Guangdong Investment Limited
粵海投資有限公司

# Annual Report 2007 年報

Stock Code 股份代號：270

Guangdong Investment Limited
粵海投資有限公司

Annual Report 2007

# Contents

# Corporate Information

14 April 2008

## 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, *GBM, 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 | 16 June to 18 June 2008 (both days inclusive) |
| Annual General Meeting | 18 June 2008 10:00 a.m. |
| Final Dividend | 6.0 HK cents per ordinary share |
| Payable | 27 June 2008 |

# Simplified Corporate Structure Chart of the Group's Principal Businesses

14 April 2008

**Guangdong Investment Limited**
**粵海投資有限公司**

## Water Distribution

- 88.17% GH Water Supply (Holdings) Limited
  - 99% Guangdong Yue Gang Water Supply Company Limited

## Electric Power Generation

- 51% Guangdong Power (International) Limited
  - 90% Shaoguan Power Plant (D) Ltd.
    - 25% * Guangdong Shaoguan Yue Jiang Power Supply Limited
- 59.85% * Zhongshan Power Plant Co. Ltd. *(Zhongshan Power Plant)*
- 49% Guangdong Power Investment Limited
  - 25% Guangdong Yuejia Electric Power Co. Ltd. *(Meixian Power Plant)*

## Toll Roads & Bridges

- 51% Guangdong Transport Investment (BVI) Company Limited *(1 Road & 2 Bridges)*
- 70% Guangdong Yingde Highway Ltd. *(Yingkeng Highway)*
- 20% * Guangdong Pan Yu Bridge Company Limited *(Panyu Bridge)*

# Simplified Corporate Structure Chart of the Group's Principal Businesses

14 April 2008

## Property Investment and Development

- * Guangdong Teem (Holdings) Limited *(Teemall)* — 75.85%
- Global Head Developments Limited *(Guangdong Investment Tower properties)* — 100%
- Guangdong Properties Holdings Limited *(Guangdong Group Building properties)* — 100%

## Department Stores

- Guangdong Teemall Department Stores Ltd. *(Department stores business)* — 85.03%

## Hotel Operations & Management

- Guangdong (International) Hotel Management Holdings Limited — 100%
- Fill Success Investments Limited *(Wharney Guangdong Hotel (Hong Kong))* — 100%
- Guangdong Hotel Limited *(Guangdong Hotel (Hong Kong))* — 100%
- * Guangdong Hotel (Zhu Hai) — 100%
- * Shenzhen Guangdong Hotel Enterprise Limited *(Guangdong Hotel (Shen Zhen))* — 99%

*Notes:*

*(i) Projects of the Group are shown in italics and do not constitute part of the individual company's or joint venture's name.*

** English translation of the official Chinese name of the individual company.*

# Financial Highlights

## FINANCIAL HIGHLIGHTS FOR THE YEAR ENDED 31 DECEMBER

| | 2007<br>HK'000 | 2006<br>HK'000 | Changes<br>% |
|---|---|---|---|
| Revenue | **6,689,132** | 6,056,331 | 10.4 |
| Profit for the year attributable to equity holders of the Company | **1,697,034** | 1,506,903 | 12.6 |
| Earnings per share — Basic | **27.83 HK cents** | 25.00 HK cents | 11.3 |
| Dividends per share | | | |
| Interim | **5.00 HK cents** | 5.00 HK cents | |
| Proposed final | **6.00 HK cents** | 5.00 HK cents | |
| | **11.00 HK cents** | 10.00 HK cents | 10.0 |
| EBITDA | **3,910,660** | 3,665,752 | 6.7 |
| Shareholders' equity | **14,024,995** | 12,622,587 | 11.1 |
| Total assets | **30,492,623** | 30,173,862 | 1.1 |
| Net financial borrowings[7] | **8,805,504** | 11,220,085 | (21.5) |

## KEY RATIOS (AS AT 31 DECEMBER)

| | 2007 | 2006 |
|---|---|---|
| Gearing[1] | 0.66X | 0.92X |
| Interest cover[2] | 7.97X | 5.61X |
| Liquidity[3] | 1.26X | 1.43X |
| Return on average shareholders' equity[4] | 12.74% | 12.50% |
| Post-tax return on average assets[5] | 6.59% | 5.86% |
| Dividend payout ratio[6] | 40% | 40% |

## SHARE INFORMATION (AS AT 31 DECEMBER)

| | 2007 | 2006 |
|---|---|---|
| Ordinary shares (HK$0.5 per share) in issue | 6,104m | 6,091m |
| Market capitalisation | HK$27,163m | HK$21,379m |
| Closing market price per share | HK$4.45 | HK$3.51 |
| Basic earnings per share | 27.83 HK cents | 25.00 HK cents |
| Diluted earnings per share | 27.23 HK cents | 24.33 HK cents |
| Net asset value[8] per share | HK$2.30 | HK$2.07 |

Notes:

1. $\frac{\text{Net Financial indebtedness}}{\text{Net asset value}^{8}}$

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

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

4. $\frac{\text{Profit for the year attributable to shareholders}}{(\text{opening equity}^{8} + \text{closing equity}^{8})/2}$

5. $\frac{\text{Profit for the year}}{(\text{opening total assets} + \text{closing total assets})/2}$

