

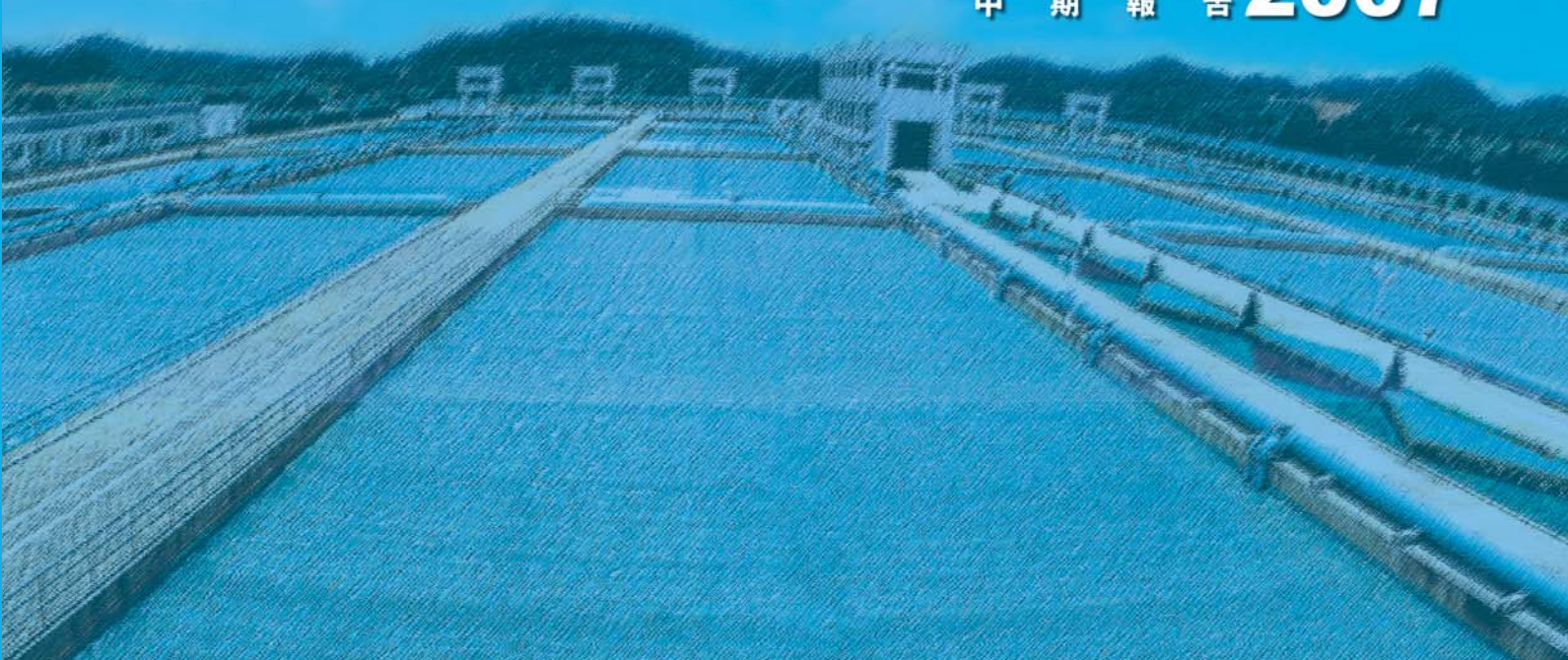


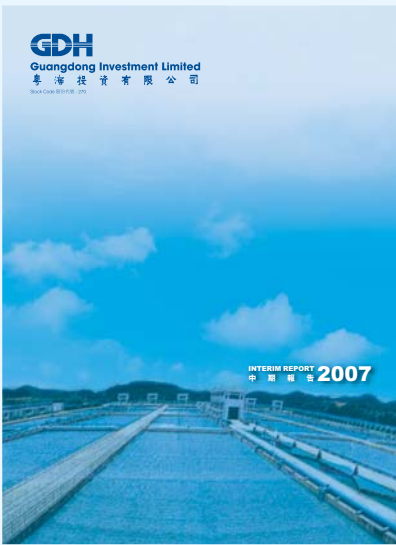
Guangdong Investment Limited

粵海投資有限公司

Stock Code 股份代號 : 270

INTERIM REPORT
中 期 報 告 2007





Bio-nitrification Treatment Pond

(Dongshen Water Supply Project)

Dongshen Raw Water Biological Nitrification Plant uses the biological contact oxidation technology to enhance the purity of water. The design treatment capacity of the Plant is 4 million cu. m. per day. The picture on the left shows the Bio-nitrification Treatment Pond, the key component of the Plant. The pond comprises six water corridors each 270 meters long, 25 meters wide and 5.5 meters deep.

生物硝化處理池

(東深供水項目)

東深源水生物硝化站採用生物接觸氧化工藝提高水的純淨度，工程設計日處理水量400萬立方米。圖為該工程的主體工程—生物處理池。該池由六條長270米、寬25米、深5.5米的過水廊道組成。

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Corporate Information

(as at 14 September 2007)

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*
JIANG Jin
ZHAI Zhiming
SUN Yingming
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
Website : <http://www.gdi.com.hk>

Registrar and Share Transfer Office

Tricor Tengis Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

Share Information

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

Shareholders' Calendar

Closure of Register of Members	8 October 2007 and 9 October 2007
Interim Dividend	5.0 HK cents per ordinary share
Payable	23 October 2007

Financial Highlights

Unaudited financial highlights	For the six months ended 30 June		
	2007 HK\$'000	2006 HK\$'000	Changes %
Revenue	3,287,078	3,082,169	6.6
Profit for the period attributable to shareholders	918,656	830,412	10.6
Earnings per share – Basic	15.08 HK cents	13.80 HK cents	9.3
Interim dividends per share	5.0 HK cents	5.0 HK cents	—
EBITDA	2,000,920	1,930,052	3.7

	30 June 2007 HK\$'000	31 December 2006 HK\$'000	Changes %
Shareholders' equity	13,575,850	12,622,587	7.6
Total assets	30,212,560	30,173,862	0.1
Net financial borrowings ⁵	10,346,230	11,220,085	(7.8)

Key ratios	For the six months ended 30 June	
	2007	2006
Interest cover ¹	7.99x	6.11x
Dividend payout ratio ²	33%	36%

	30 June 2007	31 December 2006
Gearing ³	0.79x	0.92x
Liquidity ⁴	1.92x	1.43x

Notes:

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

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

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

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

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

Report on Review of Interim Financial Information



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

To the Board of Directors of Guangdong Investment Limited

INTRODUCTION

We have reviewed the interim financial information set out on pages 5 to 34 which comprise the condensed consolidated balance sheet of Guangdong Investment Limited as at 30 June 2007 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

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

SCOPE OF REVIEW

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

CONCLUSION

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

Ernst & Young
Certified Public Accountants

Hong Kong
14 September 2007

Unaudited Interim Condensed Consolidated Financial Statements

Condensed Consolidated Income Statement

For the six months ended 30 June 2007

		For the six months ended 30 June	
	Notes	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
REVENUE	3	3,287,078	3,082,169
Cost of sales		(1,686,288)	(1,579,945)
Gross profit		1,600,790	1,502,224
Other income and gains		79,977	83,882
Selling and distribution costs		(37,509)	(38,471)
Administrative expenses		(220,437)	(189,419)
Other operating income, net		54,415	33,380
Finance costs	4	(250,575)	(315,934)
Share of profits of jointly-controlled entities		13,414	40,902
Share of profits less losses of associates		21,000	12,200
PROFIT BEFORE TAX	5	1,261,075	1,128,764
Tax	6	(168,621)	(145,278)
PROFIT FOR THE PERIOD		1,092,454	983,486
Attributable to:			
Equity holders of the Company		918,656	830,412
Minority interests		173,798	153,074
		1,092,454	983,486
DIVIDENDS — interim	7	305,134	301,262
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
Basic		15.08 HK cents	13.80 HK cents
Diluted		14.75 HK cents	13.41 HK cents

