Listing

Main Board of The  
Stock Exchange of  
Hong Kong Limited

### Stock Code

270

### Board lot

2,000 shares

### Financial year end

31 December

## Website Address

<http://www.gdi.com.hk>

## Shareholders' Calendar

### Closure of Register of Members

5 October 2006 and  
6 October 2006

### Interim Dividend

5.0 HK cents per ordinary  
share

### Payable

20 October 2006

## Financial Highlights

Unaudited financial highlights	For the six months ended 30 June		
	2006 HK\$'000	2005 HK\$'000	Changes %
Revenue	3,082,169	2,659,648	15.9
Profit for the period attributable to equity holders of the parent	830,412	681,514	21.8
Earnings per share — Basic	13.80 HK cents	12.07 HK cents	14.3
Interim dividends per share	5.0 HK cents	4.0 HK cents	25.0
EBITDA	1,930,052	1,735,564	11.2
	30 June 2006 HK\$'000	31 December 2005 HK\$'000	Changes %
Shareholders' equity	12,337,236	11,478,289	7.5
Total assets	30,616,804	30,549,119	0.2
Net financial borrowings <sup>5</sup>	12,484,328	13,051,824	(4.3)
Key ratios			
	For the six months ended 30 June		
	2006	2005	
Interest cover <sup>1</sup>	6.11x	4.73x	
Dividend payout ratio <sup>2</sup>	36%	33%	
	30 June 2006	31 December 2005	
Gearing <sup>3</sup>	1.05x	1.17x	
Liquidity <sup>4</sup>	1.68x	1.45x	

Notes:

- $$\frac{\text{EBITDA}}{\text{Finance costs}}$$
- $$\frac{\text{Dividends per share}}{\text{Basic earnings per share}}$$
- $$\frac{\text{Financial indebtedness}}{\text{Net asset value (excluded minority interests)}}$$
- $$\frac{\text{Current assets}}{\text{Current liabilities}}$$
- Financial borrowings – cash and cash equivalents

# Independent Review Report



## To the Board of Directors

### Guangdong Investment Limited

*(Incorporated in Hong Kong with limited liability)*

## Introduction

We have been instructed by the Company to review the interim financial report set out on pages 5 to 42.

## Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors. It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

## Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

## Ernst & Young

*Certified Public Accountants*

Hong Kong

13 September 2006

# Unaudited Interim Financial Statements

## Condensed Consolidated Income Statement

For the six months ended 30 June 2006

	Notes	For the six months ended 30 June	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
REVENUE	3	<b>3,082,169</b>	2,659,648
Cost of sales		<b>(1,579,945)</b>	(1,350,786)
Gross profit		<b>1,502,224</b>	1,308,862
Other income and gains		<b>83,882</b>	107,566
Selling and distribution costs		<b>(38,471)</b>	(31,601)
Administrative expenses		<b>(189,419)</b>	(170,234)
Other operating income/(expenses), net		<b>33,380</b>	(1,359)
Finance costs	4	<b>(315,934)</b>	(367,069)
Share of profits of jointly-controlled entities		<b>40,902</b>	38,001
Share of profits less losses of associates		<b>12,200</b>	11,855
PROFIT BEFORE TAX	5	<b>1,128,764</b>	896,021
Tax	6	<b>(145,278)</b>	(86,920)
PROFIT FOR THE PERIOD		<b>983,486</b>	809,101
ATTRIBUTABLE TO:			
Equity holders of the parent		<b>830,412</b>	681,514
Minority interests		<b>153,074</b>	127,587
		<b>983,486</b>	809,101
DIVIDENDS — interim	7	<b>301,262</b>	225,160
EARNINGS PER SHARE	8		
Basic		<b>13.80 HK cents</b>	12.07 HK cents
Diluted		<b>13.41 HK cents</b>	11.32 HK cents

# Unaudited Interim Financial Statements

## Condensed Consolidated Balance Sheet

30 June 2006

	Notes	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		7,823,310	7,722,849
Properties under development		35,057	15,342
Investment properties		2,320,215	2,302,685
Prepaid land lease payments		3,997,633	4,058,923
Goodwill		206,705	139,346
Interests in jointly-controlled entities		957,173	917,756
Interests in associates		463,746	483,415
Contractual joint venture		—	46,569
Available-for-sale investments		—	18,646
Operating right		11,903,759	12,148,375
Deferred tax assets		8,854	9,563
Other long term assets		2,458	4,167
<b>Total non-current assets</b>		<b>27,718,910</b>	<b>27,867,636</b>
<b>CURRENT ASSETS</b>			
Available-for-sale investments		19	28,075
Tax recoverable		5,463	5,408
Inventories		49,336	49,143
Receivables, prepayments and deposits	9	729,780	459,035
Derivative financial instruments	12	197,667	—
Restricted cash and bank balances	10	2,718	25,778
Cash and cash equivalents	10	1,912,911	2,114,044
<b>Total current assets</b>		<b>2,897,894</b>	<b>2,681,483</b>
<b>CURRENT LIABILITIES</b>			
Payables, accruals and other liabilities	11	(1,028,490)	(1,143,128)
Tax payable		(97,768)	(41,471)
Derivative financial instruments	12	(62,699)	(171,832)
Due to minority shareholders of subsidiaries		(351,777)	(324,498)
Interest-bearing bank and other borrowings	13	(63,256)	(45,660)
Non-interest-bearing receipt in advance	14	(118,200)	(118,200)
<b>Total current liabilities</b>		<b>(1,722,190)</b>	<b>(1,844,789)</b>

# Unaudited Interim Financial Statements

## Condensed Consolidated Balance Sheet (continued)

30 June 2006

	Notes	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
NET CURRENT ASSETS		1,175,704	836,694
TOTAL ASSETS LESS CURRENT LIABILITIES		28,894,614	28,704,330
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	13	(12,324,583)	(13,110,808)
Non-interest-bearing receipt in advance	14	(1,891,200)	(1,891,200)
Due to minority shareholders of subsidiaries		(33,793)	(29,115)
Deferred tax liabilities		(600,325)	(592,217)
Total non-current liabilities		(14,849,901)	(15,623,340)
Net assets		14,044,713	13,080,990
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	15	3,011,124	3,008,759
Reserves	17	9,024,850	8,168,529
Proposed dividend		301,262	301,001
		12,337,236	11,478,289
Minority interests		1,707,477	1,602,701
Total equity		14,044,713	13,080,990

# Unaudited Interim Financial Statements

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2006

	Attributable to equity holders of the parent														
	Issued share capital (Unaudited) HK\$'000	Ordinary share premium account (Unaudited) HK\$'000	Ordinary Shares (Unaudited) HK\$'000	Ordinary component of convertible bonds (Unaudited) HK\$'000	Share option reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Hedging reserve (Unaudited) HK\$'000	Expansion fund reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Special reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Proposed dividends (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1 January 2005	2,780,806	1,857,716	60,720	67,291	—	1,430,009	(500,727)	199,892	(55,111)	272,945	3,287,120	194,990	9,595,651	1,745,183	11,340,834
Net gains on cash flow hedges	—	—	—	—	—	—	193,160	—	—	—	—	—	193,160	36,683	229,843
Exchange realignment	—	—	—	—	—	—	—	—	270	—	—	—	270	153	423
Total income and expense recognised directly in equity	—	—	—	—	—	—	193,160	—	270	—	—	—	193,430	36,836	230,266
Profit for the period	—	—	—	—	—	—	—	—	—	—	681,514	—	681,514	127,587	809,101
Total income and expense for the period	—	—	—	—	—	—	193,160	—	270	—	681,514	—	874,944	164,423	1,039,367
Share options exercised, net of share issue expenses	26,440	27,157	—	—	—	—	—	—	—	—	—	—	53,597	—	53,597
Acquisition of minority interests	—	—	—	—	—	—	—	—	—	—	—	—	—	(81,660)	(81,660)
Equity-settled share option arrangements	—	—	—	—	1,260	—	—	—	—	—	—	—	1,260	—	1,260
Dividends paid to minority interests	—	—	—	—	—	—	—	—	—	—	—	—	—	(47,211)	(47,211)
Final 2004 dividend paid	—	—	—	—	—	—	—	—	—	—	(1,303)	(194,990)	(196,293)	—	(196,293)
Interim 2005 dividend declared	—	—	—	—	—	—	—	—	—	—	(225,160)	225,160	—	—	—
Transfer from retained profits during the period in accordance with the Undertaking (see note 17)	—	—	—	—	—	—	—	—	—	16,760	(16,760)	—	—	—	—
Transfer to retained profits upon issue of new Ordinary Shares during the period (see note 17)	—	—	—	—	—	—	—	—	—	(53,623)	53,623	—	—	—	—
At 30 June 2005	2,807,246	1,884,873	60,720	67,291	1,260	1,430,009	(307,567)	199,892	(54,841)	236,082	3,779,034	225,160	10,329,159	1,760,735	12,098,894

# Unaudited Interim Financial Statements

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

For the six months ended 30 June 2006

	Attributable to equity holders of the parent											Total equity (Unaudited) HK\$'000			
	Issued share capital (Unaudited) HK\$'000	Ordinary Share premium account (Unaudited) HK\$'000	Ordinary Shares to be issued (Unaudited) HK\$'000	Equity component of convertible bonds (Unaudited) HK\$'000	Share option reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Hedging reserve (Unaudited) HK\$'000	Expansion fund reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Special reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000		Proposed dividends (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000
At 1 January 2006	3,008,759	2,288,205	—	—	1,260	1,430,009	(97,842)	279,726	(9,307)	—	4,266,478	301,001	11,478,289	1,602,701	13,080,990
Net gains on cash flow hedges	—	—	—	—	—	—	263,635	—	—	—	—	—	263,635	38,145	301,780
Exchange realignment	—	—	—	—	—	—	—	56,977	—	—	—	—	56,977	6,726	63,703
Total income and expenses recognised directly in equity	—	—	—	—	—	—	263,635	—	56,977	—	—	—	320,612	44,871	365,483
Profit for the period	—	—	—	—	—	—	—	—	—	—	830,412	—	830,412	153,074	983,486
Total income and expense for the period	—	—	—	—	—	—	263,635	—	56,977	—	830,412	—	1,151,024	197,945	1,348,969
Share options exercised, net of share issue expenses	2,365	3,304	—	—	—	—	—	—	—	—	—	—	5,669	—	5,669
Capital reduction of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	(47,953)	(47,953)	(47,953)
Acquisition of minority interests	—	—	—	—	—	—	—	—	—	—	—	—	(34,078)	(34,078)	(34,078)
Equity-settled share option arrangements	—	—	—	—	3,366	—	—	—	—	—	—	—	3,366	—	3,366
Dividends paid to minority interests	—	—	—	—	—	—	—	—	—	—	—	—	—	(11,138)	(11,138)
Final 2005 dividend paid	—	—	—	—	—	—	—	—	—	—	—	—	(301,112)	—	(301,112)
Interim 2006 dividend declared	—	—	—	—	—	—	—	—	—	—	(111)	(301,001)	(301,112)	—	(301,112)
Transfer from retained profits during the period in accordance with the Undertaking (see note 17)	—	—	—	—	—	—	—	—	—	92,305	(92,305)	—	—	—	—
Transfer to retained profits upon issue of new Ordinary Shares during the period (see note 17)	—	—	—	—	—	—	—	—	—	(92,305)	92,305	—	—	—	—
At 30 June 2006	3,011,124	2,301,509	—	—	4,626	1,430,009	165,793	279,726	47,670	—	4,795,517	301,262	12,337,236	1,707,477	14,044,713