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

7. Financial borrowings — cash and cash equivalents

8. Excluded minority interests

## ANALYSIS OF GROSS FINANCIAL BORROWINGS (AS AT 31 DECEMBER)

| | 2007<br>HK'000 | 2006<br>HK'000 |
|---|---|---|
| **Loans maturity profile** | | |
| Within 1 year | **410,543** | 324,002 |
| In the 2nd year | **410,543** | 390,697 |
| In the 3rd to 5th years, inclusive | **2,211,951** | 3,207,620 |
| Over 5 years | **8,457,000** | 9,549,425 |
| | **11,490,037** | 13,471,744 |
| **Currency** | **%** | % |
| Hong Kong dollars | **89.8** | 90.4 |
| Renminbi | **10.2** | 9.6 |
| **Interest rate** | **%** | % |
| Floating | ***84.6** | *85.7 |
| Fixed | **—** | 0.3 |
| Non-interest bearing | **15.4** | 14.0 |

Note:

* Borrowings amounted to HK$5.2 billion is hedged by certain fixed interest rate swap agreements.

## SOURCE OF FINANCING (AS AT 31 DECEMBER 2007)

| | Available, committed and utilised<br>% |
|---|---|
| Interest-bearing bank borrowings | 87.8 |
| Non-interest-bearing borrowing | 12.2 |
| | 100.0 |

## ANALYSIS OF THE GROUP'S BUSINESSES

An analysis of the Group's revenue, profit before tax and earnings before interest, tax, depreciation and amortisation ("EBITDA") by principal activities and geographical area of operations for the year ended 31 December 2007 is as follows:

### Year ended 31 December 2007

| | Revenue HK$'000 | % | Profit before tax HK$'000 | % | EBITDA HK$'000 | % |
|---|---|---|---|---|---|---|
| By activities: | | | | | | |
| Water distribution | 3,364,767 | 50.30 | 1,296,321 | 47.36 | 2,684,013 | 63.73 |
| Electric power generation | 942,576 | 14.09 | (265,468) | — | (227,986) | — |
| Toll roads and bridges | 15,688 | 0.23 | (67,482) | — | (73,155) | — |
| Property investment and development | 457,342 | 6.84 | 1,200,353 | 43.86 | 1,234,883 | 29.32 |
| Department stores | 1,573,377 | 23.53 | 134,209 | 4.90 | 120,182 | 2.85 |
| Hotel operations and management | 335,382 | 5.01 | 99,830 | 3.65 | 166,246 | 3.95 |
| Others | — | — | 6,259 | 0.23 | 6,477 | 0.15 |
| | 6,689,132 | 100.00 | 2,404,022 | 100.00 | 3,910,660 | 100.00 |
| By geographical area: | | | | | | |
| Mainland China | 6,483,261 | 96.92 | | | | |
| Hong Kong | 205,871 | 3.08 | | | | |
| | 6,689,132 | 100.00 | | | | |

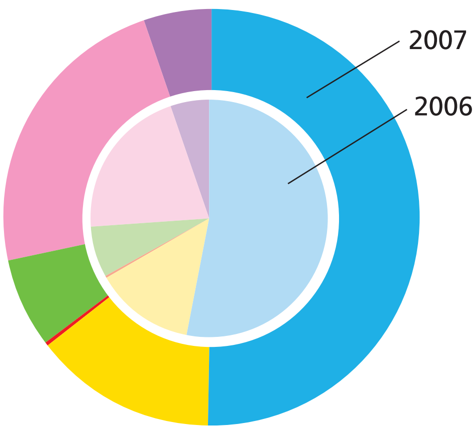
## ANALYSIS OF THE GROUP'S BUSINESSES (continued)

### Year ended 31 December 2006

| | Revenue HK$'000 | % | Profit before tax HK$'000 | % | EBITDA HK$'000 | % |
|---|---|---|---|---|---|---|
| By activities: | | | | | | |
| Water distribution | 3,225,939 | 53.27 | 1,060,963 | 51.81 | 2,629,333 | 71.73 |
| Electric power generation | 814,083 | 13.44 | 171,965 | 8.40 | 212,504 | 5.79 |
| Toll roads and bridges | 15,313 | 0.25 | 119,724 | 5.85 | 45,506 | 1.24 |
| Property investment and development | 428,786 | 7.08 | 455,019 | 22.22 | 482,342 | 13.16 |
| Department stores | 1,267,904 | 20.94 | 109,058 | 5.33 | 102,975 | 2.81 |
| Hotel operations and management | 304,306 | 5.02 | 88,633 | 4.33 | 150,570 | 4.11 |
| Others | — | — | 42,379 | 2.06 | 42,522 | 1.16 |
| | 6,056,331 | 100.00 | 2,047,741 | 100.00 | 3,665,752 | 100.00 |

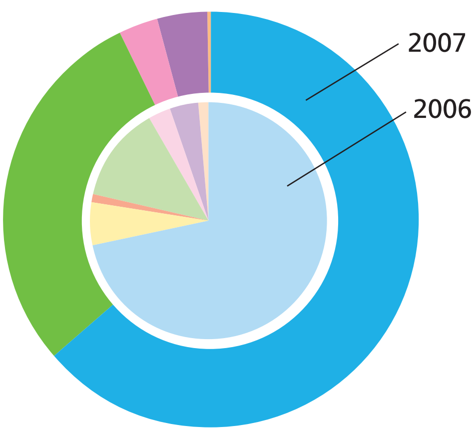
| | Revenue HK$'000 | % |
|---|---|---|
| By geographical area: | | |
| Mainland China | 5,872,734 | 96.97 |
| Hong Kong | 183,597 | 3.03 |
| | 6,056,331 | 100.00 |