Unaudited Interim Condensed Consolidated Financial Statements

Condensed Consolidated Balance Sheet

30 June 2007

	Notes	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		7,466,612	7,544,787
Investment properties		2,547,694	2,385,480
Prepaid land lease payments		4,099,896	4,175,244
Goodwill		231,787	216,127
Interests in jointly-controlled entities		892,246	915,052
Interests in associates		497,826	484,156
Operating right		11,410,472	11,655,088
Deferred tax assets		25,175	22,604
Other long term assets		—	58
Total non-current assets		27,171,708	27,398,596
CURRENT ASSETS			
Available-for-sale investments		91,346	39,591
Tax recoverable		831	27,779
Inventories		49,959	59,316
Receivables, prepayments and deposits	9	608,303	329,729
Derivative financial instruments	10	128,166	64,436
Restricted cash and bank balances		2,792	2,756
Cash and cash equivalents		2,159,455	2,251,659
Total current assets		3,040,852	2,775,266
CURRENT LIABILITIES			
Payables, accruals and other liabilities	11	(1,064,927)	(1,023,729)
Tax payable		(57,471)	(46,109)
Derivative financial instruments	10	(29,168)	(235,885)
Due to minority shareholders of subsidiaries		(315,048)	(307,056)
Interest-bearing bank and other borrowings	12	—	(205,802)
Non-interest-bearing receipt in advance	13	(118,200)	(118,200)
Total current liabilities		(1,584,814)	(1,936,781)
NET CURRENT ASSETS		1,456,038	838,485
TOTAL ASSETS LESS CURRENT LIABILITIES — page 7		28,627,746	28,237,081

Unaudited Interim Condensed Consolidated Financial Statements

Condensed Consolidated Balance Sheet (continued)

30 June 2007

	Notes	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES — page 6		28,627,746	28,237,081
NON-CURRENT LIABILITIES			
Due to minority shareholders of subsidiaries		(37,034)	(35,555)
Interest-bearing bank and other borrowings	12	(10,614,485)	(11,374,742)
Non-interest-bearing receipt in advance	13	(1,773,000)	(1,773,000)
Deferred tax liabilities		(626,240)	(641,794)
Total non-current liabilities		(13,050,759)	(13,825,091)
Net assets		15,576,987	14,411,990
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	14	3,047,224	3,045,474
Reserves	16	10,223,492	9,272,516
Proposed dividend		305,134	304,597
		13,575,850	12,622,587
Minority interests		2,001,137	1,789,403
Total equity		15,576,987	14,411,990

Unaudited Interim Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2007

	Attributable to equity holders of the Company											Total equity (Unaudited) HK\$'000	
	Issued capital (Unaudited) HK\$'000	Share premium account (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 dividend (Unaudited) HK\$'000	Total (Unaudited) HK\$'000		Minority interests (Unaudited) HK\$'000
At 1 January 2006	3,008,759	2,298,205	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 expense 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)
Acquisition of minority interests	—	—	—	—	—	—	—	—	—	—	—	(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	—	—	—	—	—	—	—	—	(111)	(301,001)	(301,112)	—	(301,112)
Interim 2006 dividend declared	—	—	—	—	—	—	—	—	(301,262)	301,262	—	—	—
Transfer from retained profits during the period in accordance with the Undertaking (note 16)	—	—	—	—	—	—	—	92,305	(92,305)	—	—	—	—
Transfer to retained profits upon issue of new Ordinary Shares during the period (note 16)	—	—	—	—	—	—	—	(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 Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Changes in Equity (continued)

For the six months ended 30 June 2007

	Attributable to equity holders of the Company										Total equity (Unaudited) HK\$'000		
	Issued capital (Unaudited) HK\$'000	Share premium account (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 dividend (Unaudited) HK\$'000		Total (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000
At 1 January 2007	3,045,474	2,321,184	4,626	1,430,009	(96,168)	373,018	165,913	-	5,073,384	304,587	12,622,587	1,789,403	14,411,990
Net gains on cash flow hedges	-	-	-	-	208,980	-	-	-	-	-	208,980	28,848	237,828
Exchange realignment	-	-	-	-	-	-	125,497	-	-	-	125,497	31,874	157,371
Total income and expenses recognised directly in equity	-	-	-	-	208,980	-	125,497	-	-	-	334,477	60,722	395,199
Profit for the period	-	-	-	-	-	-	-	-	918,656	-	918,656	173,798	1,092,454
Total income and expense for the period	-	-	-	-	208,980	-	125,497	-	918,656	-	1,253,133	234,520	1,487,653
Share options exercised, net of share issue expenses	1,750	3,102	-	-	-	-	-	-	-	-	4,852	-	4,852
Acquisition of minority interests	-	-	-	-	-	-	-	-	-	-	-	(16,998)	(16,998)
Dividends paid to minority interests	-	-	-	-	-	-	-	-	(125)	(304,587)	(304,722)	(5,788)	(304,722)
Final 2006 dividend paid	-	-	-	-	-	-	-	-	-	-	-	-	-
Interim 2007 dividend declared	-	-	-	-	-	-	-	-	(305,134)	305,134	-	-	-
Transfer from retained profits during the period in accordance with the Undertaking (note 16)	-	-	-	-	-	-	-	109,394	(109,394)	-	-	-	-
Transfer to retained profits upon issue of new Ordinary Shares during the period (note 16)	-	-	-	-	-	-	-	(43,660)	43,660	-	-	-	-
At 30 June 2007	3,047,224	2,324,286	4,626	1,430,009	112,812	373,018	291,410	65,794	5,621,597	305,134	13,575,850	2,001,137	15,576,987

Unaudited Interim Condensed Consolidated Financial Statements

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2007

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	1,621,006	1,457,925
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(342,748)	(52,484)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(1,578,370)	(1,496,527)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(300,112)	(91,086)
Cash and cash equivalents at beginning of period	1,826,742	1,623,601
Effect of foreign exchange rate changes, net	41,815	13,227
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,568,445	1,545,742
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	627,464	678,671
Non-pledged bank deposits with original maturity of less than three months when acquired	940,981	867,071
	1,568,445	1,545,742

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements

30 June 2007

1. ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements of Guangdong Investment Limited (the “Company”) and its subsidiaries (collectively known as the “Group”) for the six months ended 30 June 2007 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2006, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) as disclosed in note 2 to the interim condensed consolidated financial statements.

2. CHANGES IN ACCOUNTING POLICIES

2.1 Impact of new and revised HKFRSs

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised HKFRSs which are generally effective for accounting periods beginning on or after 1 January 2007. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material impact on these interim condensed consolidated financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) — Int 8	Scope of HKFRS 2
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment

The principal changes in accounting policies are as follows:

The revised HKAS 1 affects the disclosures of 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.

The HKFRS 7 requires disclosures that enable users of the financial statements to evaluate the significance of the Group’s financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates major disclosure requirements of HKAS 32 “Financial Instruments — Presentation and Disclosure”.

The HK(IFRIC) — Int 10 states that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2007

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 interim condensed consolidated financial statements.

HKAS 23 (Revised)	Borrowing Costs
HKFRS 8	Operating Segments
HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC) — Int 12	Service Concession Arrangements

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 "Segment Reporting".

The HKAS 23 (Revised), HK(IFRIC) — Int 11 and HK(IFRIC) — Int 12 shall be applied for annual periods beginning on or after 1 January 2009, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that the adoption of the HKFRS 8 may result in new or amended disclosures. The Group has already commenced an assessment of the impact of the other new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the results of operations and financial position.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2007

3. SEGMENT INFORMATION

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

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

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2007

3. SEGMENT INFORMATION (continued)

Business segments

The following table presents revenue and profit/(loss) for the Group's business segments for the six months ended 30 June 2007 and 2006.