# Unaudited Interim Financial Statements

## Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2006

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	1,457,925	1,403,448
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(52,484)	(246,830)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(1,496,527)	(944,457)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(91,086)	212,161
Cash and cash equivalents at beginning of period	1,623,601	1,567,557
Effect of foreign exchange rate changes, net	13,227	1,093
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,545,742	1,780,811
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	678,671	670,938
Non-pledged bank deposits with original maturity of less than three months when acquired	867,071	1,109,873
	1,545,742	1,780,811

# Unaudited Interim Financial Statements

## Notes to Condensed Consolidated Interim Financial Statements

30 June 2006

### 1. ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of Guangdong Investment Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2006 have been 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 2005, except for the adoption of the amendments to Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) as disclosed in note 2 and the revenue recognition accounting policy adopted in relation to the supply of water to Hong Kong as set out below:

#### Revenue recognition on the supply of water to Hong Kong

In April 2006, the Government of Hong Kong Special Administrative Region (the "HKSAR") entered into a new agreement with the Guangdong Provincial Government (the "GPG") for the supply of water to Hong Kong for the three years from 2006 to 2008. Pursuant to the new agreement, for the three years from 2006 to 2008, the revenue from the supply of water to Hong Kong is agreed at a fixed amount for each year and, as in the past, the supply of water to Hong Kong will be suspended every December for regular maintenance of the Dongshen Water Supply Project to be carried out. Accordingly, the revenue from the supply of water to Hong Kong being received by the Group pursuant to its concession agreement with the GPG will now be recognised by apportioning the revenue for each of the three years from 2006 to 2008 over the remaining 11 months in that year during which water is supplied. The new water supply arrangement came into effect from 1 January 2006 and the Group has accounted for its revenue from the supply of water to Hong Kong for the six months ended 30 June 2006 on the basis as set out above.

### 2. CHANGES IN ACCOUNTING POLICIES

#### 2.1 Impact of revised HKFRSs

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2006. The Group has adopted the following revised HKFRSs which are pertinent to its operations and relevant to these unaudited condensed consolidated interim financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts

The adoption of these amendments has had no material impact on the accounting policies of the Group and the methods of computation in the Group's unaudited condensed consolidated interim financial statements.

# Unaudited Interim Financial Statements

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

30 June 2006

### 2. CHANGES IN ACCOUNTING POLICIES (continued)

#### 2.2 Impact of issued but not yet effective HKFRSs

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

HKAS 1 Amendment	Presentation of Financial Statements: Capital Disclosure
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) — Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) — Int 8	Scope of HKFRS 2
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Group regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 incorporates the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

The HK(IFRIC) — Int 7, 8 and 9 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006 and 1 June 2006, respectively.

The Group has not early adopted these new HKFRSs in the financial statements for the period ended 30 June 2006. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

# Unaudited Interim Financial Statements

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

30 June 2006

### 3. SEGMENT INFORMATION

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

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

- (i) The property investment segment mainly invests in various properties in Hong Kong and Mainland China that are held for rental income purposes. This segment also provides property management services for certain residential and commercial properties;
- (ii) The property development segment engages in the development of residential properties in Mainland China;
- (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, 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 2006

### 3. SEGMENT INFORMATION (continued)

The following tables present revenue and profit/(loss) for the Group's business segments for the six months ended 30 June 2006 and 2005.

	Property Investment For the six months ended 30 June		Property Development For the six months ended 30 June		Toll Roads and Bridges For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	176,111	165,196	—	—	7,137	5,427
Intersegment sales	40,755	38,817	—	—	—	—
Other revenue from external sources	5,304	3,027	—	—	2,924	2,377
Other revenue from intersegment	—	—	—	—	—	—
Foreign exchange differences, net	(360)	(1)	—	—	7	—
Total	221,810	207,039	—	—	10,068	7,804
Segment results	163,142	153,810	(95)	(64)	4,759	3,626
Interest income						
Unallocated other operating income, net						
Finance costs						
Share of profits less losses of:						
Jointly-controlled entities	—	—	—	—	40,902	38,001
Associates	—	—	—	—	5,417	5,340
Profit before tax						
Tax						
Profit for the period						

# Unaudited Interim Financial Statements

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

30 June 2006

### 3. SEGMENT INFORMATION (continued)

	Water Distribution For the six months ended 30 June		Electric Power Generation For the six months ended 30 June		Hotel Operations and Management For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	1,694,055	1,679,279	437,266	178,341	137,401	112,980
Intersegment sales	—	—	—	—	—	—
Other revenue from external sources	—	2,000	4,009	2,733	(56)	1,208
Other revenue from intersegment	—	—	—	—	—	—
Foreign exchange differences, net	(17,014)	419	1,596	48	288	255
<b>Total</b>	<b>1,677,041</b>	<b>1,681,698</b>	<b>442,871</b>	<b>181,122</b>	<b>137,633</b>	<b>114,443</b>
Segment results	967,472	968,105	93,398	(29,244)	37,481	28,473
Interest income						
Unallocated other operating income, net						
Finance costs						
Share of profits less losses of:						
Jointly-controlled entities	—	—	—	—	—	—
Associates	—	—	6,783	6,515	—	—
Profit before tax						
Tax						
Profit for the period						

# Unaudited Interim Financial Statements

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

30 June 2006

### 3. SEGMENT INFORMATION (continued)

	Department Stores For the six months ended 30 June		Others For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Segment revenue:				
Sales to external customers	630,190	518,411	9	14
Intersegment sales	—	—	—	—
Other revenue from external sources	5,535	3,978	24,070	4,230
Other revenue from intersegment	—	—	—	—
Foreign exchange differences, net	17	—	3,018	52
<b>Total</b>	<b>635,742</b>	<b>522,389</b>	<b>27,097</b>	<b>4,296</b>
<b>Segment results</b>	<b>43,804</b>	<b>34,843</b>	<b>6,635</b>	<b>(34,328)</b>
Interest income				
Unallocated other operating income, net				
Finance costs				
Share of profits less losses of:				
Jointly-controlled entities	—	—	—	—
Associates	—	—	—	—
Profit before tax				
Tax				
<b>Profit for the period</b>				

# Unaudited Interim Financial Statements

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

30 June 2006

### 3. SEGMENT INFORMATION (continued)

	Eliminations		Total	
	For the six months ended 30 June		For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Segment revenue:				
Sales to external customers	—	—	3,082,169	2,659,648
Intersegment sales	(40,755)	(38,817)	—	—
Other revenue from external sources	—	—	41,786	19,553
Other revenue from intersegment	—	—	—	—
Foreign exchange differences, net	—	—	(12,448)	773
<b>Total</b>	<b>(40,755)</b>	<b>(38,817)</b>	<b>3,111,507</b>	<b>2,679,974</b>
Segment results	—	—	1,316,596	1,125,221
Interest income			42,096	14,427
Unallocated other operating income, net			32,904	73,586
Finance costs			(315,934)	(367,069)
Share of profits less losses of:				
Jointly-controlled entities			40,902	38,001
Associates			12,200	11,855
Profit before tax			1,128,764	896,021
Tax			(145,278)	(86,920)
<b>Profit for the period</b>			<b>983,486</b>	<b>809,101</b>

# Unaudited Interim Financial Statements

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

30 June 2006

### 4. FINANCE COSTS

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest on bank loans and other borrowings wholly repayable:		
Within five years*	51,115	11,366
Over five years**	255,741	224,366
	306,856	235,732
Finance charges on cash flow hedges, net (note 12)	9,078	131,337
<b>Total finance costs for the period</b>	<b>315,934</b>	<b>367,069</b>

\* For the period ended 30 June 2005, balance included interest on convertible bonds of HK\$4,933,000 and amortisation on convertible bonds of HK\$6,302,000. The convertible bonds has been converted in full in September 2005.

\*\* Net of government grants of HK\$29,523,000 (six months ended 30 June 2005: HK\$29,453,000) in respect of subsidies for interest expense arising from bank loans borrowed by the Group for the purpose of Phase IV Renovation Project. There are no unfulfilled conditions or contingencies relating to these grants.

# Unaudited Interim Financial Statements

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

30 June 2006

### 5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest income**	(42,096)	(14,427)
Excess over the cost of business combinations (note 18(i))**	(1,858)	(9,844)
Changes in fair values of derivative financial instruments not qualified for hedges, net (note 12)	6,715	(63,470)
Gain on disposal of an available-for-sale investment	(39,619)	—
Cost of inventories sold*	678,085	545,185
Depreciation	220,173	206,459
Recognition of prepaid land lease payments	71,928	71,235
Amortisation of deferred expenses	1,739	20
Amortisation of the operating right*	244,616	244,616
(Gain)/loss on disposal of items of property, plant and equipment, net	156	(2,799)
Write-back of provision for an amount due from a fellow subsidiary	—	(1,910)
Equity-settled share option expense	3,366	1,260
Derecognition of other payable**	(23,154)	—

\* Included in "Cost of sales" on the face of the condensed consolidated income statement.

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

# Unaudited Interim Financial Statements

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

30 June 2006

### 6. TAX

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Current — Hong Kong	2,407	506
Current — Mainland China	144,708	82,432
Deferred	(1,837)	3,982
<b>Total tax charge for the period</b>	<b>145,278</b>	<b>86,920</b>

Hong Kong profits tax has been provided at the rate of 17.5% (six months ended 30 June 2005: 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.

Under the income tax law in Mainland China, enterprises are subject to corporate income tax ("CIT") at a rate of 33%. However, pursuant to the income tax laws in Mainland China, certain of the Group's subsidiaries located in Mainland China are entitled to a preferential tax treatment with full tax exemption from CIT for the two years starting from the first profitable year of operation, followed by a 50% reduction in CIT rate for the next three years.

The share of taxes attributable to jointly-controlled entities and associates amounting to HK\$6,862,000 (six months ended 30 June 2005: HK\$2,416,000) and HK\$4,160,000 (six months ended 30 June 2005: HK\$1,002,000), respectively, are included in "Share of profits of jointly-controlled entities" and "Share of profits less losses of associates" on the face of the condensed consolidated income statement.

# Unaudited Interim Financial Statements

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

30 June 2006

### 7. DIVIDENDS

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interim — 5.0 HK cents (2005: 4.0 HK cents) per ordinary share	<b>301,262</b>	225,160

At a meeting of the board of directors held on 13 September 2006, the directors resolved to pay an interim dividend to shareholders of 5.0 HK cents (2005: 4.0 HK cents).