## Revenue by Business Segments



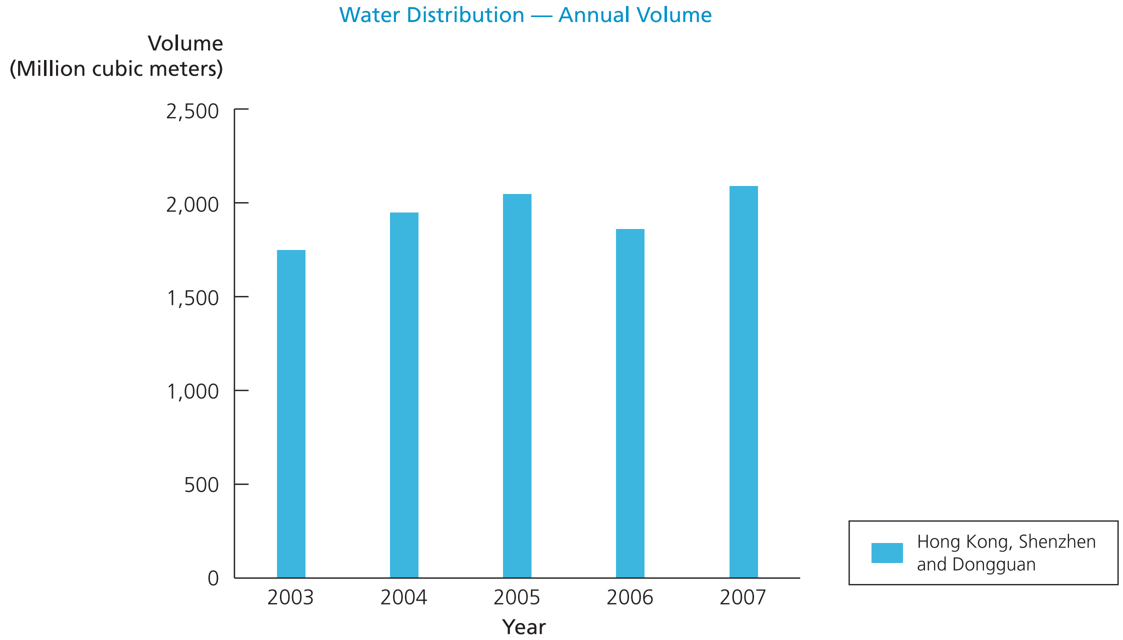

| | 2007 | 2006 |
|---|---|---|
| Water distribution | 50.30% | 53.27% |
| Electric power generation | 14.09% | 13.44% |
| Toll roads and bridges | 0.23% | 0.25% |
| Property investment and development | 6.84% | 7.08% |
| Department stores | 23.53% | 20.94% |
| Hotel operations and management | 5.01% | 5.02% |
| Others | – | – |