	Property Investment and Development		Toll Roads and Bridges		Water Distribution	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	203,772	176,111	7,757	7,137	1,735,562	1,694,055
Intersegment sales	45,464	40,755	—	—	—	—
Other revenue from external sources (note)	2,820	5,304	40	2,924	—	—
Other revenue from intersegment (note)	—	—	—	—	—	—
Exchange gains/(losses), net	(17)	(360)	—	7	(27,006)	(17,014)
Total	252,039	221,810	7,797	10,068	1,708,556	1,677,041
Segment results	240,396	163,047	(2,039)	4,759	992,168	967,472
Interest income						
Other unallocated gains, net						
Finance costs						
Share of profits less losses of:						
Jointly-controlled entities	—	—	13,414	40,902	—	—
Associates	—	—	2,729	5,417	—	—
Profit before tax						
Tax						
Profit for the period						

Note: Excluding exchange gains/(losses), net

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2007

3. SEGMENT INFORMATION (continued)

Business segments (continued)

	Electric Power Generation		Hotel Operations and Management		Department Stores	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	442,746	437,266	148,171	137,401	749,070	630,190
Intersegment sales	—	—	—	—	—	—
Other revenue from external sources (note)	5,330	4,009	599	(56)	8,065	5,535
Other revenue from intersegment (note)	—	—	—	—	—	—
Exchange gain/(losses), net	1,454	1,596	258	288	—	17
Total	449,530	442,871	149,028	137,633	757,135	635,742
Segment results	94,351	93,398	41,778	37,481	63,968	43,804
Interest income						
Other unallocated gains, net						
Finance costs						
Share of profits less losses of:						
Jointly-controlled entities	—	—	—	—	—	—
Associates	11,543	6,783	—	—	6,728	—
Profit before tax						
Tax						
Profit for the period						

Note: Excluding exchange gains/(losses), net

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2007

3. SEGMENT INFORMATION (continued)

Business segments (continued)

	Others		Eliminations		Consolidated	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	—	9	—	—	3,287,078	3,082,169
Intersegment sales	—	—	(45,464)	(40,755)	—	—
Other revenue from external sources (note)	476	24,070	—	—	17,330	41,786
Other revenue from intersegment (note)	1,359	—	(1,359)	—	—	—
Exchange gain/(losses), net	837	3,018	—	—	(24,474)	(12,448)
Total	2,672	27,097	(46,823)	(40,755)	3,279,934	3,111,507
Segment results	(16,033)	6,635	—	—	1,414,589	1,316,596
Interest income					39,578	42,096
Other unallocated gains, net					23,069	32,904
Finance costs					(250,575)	(315,934)
Share of profits less losses of:						
Jointly-controlled entities	—	—	—	—	13,414	40,902
Associates	—	—	—	—	21,000	12,200
Profit before tax					1,261,075	1,128,764
Tax					(168,621)	(145,278)
Profit for the period					1,092,454	983,486

Note: Excluding exchange gains/(losses), net

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2007

4. FINANCE COSTS

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Interest on bank loans and other borrowings wholly repayable ⁽¹⁾ :		
Within five years	36,292	51,115
Over five years	203,371	255,741
	239,663	306,856
Finance charges on cash flow hedges, net (note 10)	10,912	9,078
Total finance costs for the period	250,575	315,934

- (1) Net of government grants of HK\$26,450,000 (six months ended 30 June 2006: HK\$29,523,000) in respect of subsidies for interest expense arising from bank loans borrowed by the Group for the purpose of Dongshen Water Supply Phase IV Renovation Project (the "Phase IV Renovation Project"). There are no unfulfilled conditions or contingencies relating to these grants.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2007

5. PROFIT BEFORE TAX

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

	Notes	For the six months ended 30 June	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Interest income**		(39,578)	(42,096)
Excess over the cost of business combinations**	17	—	(1,858)
Changes in fair value of derivative financial instruments not qualified for hedges, net**	10	(16,182)	6,715
Gain on disposal of an available-for-sale investment^		—	(39,619)
Cost of inventories sold*		873,078	678,085
Depreciation		200,876	220,173
Recognition of prepaid land lease payments		78,171	71,928
Amortisation of deferred expenses		21	1,739
Amortisation of the operating right*		244,616	244,616
Changes in fair value of investment properties^		(55,379)	—
Loss on disposal of items of property, plant and equipment, net^		942	156
Equity-settled share option expense		—	3,366
Write-back of an other payable**		—	(23,154)
		—	(23,154)

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

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

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

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2007

6. TAX

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Current — Hong Kong	2,679	2,407
Current — Mainland China	201,755	144,708
Deferred	(35,813)	(1,837)
Total tax charge for the period	<u>168,621</u>	<u>145,278</u>

Hong Kong profits tax has been provided at the rate of 17.5% (six months ended 30 June 2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in those places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Under the PRC income tax law, enterprises are subject to the corporate income tax (the "CIT") at a rate of 33%. However, pursuant to the PRC income tax laws, certain of the Group's PRC subsidiaries 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\$50,378,000 (six months ended 30 June 2006: HK\$6,862,000) and HK\$7,843,000 (six months ended 30 June 2006: HK\$4,160,000), 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.

On 16 March 2007, the National People's Congress approved the CIT Law of the PRC (the "New CIT Law"), which will become effective from 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the CIT rate for domestic and foreign investment enterprises at a rate of 25%. This change in the CIT rate will directly affect the Group's effective tax rate prospectively from 2008. According to HKAS 12 "Income taxes", deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, and the Group's deferred tax have been adjusted accordingly.

At the date of approval of these interim condensed consolidated financial statements, detailed implementation and administrative requirements relating to the New CIT Law have yet to be announced. These detailed requirements include regulations concerning the computation of taxable income, as well as specific preferential tax treatments and their related transitional provisions. The Group will further evaluate the impact on its operating results and financial positions of future periods as more detailed requirements are issued.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2007

7. DIVIDENDS

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Interim — 5.0 HK cents (2006: 5.0 HK cents) per ordinary share	305,134	301,262

At a meeting of the board of directors held on 14 September 2007, the directors resolved to pay an interim dividend to shareholders of 5.0 HK cents (2006: 5.0 HK cents) for the six months ended 30 June 2007.

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

The calculations of the basic and diluted earnings per share for the six months ended 30 June 2007 and 2006 are based on:

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Earnings:		
Profit attributable to ordinary equity holders of the Company, used for the purpose of the basic and diluted earnings per share calculation	918,656	830,412

	For the six months ended 30 June	
	2007 (Unaudited)	2006 (Unaudited)
Number of shares:		
Weighted average number of Ordinary Shares in issue used for the purpose of basic earnings per share calculation	6,092,276,800	6,019,475,364
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*	133,913,640	171,309,709
For the purpose of diluted earnings per share	6,226,190,440	6,190,785,073

* The share options expiring on 10 June 2011 had an anti-dilutive effect on the basic earnings per share and was not included in the diluted earnings per share calculation for the six months ended 30 June 2006.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2007

9. RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Notes	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Trade receivables, net of impairments		451,546	119,694
Other receivables, prepayments and deposits		153,316	207,280
Due from the ultimate holding company	20(b)	—	51
Due from the immediate holding company	20(b)	377	320
Due from fellow subsidiaries	20(b)	3,064	2,384
		608,303	329,729

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 30 days to 180 days of issue. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management. The Group's trade receivables relate principally to the water supply business and the Group has a certain concentration of credit risk as 50% (31 December 2006: 27%) of the total trade receivables were due from one of the Group's major customers.

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

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Within 3 months	450,496	119,482
3 months to 6 months	318	86
6 months to 1 year	307	484
More than 1 year	11,447	10,664
	462,568	130,716
Less: Impairments	(11,022)	(11,022)
	451,546	119,694

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2007

10. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2007	
	Assets	Liabilities
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest rate swap agreements	128,166	(29,168)

	31 December 2006	
	Assets	Liabilities
	(Audited)	(Audited)
	HK\$'000	HK\$'000
Interest rate swap agreements	64,436	(235,885)

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

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

Cash flow hedges

At 30 June 2007, the Group had certain interest rate swap agreements with a total notional amount of HK\$5,200 million (31 December 2006: HK\$5,200 million), designated and qualified as hedges in respect of the Group's Refinancing Facilities, whereby the Group receives interest at a variable rate of Hong Kong Inter Bank Offered Rates ("HIBOR") per annum and pays interest at a range of fixed rates per annum on the notional amounts. The swap agreements converted the interest obligation arising from the Refinancing Facilities from the floating rate of HIBOR to a range of fixed interest rates per annum for the period from the effective dates of respective contracts to various maturity dates from 2008 to 2012.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2007

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedges (continued)

The terms of these swap agreements have been negotiated to match the respective terms of the Refinancing Facilities. The cash flow hedges of the Refinancing Facilities were assessed to be highly effective and the net fair value gain on cash flow hedges of HK\$208,980,000 (six months ended 30 June 2006: HK\$263,635,000) included in the hedging reserve was as follows:

	30 June 2007 (Unaudited) HK\$'000	30 June 2006 (Unaudited) HK\$'000
Total fair value gains included in the hedging reserve	226,916	292,702
Fair value losses transferred from the hedging reserve and recognised in the income statement (note 4)	10,912	9,078
Net movement on cash flow hedges	237,828	301,780
Portion shared by minority interests	(28,848)	(38,145)
Net movement attributable to the equity holders of the Company for the six months ended 30 June	208,980	263,635

Derivatives not qualified for hedge accounting

At 30 June 2007, the Group had various other interest rate swap agreements which did not meet the criteria for hedge accounting. The net gain in the fair value of these derivatives not qualified for hedge accounting amounting to HK\$16,182,000 (six months ended 30 June 2006: net loss of HK\$6,715,000) (note 5) was included in the income statement during the period.