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

The calculations of the basic and diluted earnings per share for the six months ended 30 June 2006 and 2005 are based on:

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Earnings:		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<b>830,412</b>	681,514
Interest on convertible bonds	—	11,235
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds for the purpose of diluted earnings per share	<b>830,412</b>	692,749

# Unaudited Interim Financial Statements

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

30 June 2006

### 8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

	For the six months ended 30 June	
	2006 (Unaudited)	2005 (Unaudited)
Number of shares:		
Weighted average number of Ordinary Shares in issue	<b>6,019,475,364</b>	5,581,787,147
Effect of Additional Shares (as defined below) to be issued arising from the Acquisition (as defined below) from the date after all necessary conditions have been satisfied	—	66,000,000
<b>For the purpose of basic earnings per share</b>	<b>6,019,475,364</b>	<b>5,647,787,147</b>
Weighted average number of Ordinary Shares in issue	<b>6,019,475,364</b>	5,581,787,147
Effect of dilution — weighted average number of Ordinary Shares that would have been issued:		
On deemed exercise of all share options with dilutive effects at no consideration	<b>171,309,709</b>	202,653,238
On deemed conversion of convertible bonds	—	268,801,460
For Additional Shares arising from the Acquisition deemed to be issued from the beginning of period	—	66,000,000
<b>For the purpose of diluted earnings per share</b>	<b>6,190,785,073</b>	<b>6,119,241,845</b>

The effect of the 66,000,000 Ordinary Shares (as defined in note 15) to be issued (the “Additional Shares”) had been incorporated in the computation of the basic and diluted earnings per share for the period ended 30 June 2005. These Additional Shares to be issued were part of the consideration for the acquisition of an 81% interest in GH Water Supply (Holdings) Limited (“GH Holdings”) in 2000 (the “Acquisition”) and were 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 set out in an earnout agreement entered into in connection with the Acquisition. Further details of this obligation are set out in the shareholders’ circular of the Company in respect of the Acquisition dated 15 September 2000.

# Unaudited Interim Financial Statements

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

30 June 2006

### 8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

The Additional Shares were fully issued during the year ended 31 December 2005 and, therefore, have had no impact on the computation of the basic and diluted earnings per share for the current period.

The share options expiring on 10 June 2011 (six months ended 30 June 2005: share options expiring on 19 April 2010) 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.

### 9. RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Notes	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Trade receivables, net		494,006	288,303
Other receivables, prepayments and deposits		232,819	167,383
Due from the ultimate holding company	22(b)	179	77
Due from the immediate holding company	22(b)	429	114
Due from fellow subsidiaries	22(b)	2,347	3,158
		<b>729,780</b>	459,035

The Group's trade receivables, net of provisions, are due 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 within 30 days to 180 days of issue. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management. The Group's trade receivables relate principally to water distribution and electric power generation businesses and the Group has a certain concentration of credit risk as 46% (31 December 2005: 53%) of the total trade receivables were due from the Group's largest customer.

## Unaudited Interim Financial Statements

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

30 June 2006

#### 9. RECEIVABLES, PREPAYMENTS AND DEPOSITS (continued)

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

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
Within 3 months	<b>492,455</b>	287,148
3 months to 6 months	<b>849</b>	336
6 months to 1 year	<b>349</b>	178
More than 1 year	<b>11,085</b>	11,126
	<b>504,738</b>	298,788
Less: Allowance for doubtful debts	<b>(10,732)</b>	(10,485)
	<b>494,006</b>	288,303

# Unaudited Interim Financial Statements

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

30 June 2006

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

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
Cash and bank balances (note (a))	<b>678,671</b>	782,169
Time deposits	<b>1,234,240</b>	1,331,875
Trust account (note (b))	<b>2,718</b>	25,778
	<b>1,915,629</b>	2,139,822
Less: Restricted cash and bank balances (note (b))	<b>(2,718)</b>	(25,778)
Cash and cash equivalents	<b>1,912,911</b>	2,114,044

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 2006, cash and bank balances retained for such purpose amounted to HK\$1,698,000 (31 December 2005: HK\$74,123,000).
- (b) Pursuant to the Undertaking as defined in note 17 to the financial statements, in 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 2006, the amount standing to the credit of the Trust Account was HK\$2,718,000 (31 December 2005: HK\$25,778,000). The Trust Account shall be maintained for a period of six years from the Effective Date or such shorter period as provided under the Trust Deed. The Trust Account balance was classified as restricted cash and bank balances.

# Unaudited Interim Financial Statements

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

30 June 2006

### 11. PAYABLES, ACCRUALS AND OTHER LIABILITIES

	Notes	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Trade payables		138,727	132,137
Accruals and other liabilities		826,617	1,002,165
Due to the ultimate holding company	22(b)	16,062	1,778
Due to the immediate holding company	22(b)	20,707	938
Due to fellow subsidiaries	22(b)	26,377	6,110
		<b>1,028,490</b>	<b>1,143,128</b>

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 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Within 3 months	124,556	124,405
3 months to 6 months	7,072	1,924
6 months to 1 year	4,953	506
More than 1 year	2,146	5,302
	<b>138,727</b>	<b>132,137</b>

# Unaudited Interim Financial Statements

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

30 June 2006

### 12. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2006	
	Assets (Unaudited) HK\$'000	Liabilities (Unaudited) HK\$'000
Interest rate swap agreements	197,667	(62,699)

  

	31 December 2005	
	Assets (Audited) HK\$'000	Liabilities (Audited) HK\$'000
Interest rate swap agreements	—	(171,832)

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

The carrying amounts of interest rate swap agreements are the same as their fair value. The fair value of interest rate swap agreements is the estimated amount that the Group would receive or pay to terminate the swap agreements at the balance sheet date, taking into account current market conditions and the current creditworthiness of the swap counterparties.

#### Cash flow hedges

At 30 June 2006, the Group had interest rate swap agreements with a total notional amount of HK\$5,200 million (31 December 2005: HK\$7,700 million), designated and qualified as hedges in respect of the Group's Refinancing Facilities, whereby the Group receives interest at a variable rate of the Hong Kong Inter Bank Offered Rates (the "HIBOR") per annum and pays interest at a range of fixed rates per annum on the notional amounts. The swap agreements converted the interest obligation arising from the Refinancing Facilities from floating rate of the HIBOR to a range of fixed interest rates per annum for the period from the effective dates of respective contracts to various maturity dates from 2008 to 2012.

# Unaudited Interim Financial Statements

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

30 June 2006

### 12. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

#### Cash flow hedges (continued)

The terms of these swap agreements have been negotiated to match the terms of the Refinancing Facilities. The cash flow hedges of the Refinancing Facilities were assessed to be highly effective and the net fair value gain on cash flow hedge of HK\$263,635,000 (30 June 2005: HK\$193,160,000) included in the hedging reserve was as follows:

	<b>30 June 2006 (Unaudited) HK\$'000</b>	30 June 2005 (Unaudited) HK\$'000
Total fair value gains included in the hedging reserve	<b>292,702</b>	98,506
Fair value losses transferred from the hedging reserve and recognised in the income statement (note 4)	<b>9,078</b>	131,337
Net gains on cash flow hedges	<b>301,780</b>	229,843
Portion shared by minority interests	<b>(38,145)</b>	(36,683)
Net gains attributable to the equity holders of the parent for the six months ended 30 June	<b>263,635</b>	193,160

#### Derivatives not qualified for hedge accounting

At 30 June 2006, the Group had various interest rate swap agreements which did not meet the criteria for hedge accounting. The net loss in the fair value of these derivatives not qualified for hedge accounting amounting to HK\$6,715,000 (30 June 2005: net gain of HK\$63,470,000) (note 5) were charged to the income statement during the period.

Amounts payable under the swap guarantee in respect of the interest rate swap agreements are senior in right of payment to the Refinancing Facilities and the Tranche B Credit (note 13).

# Unaudited Interim Financial Statements

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

30 June 2006

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

	Effective interest rates	Final Maturity Date	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
<b>Current</b>				
Bank loan — secured	5.9%–6.59%	2007	31,200	45,660
Bank loans — unsecured	5.86%	2006	32,056	—
			<b>63,256</b>	45,660
<b>Non-current</b>				
Bank loans — secured	4.79%–5.54%*	2008–2017	11,093,299	11,879,524
The Tranche B Credit	8.0%	2010	1,231,284	1,231,284
			<b>12,324,583</b>	13,110,808
			<b>12,387,839</b>	13,156,468

\* Includes the effects of cash flow hedges of the related interest rate swap agreements in note 12 to the financial statements.

At 30 June 2006, certain of the Group's prepaid land lease payments, buildings, plant and machinery with net book values of approximately HK\$9,786,000 (2005: Nil), HK\$51,597,000 (2005: Nil) and HK\$92,151,000 (2005: Nil), respectively, were pledged to secure general banking facilities granted to the Group.

### 14. NON-INTEREST-BEARING RECEIPT IN ADVANCE

In a prior year, the Government of the HKSAR granted a loan facility with a principal amount of HK\$2,364 million (the "Loan Facility") to the GPG for the purpose of the Phase IV Renovation Project. Pursuant to the concession agreement, the Loan Facility was utilised for the construction of the Phase IV Renovation Project. Upon the completion of the Phase IV Renovation Project during the year ended 31 December 2003, the Group acquired and recorded the assets of the Phase IV Renovation Project and assumed the repayment obligations of the Loan Facility from the GPG as a non-interest-bearing receipt in advance, through the deduction of future water revenue to be received by the Group from the Government of the HKSAR, by an annual amount of HK\$118,200,000 for 20 years commencing from December 2003.

# Unaudited Interim Financial Statements

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

30 June 2006

### 15. SHARE CAPITAL

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
Authorised: 8,000,000,000 (31 December 2005: 8,000,000,000) ordinary shares of HK\$0.50 each ("Ordinary Shares")	<b>4,000,000</b>	4,000,000
Issued and fully paid: 6,022,248,071 (31 December 2005: 6,017,518,071) Ordinary Shares	<b>3,011,124</b>	3,008,759

During the six months ended 30 June 2006, the subscription rights attaching to 4,730,000 share options were exercised at subscription prices ranging from HK\$0.96 to HK\$1.59 per Ordinary Share (note 16), resulting in the issue of 4,730,000 new Ordinary Shares for a total consideration, net of expenses, of HK\$5,669,000.