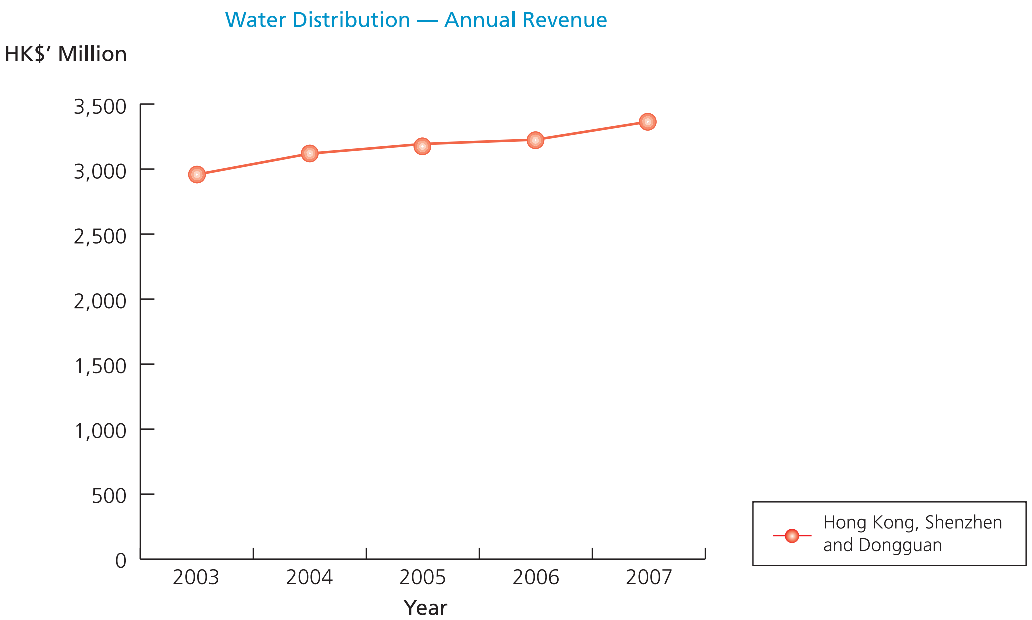
## EBITDA by Business Segments



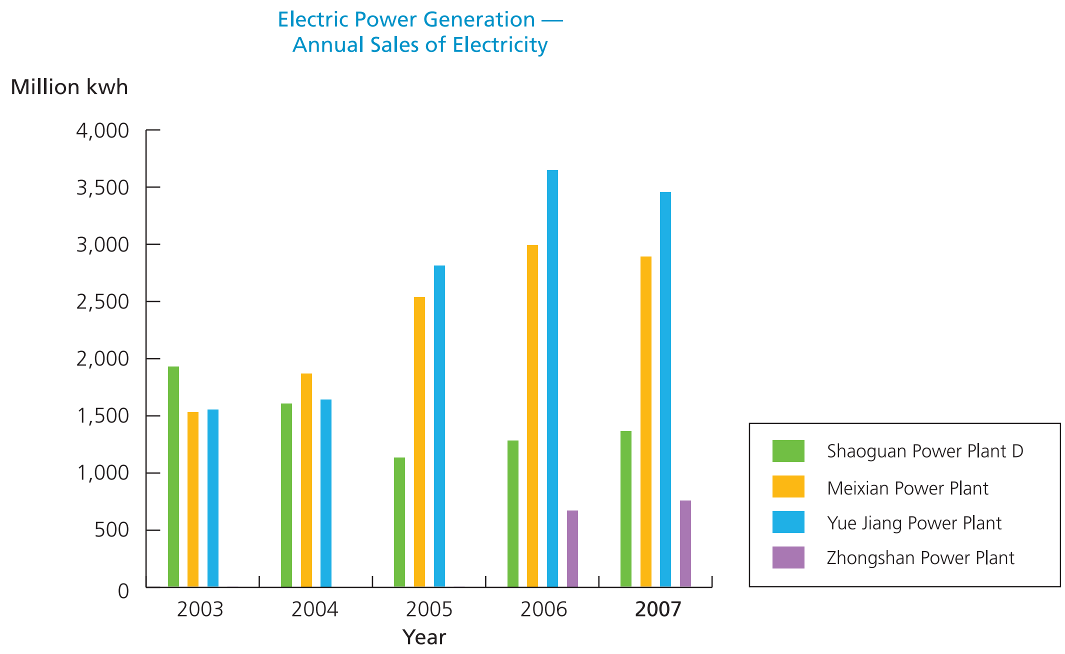

| | 2007 | 2006 |
|---|---|---|
| Water distribution | 63.73% | 71.73% |
| Electric power generation | — | 5.79% |
| Toll roads and bridges | — | 1.24% |
| Property investment and development | 29.32% | 13.16% |
| Department stores | 2.85% | 2.81% |
| Hotel operations and management | 3.95% | 4.11% |
| Others | 0.15% | 1.16% |