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

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2007

11. PAYABLES, ACCRUALS AND OTHER LIABILITIES

	Notes	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Trade payables		162,973	159,141
Accruals and other liabilities		900,058	862,684
Due to the immediate holding company	20(b)	1,588	1,616
Due to fellow subsidiaries	20(b)	308	288
		1,064,927	1,023,729

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 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Within 3 months	140,350	148,091
3 months to 6 months	6,673	3,736
6 months to 1 year	10,636	1,958
More than 1 year	5,314	5,356
	162,973	159,141

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2007

12. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate	Maturity	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Current				
Bank loans — secured	—	—	—	172,954
Bank loan — unsecured	—	—	—	32,848
			<u>—</u>	<u>205,802</u>
Non-current				
Bank loans — secured	4.55% – 6.48%*	2008 – 2017	<u>10,614,485</u>	<u>11,374,742</u>
			<u>10,614,485</u>	<u>11,580,544</u>

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

13. NON-INTEREST-BEARING RECEIPT IN ADVANCE

In a prior year, the Government of the Hong Kong Special Administrative Region (the “HKSAR”) granted a loan facility with a principal amount of HK\$2,364 million (the “Loan Facility”) to the Guangdong Provincial Government (the “GPG”) for the purpose of the Phase IV Renovation Project. Pursuant to the concession agreement dated 18 August 2000 entered into between the GPG and Guangdong Yue Gang Water Supply Company Limited (“WaterCo”), a 86.99% subsidiary of the Group, the Loan Facility was utilised for the construction of the Phase IV Renovation Project. Upon the completion of the Phase IV Renovation Project during the year ended 31 December 2003, the Group acquired and recorded the assets of the Phase IV Renovation Project and assumed the repayment obligations of the Loan Facility from the GPG as a non-interest-bearing receipt in advance, through the deduction of future water revenue to be received by the Group from the Government of the HKSAR, by an annual amount of HK\$118,200,000 for 20 years commencing from December 2003.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2007

14. SHARE CAPITAL

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Authorised: 8,000,000,000 (31 December 2006: 8,000,000,000) ordinary shares of HK\$0.50 each ("Ordinary Shares")	4,000,000	4,000,000
Issued and fully paid: 6,094,448,071 (31 December 2006: 6,090,948,071) Ordinary Shares	3,047,224	3,045,474

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

	Note	Number of Ordinary Shares in issue (Unaudited)	Issued capital (Unaudited) HK\$'000	Ordinary Share premium account (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2007		6,090,948,071	3,045,474	2,321,184	5,366,658
Share options exercised	(i)	3,500,000	1,750	3,102	4,852
At 30 June 2007		6,094,448,071	3,047,224	2,324,286	5,371,510

- (i) During the six months ended 30 June 2007, the subscription rights attaching to 3,500,000 (six months ended 30 June 2006: 4,730,000) share options were exercised at subscription prices ranging from HK\$1.22 to HK\$1.59 (six months ended 30 June 2006: HK\$0.96 to HK\$1.59) per Ordinary Share (note 15), resulting in the issue of 3,500,000 (six months ended 30 June 2006: 4,730,000) new Ordinary Shares for a total consideration, net of expenses, of HK\$4,852,000 (six months ended 30 June 2006: HK\$5,669,000).

15. SHARE OPTION SCHEME

The Company operates a share option scheme (the "GDI Scheme") for the purpose of providing incentives to the participants to contribute to the Group, to enable the Group to recruit and retain quality employees to serve the Group on a long term basis, to maintain a good relationship with its consultants, professional advisers, suppliers of goods or services and customers and to attract human resources that are valuable to the Group. Eligible participants of the GDI Scheme include the Company's directors (including non-executive and independent non-executive directors), employees or executives of the Group, consultants or advisers of the Group, suppliers of goods or services to the Group, customers of the Group, and substantial shareholders of the Group. The GDI Scheme unless otherwise terminated or amended, will remain in force for 10 years from 3 June 2002.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2007

15. SHARE OPTION SCHEME (continued)

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

Name or category of participants	Number of share options			Date of grant of share options* (DD.MM.YYYY)	Exercise period of share options (both dates inclusive)# (DD.MM.YYYY)	Price of the Company's Ordinary Shares***			
	At 1 January 2007	Exercised during the period	At 30 June 2007			Exercise price of share options** HK\$ (per share)	At grant date of options HK\$ (per share)	Immediately before the exercise date of options HK\$ (per share)	At exercise date of options HK\$ (per share)
Directors									
LI Wenyue	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	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	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	—	—
	450,000	—	450,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	—	—
LI Kwok Po, David	1,000,000	—	1,000,000	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	3.580	3.620
	1,000,000	—	1,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	—	—
	450,000	—	450,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	—	—

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2007

15. 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)	Price of the Company's Ordinary Shares***			
	At 1 January 2007	Exercised during the period	At 30 June 2007			Exercise price of share options** HK\$ (per share)	At grant date of options HK\$ (per share)	Immediately before the exercise date of options HK\$ (per share)	At exercise date of options HK\$ (per share)
Directors (continued)									
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	—	—
WANG Xiaofeng	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	—	—
	<u>44,450,000</u>	<u>(1,000,000)</u>	<u>43,450,000</u>						
Others									
Former directors	6,000,000	—	6,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	—	—
	4,000,000	—	4,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	—	—
	4,000,000	—	4,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	—	—
Employees	42,000,000	—	42,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	—	—
	19,300,000	—	19,300,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	—	—
	29,900,000	(1,500,000)	28,400,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	4,750	4,860
	40,440,000	(1,000,000)	39,440,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	4,750	4,860
	3,400,000	—	3,400,000	10.03.2006	11.06.2006 to 10.06.2011	3.405	3.30	—	—
	<u>149,040,000</u>	<u>(2,500,000)</u>	<u>146,540,000</u>						
Total	<u>193,490,000</u>	<u>(3,500,000)</u>	<u>189,990,000</u>						

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2007

15. SHARE OPTION SCHEME (continued)

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

- * The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- ** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- *** The price of the Company's Ordinary Shares disclosed as "At grant date of options" of the share options is the closing price on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the business day prior to which the options were granted.

The price of the Company's Ordinary Shares disclosed as "Immediately before the exercise date of options" 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).

16. RESERVES

One of the undertakings given to the High Court of the HKSAR by the Company in its capital reduction application (the "Undertaking") relates to the setting up of a special reserve on the terms that for so long as there shall remain outstanding any debt of or claim against the Company which would be admissible to proof in a notional winding-up of the Company on 24 December 2003 ("Effective Date") and the person entitled to the benefit thereof shall not have consented to the said reduction of capital or agreed otherwise, the Company shall credit to a special reserve in the books of the Company (the "Special Reserve"): (a) any amount arising by reason of a release of any provision taken into account in establishing the accumulated losses of the Company as at 30 June 2003; or (b) any amount received by the Company as profit by way of distribution from a corporation which was a subsidiary of the Company at the Effective Date (a "subsidiary") which is made by such a subsidiary out of profit available for distribution prior to the Effective Date or any dividend paid to the Company in respect of any liquidation of a subsidiary commencing prior to that date.

During the six months ended 30 June 2007, the release of provision as determined above was HK\$109,394,000 (six months ended 30 June 2006: HK\$92,305,000); and no profit was distributed from the Company's subsidiaries in both the current and prior periods as determined above, resulting in an aggregate transfer from retained profits to the Special Reserve of the Group and the Company of HK\$109,394,000 (six months ended 30 June 2006: HK\$92,305,000).