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

	<b>Number of Ordinary Shares in issue (Unaudited)</b>	<b>Issued shares (Unaudited) HK\$'000</b>	<b>Ordinary Share premium account (Unaudited) HK\$'000</b>	<b>Total (Unaudited) HK\$'000</b>
At 1 January 2006	6,017,518,071	3,008,759	2,298,205	5,306,964
Share options exercised	4,730,000	2,365	3,304	5,669
At 30 June 2006	6,022,248,071	3,011,124	2,301,509	5,312,633

# Unaudited Interim Financial Statements

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

30 June 2006

### 16. 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\$3,366,000 (six months ended 30 June 2005: HK\$1,260,000).

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

Name or category of participants	Number of share options					At 30 June 2006	Date of grant of share options* (DD.MM.YYYY)	Exercise period of share options (both dates inclusive) <sup>#</sup> (DD.MM.YYYY)	Exercise price of share options** HK\$	Price of the Company's Ordinary Shares***		
	At 1 January 2006	Granted during the period <sup>##</sup>	Cancelled/lapsed during the period	Exercised during the period	At 30 June 2006					Immediate		
										At grant date of options	before the exercise date	At exercise date of options
<b>Directors</b>												
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	—	—	—
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	—	—	—
CHAN Cho Chak, John	1,000,000	—	—	(1,000,000)	—	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	3.475	3.525	—
	1,000,000	—	—	(1,000,000)	—	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	3.475	3.525	—
	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 2006

### 16. SHARE OPTION SCHEME (continued)

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 2006	Granted during the period##	Cancelled/lapsed during the period	Exercised during the period	At 30 June 2006				At grant date of options	Immediate before the exercise date	At exercise date of options	HK\$
<b>Directors (continued)</b>												
LI Kwok Po, David	1,000,000	—	—	—	1,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	—	—	—
	450,000	—	—	—	450,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	—	—	—
FUNG, Daniel R.	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	—	—	—
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	—	—	—
	68,650,000	—	—	(2,000,000)	66,650,000							
<b>Others</b>												
Former directors	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	—	—	—
	12,000,000	—	—	—	12,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	—	—	—
	5,000,000	—	—	—	5,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	—	—	—
	5,000,000	—	—	—	5,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	—	—	—
Employees	42,900,000	—	—	(900,000)	42,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	3.225	3.1	—
	21,800,000	—	(1,000,000)	—	20,800,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	—	—	—
	32,000,000	—	(1,000,000)	(1,100,000)	29,900,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	3.239	3.148	—
	42,670,000	—	(1,500,000)	(730,000)	40,440,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	3.058	2.966	—
	—	3,400,000	—	—	3,400,000	10.03.2006	11.06.2006 to 10.06.2011	3.405	3.30	—	—	—
		198,370,000	3,400,000	(3,500,000)	(2,730,000)	195,540,000						
<b>Total</b>	267,020,000	3,400,000	(3,500,000)	(4,730,000)	262,190,000							

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

\* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

\*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

# Unaudited Interim Financial Statements

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

30 June 2006

### 16. SHARE OPTION SCHEME (continued)

Notes to the reconciliation of share options outstanding during the period: (continued)

\*\*\* The price of the Company's Ordinary Shares disclosed as "At grant date of options" of the share options is the closing price on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the business day prior to which the options were granted.

The price of the Company's Ordinary Shares disclosed as "immediately before the exercise date" of the share options is the weighted average of the Stock Exchange closing prices immediately before the dates on which the options were exercised over all of the exercises of options within the disclosure line.

The price of the Company's Ordinary Shares disclosed "At exercise date of options" is the weighted average of the Stock Exchange closing prices on the dates on which the options were exercised over all of the exercises of options within the disclosure line.

# If the last day of the option exercise period is not a business day in Hong Kong, the option period expires at 5:01 p.m. on the business day preceding that day (Hong Kong time).

## HK\$1.00 is payable by the grantee on acceptance of the offer in respect of the options granted on 10 March 2006.

### 17. RESERVES

One of the undertakings given to the High Court of the HKSAR by the Company in its capital reduction application (the "Undertaking") relates to the setting up of a special reserve on the terms that for so long as there shall remain outstanding any debt of or claim against the Company which would be admissible to proof in a notional winding-up of the Company on 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 2006, the release of provision as determined above was HK\$92,305,000 (six months ended 30 June 2005: HK\$16,760,000) and no profit was distributed from the Company's subsidiaries as determined above (six months ended 30 June 2005: Nil), resulting in an aggregate transfer from retained profits to the Special Reserve of the Group and the Company of HK\$92,305,000 (six months ended 30 June 2005: HK\$16,760,000).

# Unaudited Interim Financial Statements

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

30 June 2006

### 17. RESERVES (continued)

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 2006, the reduction of the Special Reserve and the capitalisation of the same amount to retained profits, which resulted from the aggregate increase in paid-up share capital and share premium account due to the issue of the Company's Ordinary Shares in both the current period and prior years (before any share issue expenses), amounted to HK\$92,305,000 (six months ended 30 June 2005: HK\$53,623,000). In effecting the reduction and capitalisation as aforesaid, the amount transferred from the Special Reserve is kept to an amount not exceeding the balance of the Special Reserve before such transfer.

The amount credited to the Special Reserve shall not at any time exceed HK\$2,984,676,517 (the "Limit"). The Limit may be reduced by the amount of any increase, after the Effective Date, in the paid-up share capital or share premium account of the Company which results from the issue of shares as referred to above. The Limit may also be reduced by the amount of any non-permanent loss of the Company as at 30 June 2003 which subsequently turns into a permanent loss. During the period, there was no non-permanent loss which has turned into a permanent loss of the Group and the Company.

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

As at 30 June 2006, the Limit of the Special Reserve was reduced by (i) an increase in paid-up share capital due to the issue of the Company's Ordinary Shares during the period of HK\$5,705,500; and (ii) the amount of a non-permanent loss of nil which was turned into a permanent loss for the period ended 30 June 2006.

The Limit, as adjusted, was HK\$1,143,664,450 (31 December 2005: HK\$1,149,369,950) and the amount standing to the credit of the Special Reserve was nil (31 December 2005: Nil) as at 30 June 2006.

# Unaudited Interim Financial Statements

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

30 June 2006

### 18. BUSINESS COMBINATIONS EFFECTED DURING THE PERIOD

- (i) During the period ended 30 June 2006, the Company acquired (i) an aggregate additional 1.03% equity interest in GH Holdings at a total cash consideration of HK\$124,874,000, and (ii) an aggregate additional 0.15% effective equity interest in Guangdong Teem (Holdings) Limited (“GD Teem”) at a total cash consideration of HK\$2,055,000, from the minority shareholders of the respective subsidiaries. As a result of these acquisitions, the Group increased its holdings in (i) GH Holdings from 86.34% at 31 December 2005 to 87.37% at 30 June 2006, resulting in a total positive goodwill of approximately HK\$67,359,000, and (ii) GD Teem from 75.40% at 31 December 2005 to 75.55% at 30 June 2006, resulting in an excess over the cost of business combinations of approximately HK\$1,858,000 (note 5).

During the period ended 30 June 2005, the Company acquired (i) an aggregate additional 1.18% equity interest in GH Holdings at a total cash consideration of HK\$91,864,000, and (ii) an aggregate additional 0.98% effective equity interest in GD Teem at a total cash consideration of HK\$12,489,000, from the minority shareholders of the respective subsidiaries. As a result of these acquisitions, the Group increased its holdings in (i) GH Holdings from 82.86% at 31 December 2004 to 84.04% at 30 June 2005, resulting in a total positive goodwill of approximately HK\$32,537,000, and (ii) GD Teem from 68.58% at 31 December 2004 to 69.56% at 30 June 2005, resulting in an excess over the cost of business combinations of approximately HK\$9,844,000 (note 5).

# Unaudited Interim Financial Statements

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

30 June 2006

### 18. BUSINESS COMBINATIONS EFFECTED DURING THE PERIOD (continued)

- (ii) During the period, on 5 January 2006, a supplementary agreement (the "Supplementary Agreement") entered between the Group and the Chinese joint venture partner of 中山火力發電廠 ("Zhongshan Power Plant") to completely overhaul the terms of its joint venture agreement. With effect from that date, the Group exercised control over the management and operation of Zhongshan Power Plant and Zhongshan Power Plant has become a subsidiary of the Group. Zhongshan Power Plant is engaged in power plant operations in Zhongshan, Mainland China.

The fair values of the identifiable assets and liabilities of Zhongshan Power Plant as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value	Carrying amount
	HK\$'000	HK\$'000
Property, plant and equipment	152,754	152,754
Prepaid land lease payments	10,352	10,352
Cash and bank balances	7,336	7,336
Inventories	6,372	6,372
Receivables, prepayments and deposits	32,299	32,299
Payables, accruals and other liabilities	(47,850)	(47,850)
Interest-bearing bank and other borrowings	(79,462)	(79,462)
Tax payable	(3,326)	(3,326)
Deferred tax liabilities	(4,556)	(4,556)
	73,919	73,919
Minority interests	(27,350)	
	46,569	
Satisfied by interest in a contractual joint venture	46,569	

Since its acquisition, Zhongshan Power Plant contributed HK\$142,306,000 and HK\$29,876,000 to the Group's revenue and profit before tax for the six months ended 30 June 2006, respectively. Had the combination taken place at the beginning of 2006, there would not be material impact on the revenue from continuing operations of the Group and the profit of the Group for the period.

# Unaudited Interim Financial Statements

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

30 June 2006

### 19. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of one to fifteen years (31 December 2005: one to fourteen years).

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

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
Within one year	<b>8,273</b>	7,038
In the second to fifth years, inclusive	<b>36,661</b>	27,567
After five years	<b>66,207</b>	44,067
	<b>111,141</b>	78,672

### 20. COMMITMENTS

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

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
(a) Capital commitments in respect of property, plant and equipment:		
Contracted for	<b>299,369</b>	136,292
Authorised, but not contracted for	<b>901,134</b>	1,211,065
	<b>1,200,503</b>	1,347,357

# Unaudited Interim Financial Statements

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

30 June 2006

### 20. COMMITMENTS (continued)

- (b) Pursuant to WaterCo's articles of association, Guangdong Yue Gang Investment Holdings Company Limited ("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 fifteen years of operation and 100% of the distributed profits for that period shall be made to GH Holdings. Starting from the sixteenth year of operation, 1.01% of the distributed profits of WaterCo for the first fifteen 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.

### 21. CONTINGENT LIABILITY

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
Guarantee given in respect of a bank loan of the Group's contractual joint venture	—	46,800

# Unaudited Interim Financial Statements

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

30 June 2006

### 22. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances set out elsewhere in these 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	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest income from a contractual joint venture	(i)	(13,162)	(90)
Interest expense to GDH Limited and certain of its subsidiaries	(ii)	3,200	7,940
Rental expense paid to an associate	(iii)	—	3,345
Dividends paid to GDH Limited and certain of its subsidiaries by GH Holdings	(iv)	3,415	11,108
Dividends paid to GDH Limited and certain of its subsidiaries by the Company	(v)	188,289	118,065

Notes:

- (i) The interest income arose from an unsecured loan which was previously advanced by the Group to the contractual joint venture and repaid in prior years. The interest has now been agreed to be charged at a fixed rate of 7.56% per annum and certain interest was received during the current period. During the period ended 30 June 2005, the interest income arose from another unsecured loan advanced by the Company to a contractual joint venture, which carried a fixed rate of 3.8% per annum and was repaid in June 2005.
- (ii) The interest expense arose from (a) the Tranche B Credit charged at 8% per annum of HK\$79,080,000 as at 30 June 2006 (31 December 2005: HK\$76,262,000) held by GDH Limited; and (b) the loans totalling RMB6,124,000 (31 December 2005: RMB6,124,000), which were charged at interest rates ranging from 4.17% to 4.5% (31 December 2005: 4.17% to 4.5%), provided to the Group by a fellow subsidiary. The loans were repaid in February 2006.