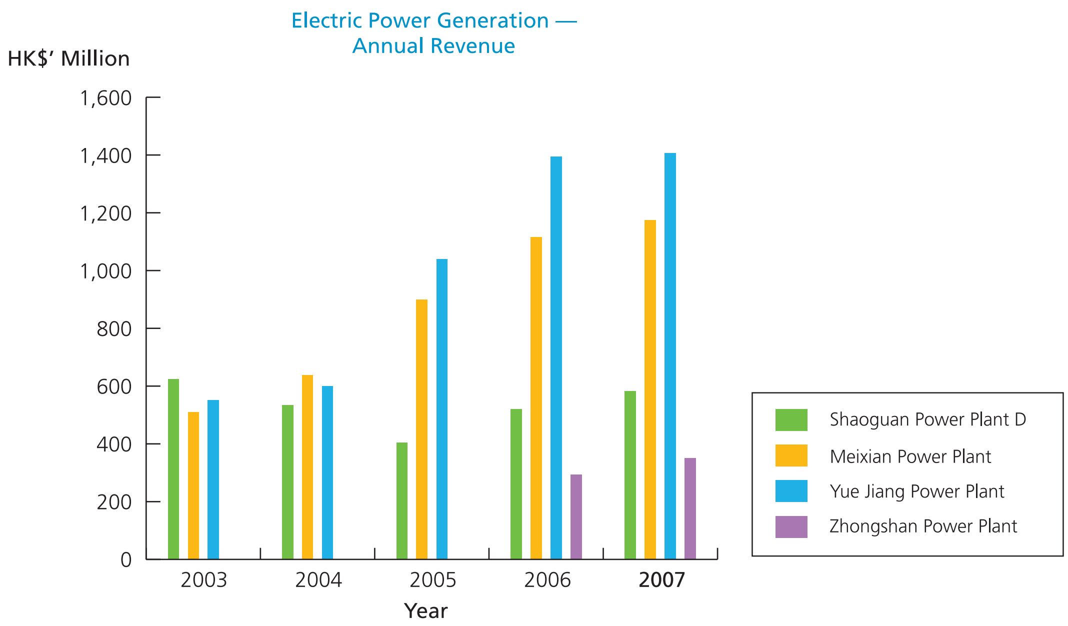
## WATER DISTRIBUTION



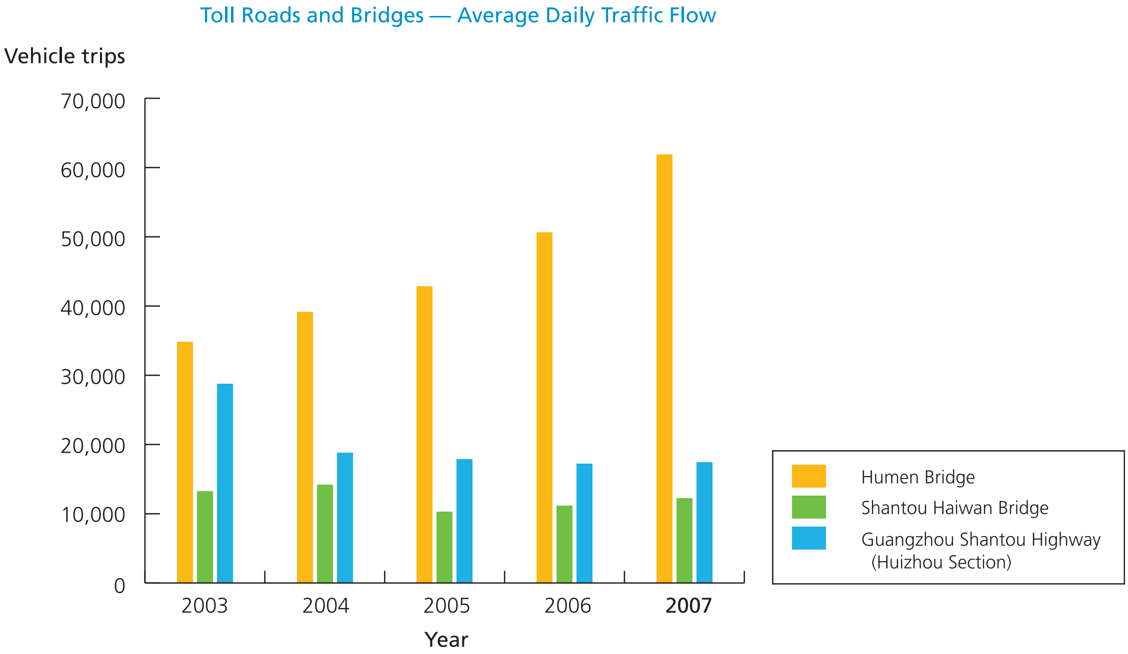



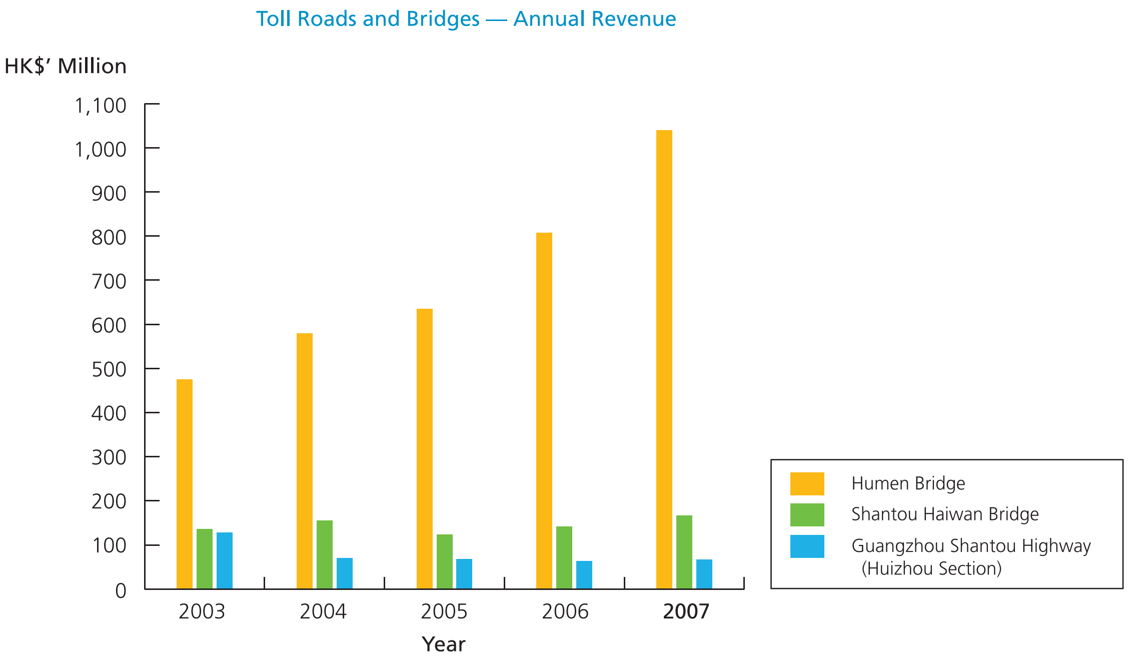
## ELECTRIC POWER GENERATION



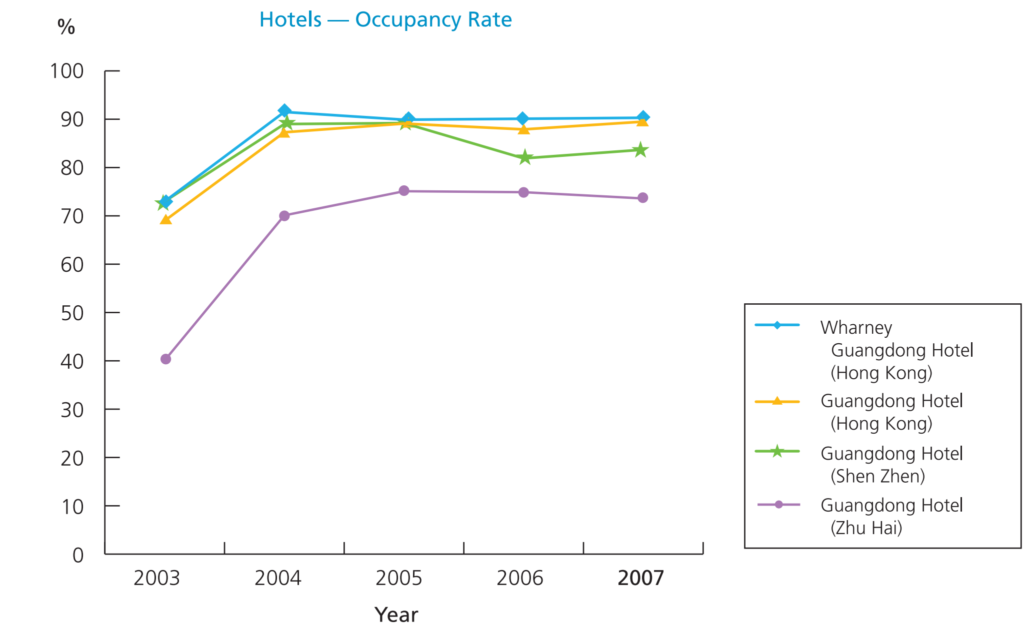



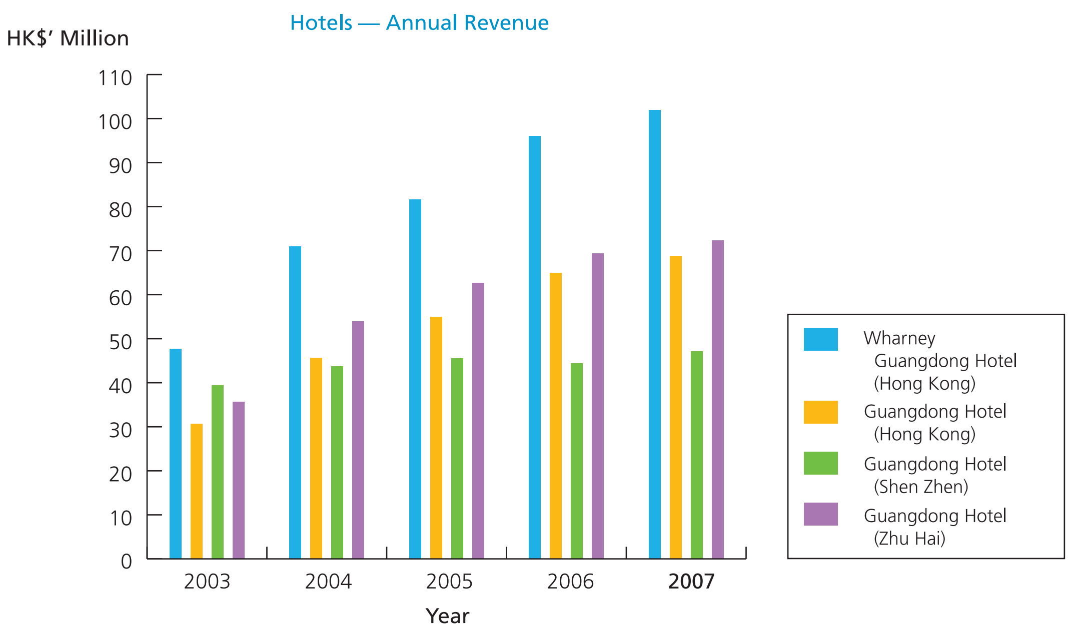
## TOLL ROADS AND BRIDGES



## HOTEL OPERATIONS AND MANAGEMENT



# Chairman's Statement


## RESULTS

I am pleased to be able to report that our results for 2007 has continued to maintain a steady growth. For the year 2007, the Group's audited consolidated net profit attributable to shareholders amounted to HK$1,697 million, (2006: HK$1,507 million), representing a growth of 12.6% as compared with 2006. The basic earnings per share were 27.83 HK cents (2006: 25.00 HK cents), representing a growth of 11.3% as compared with 2006.

## DIVIDEND

The Board recommends a final dividend of 6.0 HK cents per share for 2007. Aggregating such dividend with the interim dividend of 5.0 HK cents per share which has already been paid in 2007, the total dividend for the entire year will be 11.0 HK cents per share (2006: 10.0 HK cents). The said final dividend for 2007, if approved by the shareholders of the Company at the annual general meeting, will be paid on 27 June 2008.

## REVIEW

In 2007, the Group continued to further develop and strengthen our core corporate values and cultures by enhancing communication, refining rules and regulations and stepping up our human resources management. We have further standardised various operating procedures and improved the quality of the management team. We followed our strategy to seek growth in business sectors where we have competitive advantages, enhance our overall market position and increase profitability. Forward looking management practices and innovative business plans have also been adopted to reduce cost and increase efficiency. And by raising the standard of our management, profit maximization is achieved.