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Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2007

16. 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 2007, 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\$43,660,000 (six months ended 30 June 2006: HK\$92,305,000). In effecting the reduction and capitalisation as aforesaid, the amount transferred from the Special Reserve is kept to an amount not exceeding the balance of the Special Reserve before such transfer.

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

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

As at 30 June 2007, the Limit of the Special Reserve was reduced by an increase in paid-up share capital due to the issue of the Company's Ordinary Shares during the period of HK\$4,855,000.

The Limit, as adjusted, was HK\$719,834,533 (31 December 2006: HK\$724,689,533) and the amount standing to the credit of the Special Reserve was HK\$65,733,538 (31 December 2006: Nil) as at 30 June 2007.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2007

17. ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES

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

During the six months 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).

18. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of one to fifteen years (31 December 2006: one to fifteen years).

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

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Within one year	9,850	9,717
In the second to fifth years, inclusive	39,754	38,055
After five years	66,537	67,850
	116,141	115,622

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2007

19. COMMITMENTS

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

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
(a) Capital commitments in respect of property, plant and equipment:		
Contracted for	22,651	52,520
Authorised, but not contracted for	797,984	784,934
	820,635	837,454

- (b) Pursuant to WaterCo's article 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 receive any distributed profits of WaterCo for the first fifteen years of operation and 100% of the distributed profits for that period shall be made to GH Holdings. Starting from the sixteenth year of WaterCo's operation, 1.01% of the distributed profits of WaterCo for the first fifteen years of operation plus simple interest at a rate of 8% per annum on the unpaid amount of the distributed profits shall be made to 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.

20. MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Transaction with a related party

During the six months ended 30 June 2006, the Group recorded interest income of HK\$13,162,000 arising from an unsecured loan advanced by the Group to a former contractual joint venture. This loan bore interest at a rate of 7.56% per annum and was repaid in full in prior years.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2007

20. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties

	Notes	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Balances due from:			
Ultimate holding company	(i)	—	51
Immediate holding company	(i)	377	320
Fellow subsidiaries	(ii)	3,064	2,384
Associates	(i)	16,928	3,238
Balances due to:			
Immediate holding company	(i)	(1,588)	(1,616)
Fellow subsidiaries	(ii)	(308)	(288)
Jointly-controlled entities	(iii)	(744)	(744)
Minority shareholders of subsidiaries	(iv)	(352,082)	(342,611)

Notes:

- (i) The 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. The carrying amounts of the amounts due approximate to their fair values.
- (iii) The amounts due to 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) 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\$37,034,000 (31 December 2006: HK\$35,555,000) which are not repayable within one year. The carrying amounts of the amount due approximate to their fair values.

Unaudited Interim Condensed Consolidated Financial Statements

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2007

20. MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Short term employment benefits	1,195	1,704
Post-employment benefits	84	149
Share-based payments	—	—
Total compensation paid to directors and key management personnel	<u>1,279</u>	<u>1,853</u>

21. CAPITAL EXPENDITURE

During the six months ended 30 June 2007, the Group acquired items of property, plant and equipment of approximately HK\$95,613,000 (six months ended 30 June 2006: HK\$147,930,000), in aggregate.

22. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 14 September 2007.

Business Review, Discussion and Analysis, Prospects and Other Information

RESULTS

The Board is pleased to report that the results of the Group for the six months ended 30 June 2007 has continued to maintain a steady growth. The Group's unaudited consolidated net profit attributable to shareholders amounted to HK\$919 million (2006: HK\$830 million), representing a growth of 10.6% as compared with same period last year. The basic earnings per share were 15.08 HK cents (2006: 13.80 HK cents), representing a growth of 9.3% as compared with same period last year.

INTERIM DIVIDEND

The Board declares an interim dividend of 5.0 HK cents per share for the six months ended 30 June 2007 (2006: 5.0 HK cents).

FINANCIAL REVIEW

The unaudited consolidated revenue of the Group for the six months ended 30 June 2007 was HK\$3,287 million (2006: HK\$3,082 million), an increase of 6.6% as compared with same period last year. All the Group's six business sectors, namely water distribution, electric power generation, toll roads and bridges, property investment and development, department stores, and hotel operations and management, achieved satisfactory growth.

The unaudited consolidated net profit attributable to shareholders of the Group for the six months ended 30 June 2007 amounted to HK\$919 million (2006: HK\$830 million), an increase of 10.6%. The water distribution business remains the major source of our profit. Unlike 2006 when the unusual heavy rainfall reduced the reliance of the Shenzhen and Dongguan areas on the Dongshen Water Supply Project for its water supply, the water demand during the period under review has reverted to its normal level. Benefiting also from the increase in water sales volume and the increase in water tariffs for Dongguan areas that came into effect in July 2006, the total revenue from the water distribution business increased by HK\$42 million (an increase of 2.5%) as compared with same period last year. The increase in profit of the Group was also mainly attributable to increase in the revenue from respectively our property investment and development business of HK\$28 million (an increase of 15.7%), our department stores business of HK\$119 million (an increase of 18.9%) and our hotel operations and management business of HK\$11 million (an increase of 7.8%). As far as finance costs are concerned, even though interest rates have increased during the period, interest rate swap arrangements have already been made for a major portion of the Group's floating rate loans. Accordingly, the impact of the rising interest rates on the Group's financial position is but only minor. Moreover, benefiting from not only the interest rate reduction arrangements made in December 2006, but also the continuing repayment of outstanding borrowings, the Group's finance costs for the period under review decreased by HK\$65 million.

An increase in the fair value of investment properties for HK\$55,379,000 (2006: Nil) and an unrealised gain for the interest rate swap agreements not qualified for hedges of HK\$32,620,000 (2006: HK\$5,019,000) were recorded in the unaudited condensed consolidated income statement for the period.

The earnings before interest, tax, depreciation and amortisation ("EBITDA") of the Group for the six months ended 30 June 2007 increased by 3.7% to HK\$2,001 million (2006: HK\$1,930 million).

The basic earnings per share were 15.08 HK cents (2006: 13.80 HK cents), representing an increase of 9.3% as compared with same period last year.

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 0.25% to 87.87% during the six months ended 30 June 2007. The planned annual water supply capacity is 2.423 billion cubic meters.

The total water sales revenue to Hong Kong, Shenzhen and Dongguan during the six months ended 30 June 2007 amounted to HK\$1,735,562,000 (2006: HK\$1,694,055,000), an increase of 2.5%.

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

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

The water sales volume to the Shenzhen and Dongguan areas increased by 5.5% to 618 million cubic meters for the six months ended 30 June 2007 (2006: 586 million cubic meters). This is because unlike 2006 when the unusual heavy rainfall reduced the reliance of the Shenzhen and Dongguan areas on the Dongshen Water Supply Project for its water supply, the water demand during the period under review has reverted to its normal level. Benefiting also from the increase in water sales volume and the increase in water tariffs for Dongguan areas that came into effect in July 2006, the water sales revenue to the Shenzhen and Dongguan areas during the six months ended 30 June 2007 increased 12.5% to HK\$374,762,000 (2006: HK\$333,255,000).

The profit contribution to the Group from the water distribution business for the period under review (excluding the unrealised gain of HK\$28,663,000 (2006: HK\$4,385,000) on interest rate swap agreements that did not qualify as hedging transactions for accounting purposes ("Non-qualified IRS")) was HK\$539,233,000 (2006: HK\$489,716,000), 10.1% 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\$1,468,704,000 (2006: HK\$1,445,412,000), an increase of 1.6%.

As a result of the reduction of the interest rate per annum from 8% to HIBOR+0.4% for certain credit facility arrangement of the Group in December 2006, together with the continuing repayment of outstanding borrowings, the amount of interest savings during the period amounted to approximately HK\$61 million.

Business Review, Discussion and Analysis, Prospects and Other Information

BUSINESS OVERVIEW (continued)

Electric Power Generation

Shaoguan Power Plant D (“Shaoguan PPD”)

The Group's effective interest in Shaoguan PPD is 45.9% (a 51% owned subsidiary of the Company holding a 90% interest in the project). Shaoguan PPD has 1 power unit with an installed capacity of 200 MW. In the first six months of 2007, sales of electricity amounted to 657 million kwh (2006: 735 million kwh), a decrease of 10.6%. This was mainly because some operation of the power plant was suspended in January and February for repair and maintenance. Revenue for the period amounted to HK\$278,181,000 (2006: HK\$294,960,000), a decrease of 5.7%. The profit before tax for the period decreased by 11.9% to HK\$48,211,000 (2006: HK\$54,746,000).