The interest expense for the period ended 30 June 2005 also included the expense arose from the convertible bonds with a par value of HK\$497,320,000 issued by the Group to GDH Limited on 24 December 2003. The convertible bonds were fully converted in September 2005.

# Unaudited Interim Financial Statements

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

30 June 2006

### 22. MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

Notes: (continued)

- (iii) The rental expense in the prior period arose from leasing of certain leasehold land and building by an associate to the Group for storage and handling of coal ashes for the Group's electric power generation operation. The rentals are calculated with reference to the number of units of electricity generated by the Group's subsidiary and the relevant costs incurred by the associate, and the actual utilisation of the venue. The Group did not use the aforesaid property for storage during the period.
- (iv) During the period, out of the dividend distributions made by GH Holdings, a 87.37% subsidiary of the Group, to all its shareholders in accordance with their respective shareholdings in GH Holdings, the total dividend distributions of approximately HK\$3,415,000 (six months ended 30 June 2005: HK\$11,108,000) was paid or payable to GDH Limited and certain of its subsidiaries as shareholders of GH Holdings.
- (v) During the period, the Company paid 2005 final dividends in aggregate of approximately HK\$188,289,000 (six months ended 30 June 2005: HK\$118,065,000) to GDH Limited and certain of its subsidiaries as the Company's shareholders. The dividend payment was made to all shareholders of the Company in accordance with their respective shareholdings in the Company.
- (vi) 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. 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 commencing from the date of successful completion of the project to 3 June 2007. The project was completed in 2002 and all the share options had already been exercised since September last year.

# Unaudited Interim Financial Statements

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

30 June 2006

### 22. MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

	Notes	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Balances due from:			
Ultimate holding company	(i)	179	77
Immediate holding company	(i)	429	114
Fellow subsidiaries	(ii)	2,347	3,158
Jointly-controlled entities	(iii)	9,411	40,440
Associates	(i)	2,474	23,881
Contractual joint venture	(iv)	—	62,044
Balances due to:			
Ultimate holding company	(i)	(16,062)	(1,778)
Immediate holding company	(i)	(20,707)	(938)
Fellow subsidiaries	(ii)	(26,377)	(6,110)
Associates	(i)	(3,057)	(3,065)
Minority shareholders of subsidiaries	(v)	(385,570)	(353,613)

Notes:

- (i) Except for the unsecured amounts of HK\$35,841,000 (31 December 2005: Nil) due to holding companies which carry interests ranging from 4.17% to 4.5% and is repayable on demand, the remaining balances with holding companies and associates are unsecured, non-interest-bearing and have no specific terms of repayment. The carrying amounts of these amounts due approximate to their fair values.
- (ii) The balances with fellow subsidiaries are unsecured, non-interest-bearing and have no specific terms of repayment, except for loans from a fellow subsidiary, in aggregate, of RMB26,342,000 (31 December 2005: RMB6,124,000) which bear interest at the rate of 4.23% (31 December 2005: ranging from 4.17% to 4.5%) per annum and are repayable in 2008 (31 December 2005: from 3 months to 16 months). The carrying amounts of the amounts due approximate to their fair values.
- (iii) Except for the balance of HK\$6,558,000 (31 December 2005: HK\$38,189,000) which bears interest at the London Inter Bank Offered Rates ("LIBOR") (31 December 2005: the LIBOR) per annum, the remaining amounts due from the jointly-controlled entities are unsecured, non-interest-bearing and have no specific terms of repayment. The carrying amounts of the amounts due approximate to their fair values.
- (iv) As at 31 December 2005, the amount due from a contractual joint venture was unsecured, non-interest-bearing and had no specific terms of repayment. The contractual joint venture has become a subsidiary of the Group during the period. The details of business combination occurred during the period are set out in note 18 to the financial statements.
- (v) The amounts due to minority shareholders of subsidiaries are unsecured, non-interest-bearing and have no specific terms of repayment, except for the amount of HK\$33,793,000 (31 December 2005: HK\$29,115,000) which are not repayable within one year. The carrying amounts of the amount due approximate to their fair values.

# Unaudited Interim Financial Statements

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

30 June 2006

### 22. MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Short term employment benefits	1,704	3,960
Post-employment benefits	149	612
Share-based payments	—	1,260
<b>Total compensation paid to key management personnel</b>	<b>1,853</b>	<b>5,832</b>

### 23. CAPITAL EXPENDITURE

During the six months ended 30 June 2006, the Group acquired items of property, plant and equipment of approximately HK\$147,930,000 (six months ended 30 June 2005: HK\$60,979,000), in aggregate.

### 24. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the Group has sold its 80% equity interest in Hui Yang Yue Hai Real Estate Development Limited ("GD Hui Yang") to GDH Real Estates (Hui Yang) Limited, a subsidiary of GDH Limited, for a total consideration of HK\$37.63 million. All sale proceeds were received by the Group in full in July 2006 and GD Hui Yang has since ceased to be a subsidiary of the Company.

### 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 13 September 2006.

# Business Review, Discussion and Analysis, Prospects and Other Information

## RESULTS

The Board of directors (the "Board") is pleased to report a remarkable growth in the Group's results for the first half of 2006. The Group's consolidated net profit attributable to shareholders amounted to HK\$830 million (2005: HK\$682 million), representing an increase of 21.8% as compared to the same period last year. The basic earnings per share were 13.80 HK cents (2005: 12.07 HK cents), representing an increase of 14.3% over the same period last year.

## INTERIM DIVIDEND

The Board has resolved to declare the payment of an interim dividend of 5.0 HK cents per ordinary share for the six months ended 30 June 2006 (2005: 4.0 HK cents).

## FINANCIAL REVIEW

The consolidated revenue of the Group for the first half of 2006 was HK\$3,082 million (2005: HK\$2,660 million), an increase of 15.9% as compared to the same period last year. All the Group's six business sectors, namely water distribution, electric power generation, toll roads and bridges, property investment, department stores, and hotel operations and management, achieved satisfactory growth.

The consolidated net profit attributable to shareholders amounted to HK\$830 million (2005: HK\$682 million), an increase of 21.8% as compared to the same period last year. The water distribution business remains the major source of our profit. Indeed, notwithstanding that our sales volume during the period was affected by the unusual heavy rainfall, this was more than made up by the arrangements under the Hong Kong Water Supply Agreement and the further increase in the water tariffs for the Shenzhen and Dongguan areas, and our water distribution business has therefore continued to provide stable profit contribution to the Group. The increase in profit was also mainly attributable to increases in the revenue from the electric power generation business of HK\$259 million (an increase of 145.2%), the hotel operations and management business of HK\$24 million (an increase of 21.6%) and the department stores business of HK\$112 million (an increase of 21.6%). As far as finance costs are concerned, even though interest rates are currently in an upward trend, interest rate swap arrangements have already been made for a major portion of the Company's floating rate loans. Accordingly, the impact of the rising interest rates on the Group's financials is only minor. Benefitting from not only the interest margin reduction arrangements made in November 2005, but also the continuing repayment of outstanding borrowings, the Group's finance costs for the period under review decreased by HK\$51 million.

The earnings before interest, tax, depreciation and amortisation ("EBITDA") for the first half of 2006 increased by 11.2% to HK\$1,930 million (2005: HK\$1,736 million).

The basic earnings per share were 13.80 HK cents (2005: 12.07 HK cents), representing an increase of 14.3% over the same period of 2005.

# Business Review, Discussion and Analysis, Prospects and Other Information

## BUSINESS OVERVIEW

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

### Water Distribution

Profit contribution from the Dongshen Water Supply Project remained significant to the Group. The Group's effective interest in the Dongshen Water Supply Project has increased by 1.03% to 87.37% during the six months ended 30 June 2006. The planned annual capacity of water supply is 2.423 billion cubic meters.

The total water sales to Hong Kong, Shenzhen and Dongguan during the six months ended 30 June 2006 amounted to 957 million cubic meters, a decrease of 9.0% over the same period last year, in terms of volume and HK\$1.69 billion, an increase of 0.9%, in terms of revenue.

In April 2006, the Government of Hong Kong Special Administrative Region and the Guangdong Provincial Government concluded the Hong Kong Water Supply Agreement for 2006 to 2008. According to the new agreement, the total annual fixed amount for the water sales to Hong Kong is HK\$2.49 billion. As compared with the total annual revenue for the Hong Kong water sales for 2004 and 2005, there will be a slight annual decrease of HK\$34.9 million. The Guangdong Provincial Government has already undertaken that the revenue to the Group from its Hong Kong water sales will not fall below the 2004 level as a result of any adverse impact of the new agreement. The Guangdong Provincial Government will therefore provide financial subsidies to the Group and the annual amount of such subsidies will definitely be no less than the annual shortfall as aforesaid. The Company is still in the course of actively following up with the Guangdong Provincial Government on the implementation of the subsidy arrangements.

Under the new Hong Kong Water Supply Agreement, the total revenue for each year is fixed and is payable by 11 equal monthly installments. That being the case, the water sales to Hong Kong for the six months ended 30 June 2006 was HK\$1.36 billion in terms of revenue (a slight increase of 0.7% as compared to the same period last year) notwithstanding that it was only 371 million cubic meters in terms of volume (a decrease of 15.1%).

The water sales volume to Shenzhen and Dongguan decreased by 4.7% to 586 million cubic meters during the six months ended 30 June 2006 (2005: 615 million cubic meters). This is partly because as a result of the unusual heavy rainfall during the period, there has been a lesser reliance on the supply by the Dongshen Water Supply Project for the water supply for the region. It is also in part due to the fact that during the period, two of our customers had to use more water from their own reservoirs to make way for maintenance works to be carried out. But given the further increase in water tariffs for Shenzhen and Dongguan since January 2006 and also the appreciation of Renminbi, the water sales revenue to these two regions during the six months ended 30 June 2006 slightly increased by 1.8% to HK\$335 million (2005: HK\$329 million).

# Business Review, Discussion and Analysis, Prospects and Other Information

## **BUSINESS OVERVIEW (continued)**

### **Water Distribution (continued)**

The profit contribution to the Group from the water distribution business for the period under review (excluding the unrealised gain of HK\$4,385,000 (2005: HK\$78,606,000) on interest rate swap agreements (“Non-qualified IRS”) that did not qualify as hedging transactions for accounting purposes) was HK\$489,716,000 (2005: HK\$463,457,000), 5.7% higher than the same period last year. Excluding the related costs arising from the Non-qualified IRS and the exchange differences, the EBITDA of the water distribution business during the period amounted to HK\$1,445,412,000 (2005: HK\$1,429,317,000), an increase of 1.1%.

In November 2005, the Group contracted with Industrial and Commercial Bank of China (Asia) Limited (“ICBC(Asia)”) and Industrial and Commercial Bank of China Limited, Shenzhen Branch (“ICBC(SZ)”) as the facility agents to reduce the interest margin of the existing syndicated bank loans of the Group totalling HK\$10.7 billion at that time. The interest margin for the then outstanding loan due to ICBC (Asia) syndicate was reduced from HIBOR+1.339% to HIBOR+0.6% and the interest margin for the then outstanding loan due to the ICBC (SZ) went down from HIBOR + 1% to HIBOR + 0.6%. As a result of the interest margin reduction, the amount of interest savings during the six months ended 30 June 2006 amounted to approximately HK\$36 million.