Through the effort of management, the Group's net profit attributable to shareholders has increased by 12.6% to HK$1,697 million, and our profit before tax increased by 17.4% (i.e. HK$356 million) to HK$2,404 million. The growth was mainly contributed by our water distribution and property investment and development businesses, their respective contribution being HK$235 million and HK$745 million. This is however offset in part by the impairment losses of HK$546 million in the electric power generation segment and the toll roads and bridges segment. The growth in water distribution came from the increase in water supply to Shenzhen and Dongguan and increase in water tariffs for these areas. The significant growth in property investment and development was due to the revaluation gain in Teem Plaza property in Guangzhou amounting to HK$718 million.

## PROSPECTS

With the rapid economic growth and the continuing improvement in the standard of living in Mainland China, the significance of quality water resources is becoming prominent and the demand for water supply will gradually increase. This will maintain the revenue growth of our water distribution business in the PRC.

All the Group's other businesses are expected to benefit from China's rapid economic growth. Notwithstanding the different degrees of market competition faced by the businesses and the increasing pressure of rising costs, the management believes that with our corporate culture of "Credibility, Integrity and Profitability", the solid foundation of our Group, and also our dedicated team of professionals, the businesses of the Group as a whole will be able to stay on course with their upward trends.

In line with its business strategy, the Group is stepping up its business development efforts, with particular emphasis on utilities and infrastructure. The management is at present closely tracking the market situation and is also actively exploring a number of possible water resources and power generation related projects, including hydro-power projects, as well as possible new investments in highway projects so as to create even higher values for shareholders. When opportunities arise, the Company will spin off its non-core businesses.

Finally, on behalf of the Board, I would like to thank all the shareholders for their support and also all our management and staff for their dedication and hard work and the good results they have helped the Group to achieve.

**LI Wenyue**
*Chairman*

Hong Kong, 14 April 2008

# Management Discussion and Analysis

## FINANCIAL OVERVIEW

The consolidated revenue of the Group for 2007 was HK$6,689 million (2006: HK$6,056 million), an increase of 10.4% as compared with year 2006. 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 consolidated net profit attributable to shareholders of the Group for 2007 amounted to HK$1,697 million (2006: HK$1,507 million), an increase of HK$190 million or 12.6%. The water distribution business remains the major source of our profit. The growth in water distribution came from the increase in water supply to Shenzhen and Dongguan and increase in water tariffs for these areas. Our water distribution business has therefore continued to provide stable profit contribution to the Group. Due to continued repayment of outstanding borrowings, reduction of the effective interest rate in 2007 of certain credit facility from 8% to 4.74% per annum after successful refinancing in December 2006 and no refinancing cost to be paid in 2007, the Group's finance cost for the year has decreased by HK$162 million to HK$491 million.

An increase in the fair value of investment properties for HK$781 million (2006: HK$86 million), an impairment of items of property, plant and equipment for HK$394 million (2006: HK$32 million) and impairment of interests in an associate for HK$152 million (2006: Nil) were recorded in the consolidated income statement for the year.

The earnings before interest, tax, depreciation and amortisation ("EBITDA") of the Group for 2007 increased by 6.7% to HK$3,911 million (2006: HK$3,666 million).

The basic earnings per share were 27.83 HK cents (2006: 25.00 HK cents), representing an increase of 11.3% as compared with 2006.

## BUSINESS OVERVIEW

A summary of the performance of the Group's major business during 2007 is as follows:

### Water Distribution

Profit contribution from the Dongshen Water Supply Project remained significant to the Group. The Group's interest in the holding company of the Dongshen Water Supply Project has increased by 0.55% to 88.17% during the year. The holding company in turn has 99% interest in the Dongshen Water Supply Project.

The planned annual capacity of water supply is 2.423 billion cubic meters. The total water supply to Hong Kong, Shenzhen and Dongguan during the year amounted to 2.089 billion cubic meters (2006: 1.860 billion cubic meters), an increase of 12.3%, generating revenue amounted to HK$3,364,767,000 (2006: HK$3,225,939,000), an increase of 4.3%.

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 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 in each year from 2006 to 2008. The Guangdong Provincial Government has undertaken to subsidy 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.

The water sales volume to the Shenzhen and Dongguan areas increased by 10.5% to 1,374 million cubic meters during the year (2006: 1,243 million cubic meters). Unlike in 2006 when because of the unusual heavy rainfall in the Shenzhen and Dongguan areas, those two areas used less water from the Dongshen Water Supply Project, the water demand of those two areas in 2007 had reverted to its normal level. Benefiting from the increase in water sales volume and the increase in water tariffs for Shenzhen and Dongguan areas that came into effect in mid 2006, the water sales revenue to the Shenzhen and Dongguan areas in 2007 increased by 18.99% to HK$869,967,000 (2006: HK$731,139,000).

Given the continuing repayment of outstanding borrowings, the reduction of the effective interest rate of certain credit facility from 8% to 4.74% per annum in 2007 after the successful refinancing in December 2006 and also that there was no further refinancing cost that would need to be paid in 2007, interest expenses decreased by HK$165 million to HK$489 million.

The profit before tax of the water distribution business for the year under review was HK$1,296 million (2006: HK$1,061 million), an increase of 22.15%.