Zhongshan Power Plant

The Group's effective interest in Zhongshan Power Plant is 59.85% (a 95% owned subsidiary of the Company holding a 63% interest in the project). Zhongshan Power Plant has 2 power units with a total installed capacity of 110 MW. In the first six months of 2007, sales of electricity amounted to 352 million kwh (2006: 332 million kwh), an increase of 6.0%. As a result of the increase in sales as aforesaid and also the tariff increase that has come into effect since July 2006, revenue for the period amounted to HK\$164,565,000 (2006: HK\$142,306,000), an increase of 15.6%. The profit before tax for the period increased by 60.0% to HK\$52,405,000 (2006: HK\$32,749,000).

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”)

The Group's effective interest in Yue Jiang Power Plant is 11.48% (Shaoguan PPD holding 25% interest in this project). Revenue for the period amounted to HK\$683,317,000 (2006: HK\$632,751,000), an increase of 8.0% which was mainly due to the increase in tariff in the second half of 2006. The profit before tax increased by 0.1% to HK\$37,379,000 (2006: HK\$37,328,000).

Meixian Power Plant

The Group's effective interest in Meixian Power Plant is 12.25% (a 49% associate of the Company, Guangdong Power Investment Limited (“GD Power Investment”), holding a 25% interest in the project). Revenue for the period amounted to HK\$592,381,000 (2006: HK\$501,017,000), an increase of 18.2%. The profit before tax increased by 85.4% to HK\$101,945,000 (2006: HK\$54,994,000). During the period, GD Power Investment received dividend income of HK\$14,898,000 (2006: HK\$3,863,000) from this investment.

Toll Roads and Bridges

“1 Road and 2 Bridges”

In the first six months of 2007, 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\$125,082,000 in aggregate (2006: HK\$93,655,000). The traffic flow of all these road and bridges recorded growth during the period. The Humen Bridge and the Shantou Haiwan Bridge showed growth in profit before tax. However, there has been a drop in profit before tax in the case of the Guangzhou-Shantou Highway (Huizhou Section).

Business Review, Discussion and Analysis, Prospects and Other Information

BUSINESS OVERVIEW (continued)

Toll Roads and Bridges (continued)

“1 Road and 2 Bridges” (continued)

(i) *Humen Bridge*

The JCE holds a 30% interest in this project. During the period, the average daily traffic flow of this bridge increased by 18.0% to 56,865 vehicle trips (2006: 48,200 vehicle trips). Revenue for the period reached HK\$466,843,000 (2006: HK\$371,268,000), an increase of 25.7%. This was mainly because the congested traffic condition of the Guangshen Highway caused by the repair and maintenance works being carried out made an increasing number of vehicles to use the Humen Bridge instead. In addition, with private cars becoming a popular means of transport in the developing city of Humen, the traffic flow of light vehicles has also increased. With the repayment of shareholders' loans, finance costs decreased by HK\$16,999,000 as compared with that of the same period last year. Accordingly, the profit before tax for the period increased by 43.0% to HK\$334,325,000 (2006: HK\$233,730,000).

(ii) *Shantou Haiwan Bridge*

The JCE holds a 30% interest in this project. During the period, the average daily traffic flow of this bridge increased by 12.1% to 12,419 vehicle trips (2006: 11,079 vehicle trips). As there were more heavy vehicles that paid a higher tariff using the road, revenue increased significantly by 21.0% to HK\$80,193,000 (2006: HK\$66,285,000). The profit before tax for the period increased by 32.4% to HK\$60,417,000 (2006: HK\$45,648,000).

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

The JCE holds a 51% interest in this project. During the period, the average daily traffic flow of this highway has increased by 5.7% to 18,031 vehicle trips (2006: 17,054 vehicle trips). Revenue for the period was HK\$33,429,000 (2006: HK\$30,183,000), an increase of 10.8%. However, due to the increase in repair and maintenance, profit before tax for the period decreased by 24.0% to HK\$3,711,000 (2006: HK\$4,885,000).

Yingkeng Highway

The Group's effective interest in this project is 70%. During the period, although the average daily traffic flow of this highway decreased by 10.6% to 4,642 vehicle trips (2006: 5,194 vehicle trips), with more heavy vehicles paying a higher tariff using the road, revenue increased by 8.7% to HK\$7,757,000 (2006: HK\$7,137,000). However, due to the increase in the repair and maintenance costs of HK\$4,748,000, a loss of HK\$2,024,000 (2006: profit before tax of HK\$2,002,000) was recorded.

Panyu Bridge

The Group's effective interest in this project is 20%. During the period, the average daily traffic flow of this bridge decreased by 23.8% to 52,026 vehicle trips (2006: 68,233 vehicle trips). This was mainly because the 新光快速路 which opened in late 2006 has diverted part of Panyu Bridge's traffic flow. As a result, revenue for the period has decreased by 24.5% to HK\$58,467,000 (2006: HK\$77,483,000). The profit before tax for the period was HK\$15,802,000 (2006: HK\$29,282,000), a decrease of 46.0%.

Business Review, Discussion and Analysis, Prospects and Other Information

BUSINESS OVERVIEW (continued)

Property Investment

Mainland China

Teemall

At the balance sheet date, the Group holds an effective equity interest of 75.73% in 廣東天河城（集團）股份有限公司 (Guangdong Teem (Holdings) Limited), which owns the Teemall Plaza development comprising of a shopping mall and two tower blocks.

The Teemall, one of the most popular shopping malls in the premier area of Guangzhou, has a total gross floor area and lettable area of approximately 160,000 square metres and 96,543 square metres, respectively. The plaza continued to enjoy high average occupancy rate of approximately 99% during the period (2006: 99%). Revenue of the plaza during the period reached HK\$174,860,000 (2006: HK\$162,633,000), an increase of 7.5%. The profit before tax for the period increased by 27.4% to HK\$195,468,000 (2006: HK\$153,377,000), which included the effect of increase in valuation of the plaza. The plaza is successful in retaining existing brand-name tenants and attracting new ones. The strong demands for shop spaces in the plaza resulted in substantial rental increases.

The East Tower is a 45-storey A-class office tower, with a total gross floor area and lettable area of approximately 102,000 square metres and 90,000 square metres, respectively. Colliers International, a prestigious international property agent, has been engaged to market and promote the leasing of all the East Tower units. The response to the pre-leasing is very encouraging and not only a number of multinational companies but also the consulate of a European country have already taken up leases. The estimated total development cost of the East Tower (inclusive of also the historic land and infrastructure costs now attributed to the East Tower) was about HK\$840 million, of which approximately HK\$743 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. 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 development cost of the West Tower (inclusive of also the historic land and infrastructure costs now attributed to the West Tower) is about HK\$780 million, of which approximately HK\$166 million has been invested as at the balance sheet date.

Hong Kong

Guangdong Investment Tower

The average occupancy rate of the Guangdong Investment Tower for the first six months of 2007 was 96.7% (2006: 88.7%), 8% higher than the same period last year. This was mainly because the ground floor shop units have now been leased to a major bank after the completion of the renovation and improvement works. The total rental income for the period was HK\$14,176,000 (2006: HK\$7,680,000), an increase of 84.6% which was a result of the increased occupancy rate and average rent rate.

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 84.95% in 廣東天河城百貨有限公司 (Guangdong Teemall Department Stores Ltd.) (“GDTDS”) for the operation of department stores.

GDTDS operates with a total leased area of approximately 36,252 square metres (2006: 33,827 square metres) selling a wide range of products and is ranked, in terms of sales, as one of the major department stores in Guangzhou. During the period, GDTDS continued to enjoy record high revenue of HK\$749,070,000 (2006: HK\$630,190,000), an increase of 18.9%. The increase in revenue arose from the success of the various promotion activities throughout the period, the adjustments that have been made to the product mix and also the addition and expansion of the extensions to the department store, especially the jewellery and gold corners. The profit before tax for the period was HK\$69,923,000 (2006: HK\$45,396,000), an increase of 54.0%.