### **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 has 1 power unit with installed capacity of 200 MW. The management’s efforts to increase electricity sales have borne fruit. Also there has been no major repair that requires the shut down of the power unit during the period. Thus, the sales of electricity in the first six months of 2006 rose to 735 million kwh (2005: 523 million kwh), an increase of 40.5%. The sales revenue for the period amounted to HK\$294,960,000 (2005: HK\$178,341,000), an increase of 65.4%, which increase was mainly due to the increase in both the electricity sales and the tariff. The profit before tax for the period was HK\$54,746,000 (2005: loss before tax HK\$29,043,000). The Group’s share of the profit before tax was HK\$25,128,000 (2005: loss before tax HK\$13,331,000).

#### *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 currently has 2 power units with a total installed capacity of 600 MW. In the first six months of 2006, sales of electricity reached 1,683 million kwh (2005: 760 million kwh), an increase of 121.4%. Sales revenue for the period reached HK\$632,751,000 (2005: HK\$285,453,000), an increase of 121.7%. The increase in revenue was mainly due to a new power unit with installed capacity of 300 MW coming into operation in July 2005. The Group’s share of the profit before tax from this associate was HK\$3,841,000 (2005: loss before tax HK\$341,000).

# Business Review, Discussion and Analysis, Prospects and Other Information

## **BUSINESS OVERVIEW** (continued)

### **Electric Power Generation** (continued)

#### *Meixian Power Plant*

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

Meixian Power Plant has 3 power units with a total installed capacity of 385 MW. In the first six months of 2006, sale of electricity amounted to 1,387 million kwh (2005: 1,275 million kwh), an increase of 8.8%. Sales revenue for the period reached HK\$501,017,000 (2005: HK\$441,233,000), an increase of 13.5%. However, because of the increase in finance costs, the profit before tax was only HK\$54,994,000 (2005: HK\$63,669,000), a decrease of 13.6%. During the period, GD Power Investment received dividend income of HK\$3,863,000 (2005: HK\$16,508,000) from this investment.

There is yet another new power unit with installed capacity of 135 MW that has been commissioned. Construction has already been completed. However, full commercial operation will only be able to commence when all the new approval requirements that have since come into force are also met.

#### *Zhongshan Power Plant*

In 1993, the Group through its 95% owned subsidiary, Zhongshan Power (Hong Kong) Limited, participated in a contractual joint venture, 中山火力發電廠 ("Zhongshan Power Plant"), with a tenure of 20 years. Agreement was reached with the joint venture partner to completely overhaul the terms of the joint venture agreement and the supplemental joint venture agreement was formally signed in January 2006. Zhongshan Power Plant has since become a subsidiary of the Company.

Zhongshan Power Plant has 2 power units with a total installed capacity of 110 MW. In the first six months of 2006, the electricity sales amounted to 332 million kwh (2005: 218 million kwh), an increase of 52.3%. There has also been an increase in the tariff. As a result, the sales revenue for the period rose to HK\$142,306,000 (2005: HK\$88,551,000), an increase of 60.7%. The profit before tax for the period was HK\$32,749,000 (2005: HK\$725,000). The Group's share of the profit before tax was HK\$19,600,000 (2005: Nil).

# Business Review, Discussion and Analysis, Prospects and Other Information

## BUSINESS OVERVIEW (continued)

### Toll Roads and Bridges

#### *“1 Road and 2 Bridges”*

In the first six months of 2006, the profit before tax generated by the Group's 51% jointly-controlled entity (the “JCE”) which holds interests in the “1 Road and 2 Bridges” project amounted to HK\$93,655,000 in aggregate (2005: HK\$79,252,000). However, while the Humen Bridge and Shantou Haiwan Bridge recorded growth in traffic flow and performed well during the period, the Guangzhou-Shantou Highway (Huizhou section) suffered a drop in traffic flow.

(i) *Humen Bridge*

The JCE holds a 30% interest in this project. The Humen Bridge recorded a growth of 16.1% in traffic flow. The average daily traffic for the period increased to 48,200 vehicle trips (2005: 41,531 vehicle trips). Revenue for the period reached HK\$371,268,000 (2005: HK\$302,028,000), an increase of 22.9%. With private cars becoming a popular means of transport in the developing city of Humen, the traffic flow of light vehicles has increased. Also, during the period, it has become no longer necessary to continue offering tariff concession to medium size vehicles. With the repayment of shareholders' loans, finance costs decreased by HK\$11,678,000 as compared with the same period last year. Accordingly, the profit before tax for the period increased by 40.5% to HK\$233,730,000 (2005: HK\$166,306,000).

(ii) *Shantou Haiwan Bridge*

The JCE holds a 30% interest in this project. The Shantou Haiwan Bridge recorded a 7.4% increase in traffic flow. The average daily traffic for the period was 11,079 vehicle trips (2005: 10,311 vehicle trips). The revenue for the period was HK\$66,285,000 (2005: HK\$58,743,000), an increase of 12.8% as compared with that of the last period. This is mainly because the road repair and maintenance works carried out to the nearby Shenzhen-Shantou Expressway (Eastern Section) during the period have made it necessary for more vehicles to use the bridge. The profit before tax for the period was HK\$45,648,000 (2005: HK\$41,545,000), an increase of 9.9%.

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

The JCE holds a 51% interest in this project. Mainly as a result of the competition from the nearby Guangzhou-Huizhou Expressway, the Guangzhou-Shantou Highway (Huizhou Section) suffered 6.6% drop in traffic flow in 2006. The average daily traffic for the period was 17,054 vehicle trips (2005: 18,255 vehicle trips). Revenue for the period was HK\$30,183,000 (2005: HK\$33,543,000), a decrease of 10.0%. Two new highways, namely 粵贛高速公路 and 河梅高速公路 came into operation in the vicinity and have diverted part of the traffic flow of the No. 205 Expressway which fed to the Guangzhou-Shantou Highway (Huizhou Section). The profit before tax for the period was HK\$4,885,000 (2005: HK\$7,315,000), a decrease of 33.2%.

# Business Review, Discussion and Analysis, Prospects and Other Information

## **BUSINESS OVERVIEW (continued)**

### **Toll Roads and Bridges (continued)**

#### ***Yingkeng Highway***

The Group's effective interest in this project is 70%. The average daily traffic flow for the period of the Yingkeng Highway was 5,194 vehicle trips (2005: 4,414 vehicle trips), a 17.7% increase in traffic flow as compared with that of the same period last year. As there are now more heavy vehicles that pay a higher tariff using the road, revenue increased markedly by 31.5% to HK\$7,137,000 (2005: HK\$5,427,000). The profit before tax for the period was HK\$2,002,000 (2005: HK\$1,308,000), an increase of 53.1%.

#### ***Panyu Bridge***

The Panyu Bridge is a 20% associate of the Group. The Panyu Bridge recorded a growth of 9.4% in traffic flow in the current period. The average daily traffic during the period was 68,233 vehicle trips (2005: 62,362 vehicle trips). Revenue for the period has increased by 8.3% to HK\$77,483,000 (2005: HK\$71,560,000). The profit before tax for the period was HK\$29,282,000 (2005: HK\$26,700,000), an increase of 9.7%.

#### ***Two Pak Kong Bridges***

The Group's effective interest in this project used to be 24.5%. Such interest was sold to 清遠市交通建設開發公司 for a total consideration of RMB59,980,000. The disposal was completed during the period, resulting in a gain of HK\$39,619,000.

### **Property Investment**

#### ***Mainland China***

##### *Teemall*

Teemall, one of the most popular shopping malls in the premier area of Guangzhou, has a total gross floor area and lettable area of approximately 160,000 square meters and 96,543 square meters respectively. The plaza continued to enjoy high average occupancy rate of approximately 99% during the period (2005: 98%). Revenue of the plaza during the period reached HK\$162,633,000 (2005: HK\$150,123,000), an increase of 8.3%. The profit before tax for the period increased by HK\$10,321,000 to HK\$153,377,000 (2005: HK\$143,056,000). The ability of the plaza to attract brand-name tenants and the success of the new shopping sections remained the key reasons for such increases.

Building upon the success of the shopping mall operations, the Group is proceeding with the development of two new tower blocks on the site.

# Business Review, Discussion and Analysis, Prospects and Other Information

## **BUSINESS OVERVIEW (continued)**

### **Property Investment (continued)**

#### ***Mainland China (continued)***

##### *Teemall (continued)*

The East Tower, which is expected to be completed in late 2006, will be a 45-storey A-class office tower, with a total gross floor area and lettable area of approximately 113,380 square meters and 91,000 square meters respectively. Colliers International, a prestigious international property agent, has been engaged to market and promote the leasing of all the East Tower units. The estimated total cost of the East Tower development (inclusive of also the historic land and infrastructure costs now attributed to the East Tower) is about HK\$840 million of which approximately HK\$532 million has been invested as at the balance sheet date.

The West Tower, which is expected to be completed in 2008, will be a 5-star hotel with approximately 450 hotel rooms. In February 2006, Sheraton Overseas Management Corporation, a renowned international hotel management company, has been engaged to operate, manage and promote the hotel under the name of Sheraton Guangzhou Hotel (粵海喜來登酒店) for an initial 10 year term. The estimated total cost of the West Tower development (inclusive of also the historic land and infrastructure costs now attributed to the West Tower) is about HK\$780 million of which approximately HK\$142 million has been invested as at the balance sheet date.

At the balance sheet date, the Group holds an effective equity interest of 75.55% in the development made up of the shopping mall and the two tower blocks.

#### ***Hong Kong***

##### *Guangdong Investment Tower*

The average occupancy rate of the Guangdong Investment Tower for the first six months of 2006 was 88.7% (2005: 93.2%), 4.5% lower than the same period last year. The total rental income for the period was HK\$7,680,000 (2005: HK\$9,417,000), a decrease of 18.4%. This is mainly because of the renovation and improvement works that have been carried out during the period to prepare the ground floor shop units for lease to a major bank.

# Business Review, Discussion and Analysis, Prospects and Other Information

## **BUSINESS OVERVIEW** (continued)

### **Department Stores**

At the balance sheet date, the Group holds an effective equity interest of 84.84% in 廣東天河城百貨有限公司 (Guangdong Teemall Department Stores Ltd.) ("GDTDS") for the operation of department stores.

GDTDS operates with a total leased area of approximately 33,827 square meters (2005: 34,509 square meters) selling a wide range of products and is ranked, in terms of sales, as one of the major department stores in Guangzhou. During the period, GDTDS continued to enjoy record high revenue of HK\$630,190,000 (2005: HK\$518,411,000), an increase of 21.6%. The increase in revenue arose from the holding of different trade fairs and promotion activities throughout the period, and also the success of the jewellery and gold corners. The profit before tax for the period was HK\$45,396,000 (2005: HK\$36,396,000), an increase of 24.7%.

As at 30 June 2006, the Group's effective interest in 廣東吉之島天貿百貨有限公司 (Guangdong Jusco Teem Stores Co., Ltd.) ("JUSCO Teem") is 26.44%, which is a 35% associate of the Group's 75.55%-owned subsidiary 廣東天河城(集團)股份有限公司 (Guangdong Teem (Holdings) Limited). JUSCO Teem has been jointly managed by Guangdong Teem (Holdings) Limited and JUSCO Japan. It has achieved satisfactory growth in its business since its establishment in 1996.

### **Hotel Operations and Management**

As at 30 June 2006, our hotel management team managed a total of 21 hotels (as at 31 December 2005: 19 hotels), of which 2 were in Hong Kong, 1 in Macau and 18 in Mainland China (located in Shenzhen, Zhuhai, Changzhou, Dongguan, Guangzhou, Qingdao, Jilin, Dalian, Shanghai and Beijing). Out of the above hotels, 8 were owned by the Group (2 in Hong Kong, 4 in Shenzhen, 1 in Zhuhai and 1 in Changzhou).

The average occupancy rate of our 4 hotels in Hong Kong, Zhuhai and Shenzhen has decreased by 1.8% to 83.1% (2005: 84.9%). However, as a result of the success of the effort of management and the marketing team in attracting a more upmarket clientele, the average room rate has increased by 15.6% to HK\$526 (2005: HK\$455). The turnover for our hotel business (excluding the limited service hotels as more particularly set out below which only went into operation in the second half of the last year) for the period increased by 11.7% to HK\$126,213,000 (2005: HK\$112,980,000). The profit before tax increased by 10.5% to HK\$32,043,000 (2005: HK\$29,001,000).

To meet the strong demands of a growing number of budget conscious travellers in the Mainland China, 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 three of such hotels has already commenced operation in Shenzhen in the second half of the last year. The number of rooms in each of such hotels ranges from 57 to 220 and the total capital expenditure required for each of them is in the range of RMB5-14 million. Their aggregate turnover for the current period was HK\$11,188,000.

# Business Review, Discussion and Analysis, Prospects and Other Information

## LIQUIDITY, GEARING AND FINANCIAL RESOURCES

As at 30 June 2006, the cash and bank balances of the Group decreased by HK\$224 million to HK\$1,916 million (31 December 2005: HK\$2,140 million), of which 20% in Hong Kong dollars, 60% in Renminbi and 20% in US dollars.

As at 30 June 2006, the level of the Group's financial borrowing decreased by HK\$769 million as compared to that as at 31 December 2005. The decrease was mainly due to the repayment of certain interest-bearing debts during the period.

As at 30 June 2006, the Group had financial borrowings amounting to HK\$14,397 million (31 December 2005: HK\$15,166 million), including non-interest bearing Hong Kong government loan of HK\$2,009 million. Of the Group's total financial borrowings, HK\$181 million was repayable within one year while the remaining balance of HK\$3,808 million and HK\$10,408 million are repayable within two to five years and beyond five years from the balance sheet date, respectively.

Save for the bank debts mainly incurred in our water distribution business, the Group maintained credit facilities of RMB50 million as at 30 June 2006 (31 December 2005: RMB50 million).

The gearing for the Group as at 30 June 2006 was 1.05 times (31 December 2005: 1.17 times). 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 healthy debt servicing position of the Group continues to improve and the EBITDA/finance cost is now 6.11 times (31 December 2005: 4.55 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 2006, certain of the Group's prepaid land lease payments, buildings, plant and machinery with a total net book values of approximately HK\$153,534,000 were pledged to secure general banking facilities granted to the Group (31 December 2005: Nil).

## CAPITAL EXPENDITURE

The Group's capital expenditure in 2006 amounted to HK\$148 million principally related to the construction in progress of the East Tower at Teemall.

# Business Review, Discussion and Analysis, Prospects and Other Information

## **EXPOSURE TO FLUCTUATIONS IN EXCHANGE AND INTEREST RATES AND RELATED HEDGES**

As at 30 June 2006, total Renminbi borrowings amounted to HK\$1,263 million (31 December 2005: HK\$1,360 million).

As at 30 June 2006, the Group's total floating rate borrowings amounted to HK\$11,157 million (31 December 2005: HK\$11,925 million). For the purpose of interest rate risk management, the Group entered into certain fixed or re-indexing interest rate swap agreements, the net position of all outstanding contracts amounted to HK\$7,400 million (31 December 2005: HK\$9,900 million), with an average remaining life ranging from 1.5–6.5 years.

## **EMPLOYEE AND REMUNERATION POLICY**

As at 30 June 2006, the Group had a total of 4,052 employees. Among the employees, 3,808 were employed by subsidiaries in Mainland China and 244 were employed by the head office and subsidiaries in Hong Kong. Out of the total number, 721 were managerial employees at the head office and subsidiaries' level. Total remuneration paid for the period was approximately HK\$123,775,000.

The human resources of an enterprise are the foundation of its development. The Group places great emphasis on building up and strengthening of its human resources. Adhering to the "Credibility, Integrity and Profitability" core values of our corporate culture, we conduct all our staff selection processes in a fair, just and open manner. We have in place also the mechanism for the periodic performance appraisal of our management to ensure their integrity and high performance. Our remuneration and incentive packages for our staff are driven mainly by the operating results of their respective companies. In order to most effectively motivate our staff to actively create added value in their work, the incentive bonuses we pay to our management, key staff in their respective fields and other staff with outstanding performance are determined not only by reference to the operating net cashflow and profits after tax of their respective companies, but also by applying a progressive scale depending on the extent by which the operating results of their companies have exceeded expectation and further taking into account of the individual performance of the staff him or herself. Moreover the Group has adopted a staff option scheme to attract, retain and motivate outstanding staff to contribute to the continuing success of the Group in the long run. In terms of staff training and development, the Group encourages its staff to actively participate in relevant professional development programmes. The Group has also achieved very good results in enhancing the quality of its staff through all the functional skill-based or general corporate culture internal training that it continues to offer on an on-going basis.

# Business Review, Discussion and Analysis, Prospects and Other Information

## PROSPECTS

Looking ahead, the overall performance and cashflow of the Group's businesses as a whole is expected to continue their healthy growth. Given our strength in terms of both market shares and human resources and expertise, water distribution business will continue to be the business in which the Group has distinct competitive advantages. It will also provide the Group with solid and stable profit and cashflow contribution as well as bring about new investment opportunities. Because of the success of our management and their efforts in keeping down cost, reducing production down time and improving overall operating efficiency, our electric power generation businesses are likely to continue to maintain their marked growth. Likewise, the growth in the businesses of our toll roads and bridges, property investments and department stores is expected to continue. Moreover, with the interest margin reduction and also more of the Group's existing debts being paid down and/or refinanced, the Group is likely to be able to continue to achieve interest cost savings.

In line with its business strategy, the Group will continue to focus on its existing core businesses with particular emphasis on utilities and infrastructure. When opportunities arise, the Group will either spin-off or dispose of its hotel business. The management is also actively exploring investment opportunities in water resources and toll road projects with the aim of creating even higher values of shareholders.

## Directors' Interests and Short Positions in Securities

As at 30 June 2006, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which a director is taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange ("Listing Rules"), were as follows:

### INTERESTS AND SHORT POSITIONS IN THE COMPANY

#### (i) Interests in ordinary shares

Name of director	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of holding
LI Wenyue	Personal	400,000	Long position	0.0066%
CHAN Cho Chak, John	Personal	4,000,000	Long position	0.0664%
LI Kwok Po, David	Personal	4,000,000	Long position	0.0664%
CHENG Mo Chi, Moses	Personal	500,000	Long position	0.0083%

Note: The number of ordinary shares of the Company in issue as at 30 June 2006 was 6,022,248,071.

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

Name of director	Number of options held as at 1 January 2006	Options granted Jan – Jun 2006		Period during which share options is exercisable (dd.mm.yyyy)	Total consideration paid for share options HK\$	Price per ordinary share payable on exercise of options HK\$	Number of options exercised Jan – Jun 2006	Number of options held as at 30 June 2006	Long/Short Position
		Date (dd.mm.yyyy)	Number						
LI Wenyue	7,000,000	—	—	11.02.2002– 10.02.2007	—	0.5312	—	7,000,000	Long position
	9,000,000	—	—	08.11.2002– 07.11.2007	—	0.814	—	9,000,000	Long position
	6,000,000	—	—	05.03.2003– 04.03.2008	1	0.96	—	6,000,000	Long position
	3,000,000	—	—	08.08.2003– 07.08.2008	1	1.22	—	3,000,000	Long position
	3,000,000	—	—	07.05.2004– 06.05.2009	1	1.59	—	3,000,000	Long position
	2,500,000	—	—	25.08.2004– 24.08.2009	1	1.25	—	2,500,000	Long position

## Directors' Interests and Short Positions in Securities

### INTERESTS AND SHORT POSITIONS IN THE COMPANY (continued)

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

Name of director	Number of options held as at 1 January 2006	Options granted Jan – Jun 2006		Period during which share options is exercisable (dd.mm.yyyy)	Total consideration paid for share options HK\$	Price per ordinary share payable on exercise of options HK\$	Number of options exercised Jan – Jun 2006	Number of options held as at 30 June 2006	Long/Short Position
		Date (dd.mm.yyyy)	Number						
ZHANG Hui	5,000,000	—	—	05.03.2003–04.03.2008	1	0.96	—	5,000,000	Long position
	3,000,000	—	—	08.08.2003–07.08.2008	1	1.22	—	3,000,000	Long position
	3,000,000	—	—	07.05.2004–06.05.2009	1	1.59	—	3,000,000	Long position
	2,500,000	—	—	25.08.2004–24.08.2009	1	1.25	—	2,500,000	Long position
LI Wai Keung	700,000	—	—	02.05.2002–01.05.2007	—	0.74	—	700,000	Long position
	1,500,000	—	—	08.11.2002–07.11.2007	—	0.814	—	1,500,000	Long position
	1,500,000	—	—	05.03.2003–04.03.2008	1	0.96	—	1,500,000	Long position
	1,500,000	—	—	08.08.2003–07.08.2008	1	1.22	—	1,500,000	Long position
	1,500,000	—	—	07.05.2004–06.05.2009	1	1.59	—	1,500,000	Long position
	1,000,000	—	—	25.08.2004–24.08.2009	1	1.25	—	1,000,000	Long position
CHAN Cho Chak, John	1,000,000	—	—	05.03.2003–04.03.2008	1	0.96	1,000,000	—	Long position
	1,000,000	—	—	08.08.2003–07.08.2008	1	1.22	1,000,000	—	Long position
	1,000,000	—	—	07.05.2004–06.05.2009	1	1.59	—	1,000,000	Long position
	450,000	—	—	25.08.2004–24.08.2009	1	1.25	—	450,000	Long position
LI Kwok Po, David	1,000,000	—	—	07.05.2004–06.05.2009	1	1.59	—	1,000,000	Long position
	450,000	—	—	25.08.2004–24.08.2009	1	1.25	—	450,000	Long position