廣東吉之島天貿百貨有限公司 (Guangdong Jusco Teem Stores Co., Ltd.), an 26.51% associate of the Group, is jointly managed by 廣東天河城（集團）股份有限公司 (Guangdong Teem (Holdings) Limited) and JUSCO Japan. It has achieved satisfactory growth in its business since its establishment in 1996.

Hotel Operations and Management

As at 30 June 2007, our hotel management team managed a total of 31 hotels (2006: 21 hotels), of which 2 located in Hong Kong, 1 in Macau and 28 in Mainland China. Of these 31 hotels, 8 were owned by the Group (2 in Hong Kong, 4 in Shenzhen, 1 in Zhuhai and 1 in Changzhou).

During the period under review, the hotel management business maintained its healthy growth and there has been a very encouraging increase in not only the number of hotels under our management but also the synergy within such hotel networks. During the period, the Changzhou limited services hotel was upgraded to a 4-star hotel, increasing the number of our star-rated hotels to 5. Because the Changzhou hotel was newly established, the average occupancy rate of these 5 hotels decreased by 10.0% to 73.1% (2006: 83.1%) and the average room rate decreased by 10.5% to HK\$471 (2006: HK\$526). Excluding the effect of the Changzhou hotel, the average room rate of the other 4 hotels in respectively Hong Kong, Shenzhen, and Zhuhai was HK\$555, an increase of 5.5% as compared with the same period last year. This was the result of the management’s effort in attracting a more upmarket clientele. For the hotel management business together with the aforesaid 5 hotels, the revenue for the period increased by 8.2% to HK\$136,549,000 (2006: HK\$126,213,000), and their profit before tax increased by 24.0% to HK\$39,718,000 (2006: HK\$32,043,000).

The Group also operated a chain of limited service hotels under the “粵海之星商務快捷連鎖酒店” brand name to meet the increasing demands of budget conscious travelers in Mainland China. The aggregate revenue from these hotels for the period increased by 3.9% to HK\$11,622,000 (2006: HK\$11,188,000) and profit before tax increased by 80.0% to HK\$1,472,000 (2006: HK\$818,000).

Business Review, Discussion and Analysis, Prospects and Other Information

LIQUIDITY, GEARING AND FINANCIAL RESOURCES

As at 30 June 2007, the cash and bank balances of the Group decreased by HK\$92 million to HK\$2,162 million (31 December 2006: HK\$2,254 million), of which 8% in Hong Kong dollars, 63% in Renminbi and 29% in US dollars.

During the period under review, the level of the Group's financial borrowing decreased by HK\$966 million. The decrease was mainly due to the repayment of certain interest-bearing debts during the period.

As at 30 June 2007, the Group's financial borrowings amounted to HK\$12,506 million (31 December 2006: HK\$13,472 million), including non-interest bearing Hong Kong government loan of HK\$1,891 million. Of the Group's total financial borrowings, HK\$118 million was repayable within one year while the remaining balance of HK\$2,869 million and HK\$9,519 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 2007 (31 December 2006: RMB50 million).

The gearing for the Group as at 30 June 2007 was 0.79 times (31 December 2006: 0.92 times). The improvement mostly reflected the reduction in the level of the Group's financial borrowings, together with an increase in net asset of the Group. The Group is in a healthy debt servicing position as the EBITDA / finance cost is 7.99 times (31 December 2006: 5.61 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 2007, none of the Group's property, plant and equipment, investment properties and bank deposits were pledged to secure general banking facilities granted to the Group (31 December 2006: Nil).

CAPITAL EXPENDITURE

The Group's capital expenditure in the first six months of 2007 amounted to HK\$96 million which was principally related to the construction in progress of the East Tower at Guangzhou Teemall Plaza and the additions of plant and machinery for the power plants.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE AND INTEREST RATES AND RELATED HEDGES

As at 30 June 2007, total Renminbi borrowings amounted to HK\$1,122 million (31 December 2006: HK\$1,295 million).

As at 30 June 2007, the Group's total floating rate borrowings amounted to HK\$10,614 million (31 December 2006: HK\$11,548 million). For the purpose of interest rate risk management, the group entered certain fixed or re-indexing interest rate swap agreements, amounted to HK\$7,400 million (31 December 2006: HK\$7,400 million), with an average remaining life ranging from 1/2 – 5 1/2 years.

Business Review, Discussion and Analysis, Prospects and Other Information

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2007, the Group had a total of 3,734 employees, of which 763 were at the managerial level. Among the employees, 3,495 were employed by subsidiaries in Mainland China and 239 were employed by the head office and subsidiaries in Hong Kong. Total remuneration paid for the period was approximately HK\$148,823,000 (2006: HK\$123,775,000).

To continue to enhance the quality and competence of our employees, especially our management team, is essential to ensuring the long term stability and healthy development of the Group. In the first half year of 2007, the Group stepped up its efforts to build up and strengthen its human resources. Adhering to the “Credibility, Integrity and Profitability” core values of our corporate culture, we conduct all our staff recruitment and promotion processes in a fair, just and open manner. We have in place the mechanism for regular performance appraisals of our senior management staff to ensure their integrity and high performance. Our remuneration and incentive packages for our employees are driven mainly by the operating results of their respective companies. In order to effectively motivate our staff to actively add value in their work, the incentive bonuses we pay to our management, key staff in their respective fields and staff with outstanding performance are determined not only by reference to the operating net cash flow and profits after tax of their respective companies, but also by applying a progressive scale on the operating results of their companies and further taking into account of the individual performance of the staff concerned. Moreover, the Group has adopted a share option scheme to 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 and training programs. The Group has also continued to offer on an on-going basis its various functional skill-based and general corporate culture internal training to upgrade the overall quality of all our staff and thereby laying a solid foundation for the continual growth and development of the Group in years to come.

PROSPECTS

The management is at present closely tracking the market situation, making efforts in maintaining low costs and continuing optimising the overall business and effectiveness. Water distribution business is expected to maintain strong market share, bringing the Group with stable profit and cash flow. Businesses in property investment and development, department stores, and hotel operations and management are also expected to maintain a steady growth. Besides, the finance costs of the Group will be further decreased because of the repayment of outstanding borrowings and the interest rate reduction following the refinancing arrangement on certain loans in late 2006. The overall business and cash flow of the Group are expected to maintain a healthy and steady growth.

The Group will continue focus on its existing core businesses, with particular emphasis on utilities and infrastructure, including actively exploring a number of possible water resources (including hydro-power projects) and power generation related projects, as well as possible new investments in toll road projects, and when opportunities arise, the Group will either spin off or dispose of its hotel business, so as to create even higher values for shareholders.

Directors' Interests and Short Positions in Securities

As at 30 June 2007, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive are taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), were as follows:

INTERESTS AND SHORT POSITIONS IN THE COMPANY

(i) *Interests in ordinary shares*

Name of director	Capacity/nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held (Note)
LI Wenyue	Personal	16,400,000	Long position	0.269%
LI Wai Keung	Personal	3,700,000	Long position	0.061%
CHAN Cho Chak, John	Personal	4,000,000	Long position	0.066%
LI Kwok Po, David	Personal	4,000,000	Long position	0.066%
CHENG Mo Chi, Moses	Personal	200,000	Long position	0.003%

Note: The approximate percentage of interests held was calculated on the basis of 6,094,448,071 ordinary shares of the Company in issue as at 30 June 2007.

Directors' Interests and Short Positions in Securities

INTERESTS AND SHORT POSITIONS IN THE COMPANY (continued)

(ii) Interests in options relating to ordinary shares

Name of director	Number of options held as at 1 January 2007	Options granted Jan-Jun 2007		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 2007	Number of options held as at 30 June 2007	Long/short position
		Date (dd.mm.yyyy)	Number						
LI Wenyue	6,000,000	—	—	05.03.2003 to 04.03.2008	1	0.96	—	6,000,000	Long position
	3,000,000	—	—	08.08.2003 to 07.08.2008	1	1.22	—	3,000,000	Long position
	3,000,000	—	—	07.05.2004 to 06.05.2009	1	1.59	—	3,000,000	Long position
	2,500,000	—	—	25.08.2004 to 24.08.2009	1	1.25	—	2,500,000	Long position
ZHANG Hui	5,000,000	—	—	05.03.2003 to 04.03.2008	1	0.96	—	5,000,000	Long position
	3,000,000	—	—	08.08.2003 to 07.08.2008	1	1.22	—	3,000,000	Long position
	3,000,000	—	—	07.05.2004 to 06.05.2009	1	1.59	—	3,000,000	Long position
	2,500,000	—	—	25.08.2004 to 24.08.2009	1	1.25	—	2,500,000	Long position
LI Wai Keung	1,500,000	—	—	08.08.2003 to 07.08.2008	1	1.22	—	1,500,000	Long position
	1,500,000	—	—	07.05.2004 to 06.05.2009	1	1.59	—	1,500,000	Long position
	1,000,000	—	—	25.08.2004 to 24.08.2009	1	1.25	—	1,000,000	Long position
CHAN Cho Chak, John	1,000,000	—	—	07.05.2004 to 06.05.2009	1	1.59	—	1,000,000	Long position
	450,000	—	—	25.08.2004 to 24.08.2009	1	1.25	—	450,000	Long position
LI Kwok Po, David	1,000,000	—	—	07.05.2004 to 06.05.2009	1	1.59	—	1,000,000	Long position
	450,000	—	—	25.08.2004 to 24.08.2009	1	1.25	—	450,000	Long position

Directors' Interests and Short Positions in Securities

INTERESTS AND SHORT POSITIONS IN THE COMPANY (continued)

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

Name of director	Number of options held as at 1 January 2007	Options granted Jan-Jun 2007		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 2007	Number of options held as at 30 June 2007	Long/short position
		Date (dd.mm.yyyy)	Number						
FUNG, Daniel R.	1,000,000	—	—	08.08.2003 to 07.08.2008	1	1.22	1,000,000	—	Long position
	1,000,000	—	—	07.05.2004 to 06.05.2009	1	1.59	—	1,000,000	Long position
	450,000	—	—	25.08.2004 to 24.08.2009	1	1.25	—	450,000	Long position
CHENG Mo Chi, Moses	1,000,000	—	—	05.03.2003 to 04.03.2008	1	0.96	—	1,000,000	Long position
	1,000,000	—	—	08.08.2003 to 07.08.2008	1	1.22	—	1,000,000	Long position
	1,000,000	—	—	07.05.2004 to 06.05.2009	1	1.59	—	1,000,000	Long position
	450,000	—	—	25.08.2004 to 24.08.2009	1	1.25	—	450,000	Long position
WANG Xiaofeng	1,000,000	—	—	05.03.2003 to 04.03.2008	1	0.96	—	1,000,000	Long position
	1,000,000	—	—	08.08.2003 to 07.08.2008	1	1.22	—	1,000,000	Long position
	1,000,000	—	—	07.05.2004 to 06.05.2009	1	1.59	—	1,000,000	Long position
	650,000	—	—	25.08.2004 to 24.08.2009	1	1.25	—	650,000	Long position

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

Directors' Interests and Short Positions in Securities

INTERESTS AND SHORT POSITIONS IN KINGWAY BREWERY HOLDINGS LIMITED

Interests in ordinary shares

Name of director	Capacity/nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held (Note)
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CHENG Mo Chi, Moses	Personal	600,000	Long position	0.035%
WANG Xiaofeng	Personal	20,000	Long position	0.001%

Note: The approximate percentage of interests held was calculated on the basis of 1,706,672,000 ordinary shares of Kingway Brewery Holdings Limited in issue as at 30 June 2007.

INTERESTS AND SHORT POSITIONS IN GUANGNAN (HOLDINGS) LIMITED

Interests in ordinary shares

Name of director	Capacity/nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held (Note)
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LI Kwok Po, David	Personal	15,000	Long position	0.002%
JIANG Jin	Personal	100,000	Long position	0.011%

Note: The approximate percentage of interests held was calculated on the basis of 903,903,285 ordinary shares of Guangnan (Holdings) Limited in issue as at 30 June 2007.

Save as disclosed above, as at 30 June 2007, to the knowledge of the Company none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive are taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

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

Substantial Shareholders' Interests

As at 30 June 2007, so far as is known to any director or chief executive of the Company, the following persons (other than a director or chief executive of the Company) had, or were deemed or taken to have interest or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are recorded in the register kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Capacity/nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interest held (Note 1)
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) (Note 2)	Interests of controlled corporation	3,765,770,781	Long position	61.79%
GDH Limited (Note 3)	Beneficial owner/ Interests of controlled corporation	3,765,770,781	Long position	61.79%
Guangdong Trust Ltd.	Beneficial owner	576,404,918	Long position	9.46%

Notes:

- The approximate percentage of interest held was calculated on the basis of 6,094,448,071 ordinary shares of the Company in issue as at 30 June 2007.
- 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.
- The interests of GDH Limited set out above includes attributable interest held through its wholly-owned subsidiary, Guangdong Trust Ltd.

Save as disclosed above, as at 30 June 2007, so far as is known to any director or chief executive of the Company, no other person (other than a director or chief executive of the Company) had, or were deemed or taken to have interest or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are recorded in the register kept by the Company pursuant to Section 336 of the SFO.

Share Option Scheme

During the period, no options have been granted under the share option scheme of the Company (the "Share Option Scheme") and there are no changes in any terms of the Share Option Scheme. Details of the movements in the Company's share options under the Share Option Scheme during the period were set out in note 15 to the unaudited interim condensed consolidated financial statements and the detailed terms of the Share Option Scheme were disclosed in the Annual Report 2006 of the Company.

Corporate Governance and Other Information

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with the code provisions of the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2007.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors’ securities transactions. All directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2007.

BOARD OF DIRECTORS

The Board comprises three executive directors, being Mr. LI Wenyue, Mr. ZHANG Hui and Mr. LI Wai Keung, six non-executive directors, being Mr. CHENG Mo Chi, Moses, Mr. JIANG Jin, Mr. ZHAI Zhiming, Mr. SUN Yingming, 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 (the “Audit Committee”) in September 1998 and its terms of reference are in line with the CG Code. The Audit Committee comprises three independent non-executive directors, being Dr. LI Kwok Po, David, Mr. CHAN Cho Chak, John and Mr. FUNG, Daniel R. and one non-executive director, being Mr. CHENG Mo Chi, Moses. Dr. LI Kwok Po, David is the Chairman of the Audit Committee. The principal duties of the Audit Committee include, inter alia, the review of the completeness, accuracy and fairness of the Company’s financial reports and the Group’s internal controls and risk management systems.

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited interim condensed consolidated financial statements and the interim report of the Group for the six months ended 30 June 2007. In addition, the Company’s external auditors, Ernst & Young, have also reviewed the aforesaid unaudited interim condensed consolidated financial statements.

Corporate Governance and Other Information

REMUNERATION COMMITTEE

The Company has also established a remuneration committee (the “Remuneration Committee”) in June 2005 and its terms of reference are in line with the CG Code. The Remuneration Committee comprises three independent non-executive directors, being Mr. CHAN Cho Chak, John, Dr. LI Kwok Po, David and Mr. FUNG, Daniel R. and one non-executive director, being 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 2007, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s securities listed on the Hong Kong Stock Exchange save and except that the Company has issued the following new ordinary shares to certain option holders pursuant to the Company’s Share Option Scheme during the period:

	No. of new ordinary shares issued	Exercise price per ordinary share HK\$	Cash consideration HK\$
	1,000,000	1.22	1,220,000
	1,000,000	1.25	1,250,000
	<u>1,500,000</u>	1.59	<u>2,385,000</u>
Total	<u>3,500,000</u>		<u>4,855,000</u>

INTERIM DIVIDEND

The Board has resolved to declare the payment of an interim dividend of 5.0 HK cents (2006: 5.0 HK cents) per ordinary share for the six months ended 30 June 2007. The interim dividend will be paid to the shareholders whose names appear on the register of members of the Company on Tuesday, 9 October 2007. The interim dividend will be paid on Tuesday, 23 October 2007.

Corporate Governance and Other Information

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on Monday, 8 October 2007 and Tuesday, 9 October 2007, during these two days no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Tengis Limited, of 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 5 October 2007.

By order of the Board
LI Wenyue
Chairman

Hong Kong, 14 September 2007