## Directors' Interests and Short Positions in Securities

### INTERESTS AND SHORT POSITIONS IN THE COMPANY (continued)

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

Name of director	Number of options held as at	Options granted		Period during which share options is exercisable (dd.mm.yyyy)	Total consideration paid for share options HK\$	Price per ordinary share payable on exercise of options HK\$	Number of options exercised Jan – Jun 2006	Number of options held as at 30 June 2006	Long/Short Position
	1 January 2006	Date	Number						
FUNG, Daniel R.	1,000,000	—	—	08.08.2003–07.08.2008	1	1.22	—	1,000,000	Long position
	1,000,000	—	—	07.05.2004–06.05.2009	1	1.59	—	1,000,000	Long position
	450,000	—	—	25.08.2004–24.08.2009	1	1.25	—	450,000	Long position
CHENG Mo Chi, Moses	1,000,000	—	—	05.03.2003–04.03.2008	1	0.96	—	1,000,000	Long position
	1,000,000	—	—	08.08.2003–07.08.2008	1	1.22	—	1,000,000	Long position
	1,000,000	—	—	07.05.2004–06.05.2009	1	1.59	—	1,000,000	Long position
	450,000	—	—	25.08.2004–24.08.2009	1	1.25	—	450,000	Long position
FUNG Sing Hong, Stephen *	1,500,000	—	—	20.04.2005–19.04.2010	1	2.575	—	1,500,000	Long position
WANG Xiaofeng	1,000,000	—	—	08.11.2002–07.11.2007	—	0.814	—	1,000,000	Long position
	1,000,000	—	—	05.03.2003–04.03.2008	1	0.96	—	1,000,000	Long position
	1,000,000	—	—	08.08.2003–07.08.2008	1	1.22	—	1,000,000	Long position
	1,000,000	—	—	07.05.2004–06.05.2009	1	1.59	—	1,000,000	Long position
	650,000	—	—	25.08.2004–24.08.2009	1	1.25	—	650,000	Long position

Note: If the last day of any of the option periods is not a business day in Hong Kong, the option period shall end at the close of business on the business day preceding that day.

## Directors' Interests and Short Positions in Securities

### INTERESTS AND SHORT POSITIONS IN KINGWAY BREWERY HOLDINGS LIMITED

#### (i) Interests in ordinary shares

<u>Name of director</u>	<u>Capacity/ nature of interests</u>	<u>Number of ordinary shares held</u>	<u>Long/short position</u>	<u>Approximate percentage of holding</u>
CHENG Mo Chi, Moses	Personal	600,000	Long position	0.0430%
FUNG Sing Hong, Stephen *	Personal	24,000	Long position	0.0017%

Note: The number of ordinary shares of Kingway Brewery Holdings Limited in issue as at 30 June 2006 was 1,395,568,000.

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

<u>Name of director</u>	<u>Number of options held as at 1 January 2006</u>	<u>Options granted Jan – Jun 2006</u>		<u>Period during which share options is exercisable (dd.mm.yyyy)</u>	<u>Total consideration paid for share options HK\$</u>	<u>Price per ordinary share payable on exercise of options HK\$</u>	<u>Number of options exercised Jan – Jun 2006</u>	<u>Number of options held as at 30 June 2006</u>	<u>Long/Short Position</u>
		<u>Date</u>	<u>Number</u>						
FUNG Sing Hong, Stephen *	400,000	—	—	27.08.2003– 26.08.2008	1	0.84	—	400,000	Long position
	400,000	—	—	07.05.2004– 06.05.2009	1	1.93	—	400,000	Long position

Note: If the last day of any of the option period is not a business day in Hong Kong, the option period shall end at the close of business on the business day preceding that day.

## Directors' Interests and Short Positions in Securities

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

#### Interests in ordinary shares

<b>Name of director</b>	<b>Capacity/ nature of interests</b>	<b>Number of ordinary shares held</b>	<b>Long/short position</b>	<b>Approximate percentage of holding</b>
LI Kwok Po, David	Personal	15,000	Long position	0.0017%

Note: The number of ordinary shares of Guangnan (Holdings) Limited in issue as at 30 June 2006 was 901,583,285.

Save as disclosed above, as at 30 June 2006, none of the directors or chief executive of the Company had registered any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which are required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which a director is taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

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

\* Mr. FUNG Sing Hong, Stephen resigned as director and Chief Financial Officer of the Company on 19 July 2006.

## Substantial Shareholders' Interests

As at 30 June 2006, so far as is known to any director or chief executive of the Company, the following persons (other than a director or chief executive of the Company) have an interest or short position in the ordinary shares or underlying ordinary shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are recorded in the register kept by the Company pursuant to section 336 of the SFO:

<b>Name of Shareholder</b>	<b>Capacity/nature of interests</b>	<b>Number of ordinary shares held</b>	<b>Long/short position</b>	<b>Approximate percentage of issued ordinary share capital</b>
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) (Note 1)	Beneficial owner/ Interest of controlled corporation	3,765,770,781	Long position	62.53%
GDH Limited (Note 2)	Beneficial owner/ Interest of controlled corporation	3,765,770,781	Long position	62.53%
Guangdong Trust Ltd.	Beneficial owner/ Interest of controlled corporation	576,404,918	Long position	9.57%

Notes:

1. The attributable interest which 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) has in the Company is held through its 100% direct interest in GDH Limited.
2. The interest of GDH Limited set out above includes attributable interest held through its wholly-owned subsidiary, Guangdong Trust Ltd.

Save as disclosed above, no other person (other than a director or chief executive of the Company) known to any director or chief executive of the Company as at 30 June 2006 had an interest or short position in the ordinary shares or underlying ordinary shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are recorded in the register kept by the Company pursuant to section 336 of the SFO.

## Share Option Scheme

In assessing the theoretical aggregate value of the share options granted during the period, the Black-Scholes option pricing model has been used.

Share options granted during the period ended 30 June 2006:

Date of Grant : 10/03/2006  
 Vesting Period : 10/03/2006–10/06/2006  
 Exercise Period : 11/06/2006–10/06/2011  
 Exercise Price : HK\$3.405 per share

	<b>Number of options at 10/03/06</b>	<b>Options value at 10/03/06 HK\$ (Note (2))</b>	<b>Number of options at 30/06/06</b>	<b>Options value at 30/06/06 HK\$ (Note (3))</b>
Grantee:				
Employees	3,400,000	3,366,000	3,400,000	2,448,000
<b>Total</b>	<b>3,400,000</b>	<b>3,366,000</b>	<b>3,400,000</b>	<b>2,448,000</b>

Notes:

- (1) The closing price of the ordinary shares of the Company immediately before the date on which the options were granted was HK\$3.30.
- (2) According to the Black-Scholes model<sup>1</sup>, the theoretical aggregate value of the options was estimated at HK\$3,366,000 as at 10 March 2006 (when the options were granted) with the following variables and assumptions:
- Risk Free Rate : 4.33%, being the approximate yield of the 5-year Exchange Fund Note traded on 10/03/2006
- Expected Volatility : 36.1%, being the annualised volatility of the closing price of the ordinary shares of the Company from 11/03/2005 to 10/03/2006
- Expected Dividend Yield : 2.29%, being the approximate yield of the shares of the Company over the period from 11/03/2005 to 10/03/2006
- Expected Life of the Options : 5.25 years
- Assumptions : There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the ordinary shares of the Company over the period from 11/03/2005 to 10/03/2006.

## Share Option Scheme

- (3) According to the Black-Scholes model<sup>1</sup>, the theoretical aggregate value of the outstanding options was estimated at HK\$2,448,000 as at 30 June 2006 with the following variables and assumptions:

Risk Free Rate	:	4.69%, being the approximate yield of the 5-year Exchange Fund Note traded on 30/06/2006
Expected Volatility	:	35.2%, being the annualised volatility of the closing price of the ordinary shares of the Company from 01/07/2005 to 30/06/2006
Expected Dividend Yield	:	3.03%, being the approximate yield of the shares of the Company over the period from 01/07/2005 to 30/06/2006
Expected Life of the Options	:	4.93 years
Assumptions	:	There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the ordinary shares of the Company over the period from 01/07/2005 to 30/06/2006.

- (4) Options forfeited, if any, before the expiry of the options will be treated as lapsed options which will be added back to the number of ordinary shares available to be issued under the relevant share option scheme.

<sup>1</sup> The Black-Scholes model (the "Model") is developed to estimate the fair value of publicly traded options that have no vesting restriction and are fully transferable. The Model is only one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

# Corporate Governance and Other Information

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with the code provisions of the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2006.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the code of conduct regarding directors' securities transactions. All directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2006.

## BOARD OF DIRECTORS

The Board currently comprises three executive directors, being Mr. LI Wenyue, Mr. ZHANG Hui and Mr. LI Wai Keung, four non-executive directors, being Mr. CHENG Mo Chi, Moses, Mr. ZHAI Zhiming, Ms. WANG Xiaofeng and Ms. XU Wenfang, and three independent non-executive directors, being Mr. CHAN Cho Chak, John, Dr. LI Kwok Po, David, and Mr. FUNG, Daniel R.

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

## AUDIT COMMITTEE

The Company established an audit committee ("Audit Committee") in September 1998 and its terms of reference are in line with the CG Code. The Audit Committee comprises Dr. LI Kwok Po, David, Mr. CHAN Cho Chak, John, Mr. FUNG, Daniel R. and Mr. CHENG Mo Chi, Moses. Dr. LI Kwok Po, David is the Chairman of the Audit Committee. The principal duties of the Audit Committee include, inter alia, the review of the completeness, accuracy and fairness of the Company's financial reports and the Group's internal controls and risk management systems.

## REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited interim financial statements and the interim report of the Group for the six months ended 30 June 2006. In addition, the Company's external auditors, Ernst & Young, have also reviewed the aforesaid unaudited interim financial statements.

# Corporate Governance and Other Information

## REMUNERATION COMMITTEE

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

## PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2006, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities listed on The Stock Exchange of Hong Kong Limited save and except that the Company has issued the following new ordinary shares to certain option holders pursuant to the Company's share option scheme during the period:

	<b>No. of new ordinary shares issued</b>	<b>Exercise price per ordinary share</b> HK\$	<b>Cash consideration</b> HK\$
	1,900,000	0.96	1,824,000
	1,000,000	1.22	1,220,000
	730,000	1.25	912,500
	1,100,000	1.59	1,749,000
<b>Total</b>	<b>4,730,000</b>		<b>5,705,500</b>

## INTERIM DIVIDEND

The Board has resolved to declare the payment of an interim dividend of 5.0 HK cents (2005: 4.0 HK cents) per ordinary share for the six months ended 30 June 2006. The interim dividend will be paid to the shareholders whose names appear on the register of members of the Company (the "Register of Members") on 6 October 2006. The interim dividend will be paid on 20 October 2006.

## Corporate Governance and Other Information

### **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members will be closed on 5 October 2006 and 6 October 2006, during these two days no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tengis Limited, of 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on 4 October 2006.

By order of the Board

**LI Wenyue**

*Chairman*

Hong Kong, 13 September 2006