## Electric Power Generation

### Shaoguan Power Plant D ("Shaoguan PPD")

The Group's effective interest in Shaoguan PPD is 45.9% (Guangdong Power (International) Limited ("GPIL"), which is a 51% owned subsidiary of the Company, holding a 90% interest in the project ). Shaoguan PPD has 1 power unit with installed capacity of 200 MW. The sales of electricity for the year reached 1,356 million kwh (2006: 1,281 million kwh), an increase of 5.9%. Sales revenue for the year reached HK$582,574,000 (2006: HK$520,491,000), an increase of 11.9%. The increase in revenue was mainly due to the increases in both the electricity sales and the tariff.

In January 2008, GPIL entered into the framework agreement with 廣東省粵電集團有限公司(Guangdong Yudean Group Co., Ltd.) and 廣東電力發展股份有限公司 (Guangdong Electric Power Development Co., Ltd.) regarding possible investment in the construction of two 600 MW power generation units (the "Proposed Project"). In order to facilitate the obtaining of all requisite PRC government approvals for the Proposed Project, the existing power unit will be closed down before the end of 2010. Accordingly, Shaoguan PPD has made impairment provision of HK$254,667,000 for the power unit during the year. The loss before tax for the year was HK$152,078,000 (2006: profit before tax HK$70,587,000). Excluding the effect of the impairment provision, the before-tax profit was HK$102,589,000 (2006: HK$102,557,000).

### 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. Sales of electricity for the year reached 749 million kwh (2006: 669 million kwh), an increase of 12.0%. Sales revenue for the year reached HK$350,239,000 (2006: HK$293,592,000), an increase of 19.3%. The increase in revenue was mainly due to increases in both the electricity sales and the tariff.

On 28 March 2007, a letter of intent was executed between our group and 中山興中集團有限公司 regarding a proposed project for the construction of two 300 MW power generation units utilising the existing land and production facilities of Zhongshan Power. In order to facilitate the obtaining of all requisite PRC government approvals for this proposed project, the existing power units may be closed down in the future. Accordingly, Zhongshan Power Plant has made impairment provision of HK$62,892,000 in relation to the power units during the year. The profit before tax for the year was HK$22,131,000 (2006: HK$66,898,000). Excluding the effect of the impairment provision, the profit before tax was HK$85,023,000 (2006: HK$66,898,000).

### 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). Yue Jiang Power Plant has 2 power units with a total installed capacity of 600 MW. Sales of electricity for the year amounted to 3,447 million kwh (2006: 3,649 million kwh), a decrease of 5.5%. Sales revenue for the year amounted to HK$1,405,802,000 (2006: HK$1,394,031,000), an increase of 0.8%. The profit before tax for the year was HK$25,072,000 (2006: HK$136,736,000). The decrease in profit before tax was mainly due to increases in both power generation cost and repair and maintenance cost.

### 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, holding a 25% interest in the project).

The Meixian Power Plant has at present 4 power units with a total installed capacity of 520MW. Given the current PRC government policy emphasizing on sustainable development, energy conservation and environmental protection, the way forward for many power plants would be to replace their existing coal-fired power units with bigger, more energy-efficient and more environment friendly ones. In preparation for such a potential development for the Meixian Power Plant, it may be necessary for the Meixian Power Plant to close down its two existing 125MW power units in or about 2009. In view of the possible impact of such closure, the Group has made an impairment provision of HK$152 million during the year under review.

## Toll Roads and Bridges

### "1 Road and 2 Bridges"

In 2007, the profit before tax of the Group's 51% owned jointly-controlled entity (the "JCE") which holds interests in the "1 Road and 2 Bridges" project amounted to HK$99,774,000 in aggregate (2006: HK$147,409,000). The decrease in profit was attributable to an adjustment regarding the profit recognition in respect of the Humen Bridge project.

#### *(i) Humen Bridge*

Following the profit recognition adjustment as aforesaid, the profits of the project company for the Humen Bridge recognised as attributable to the JCE is 19.5%. During the year, the average daily traffic flow of this bridge increased by 22.2% to 61,868 vehicle trips (2006: 50,612 vehicle trips). Revenue for the year reached HK$1,038,315,000 (2006: HK$805,586,000), an increase of 28.9%. The congested traffic condition of the Guangshen Highway caused by the repair and maintenance works 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 Pearl River Delta, the traffic flow of light vehicles has also increased. With further repayment of shareholders' loans, finance costs decreased by HK$32,852,000 as compared with that of 2006. Accordingly, the profit before tax for the year increased by 44.2% to HK$745,956,000 (2006: HK$517,157,000).

#### *(ii) Shantou Haiwan Bridge*

The JCE holds a 30% interest in this project. During the year, the average daily traffic flow of this bridge increased by 10.2% to 12,260 vehicle trips (2006: 11,130 vehicle trips). As there were more heavy vehicles that paid a higher tariff using the road, revenue increased by 18.1% to HK$164,908,000 (2006: HK$139,610,000). The profit before tax for the year increased by 25.8% to HK$122,815,000 (2006: HK$97,623,000).

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

The JCE holds a 51% interest in this project. During the year, the average daily traffic flow of this highway has increased by 1.3% to 17,446 vehicle trips (2006: 17,216 vehicle trips). Revenue for the year was HK$64,696,000 (2006: HK$62,254,000), an increase of 3.9%. Profit before tax for the year was HK$13,301,000 (2006: loss before tax HK$1,665,000) mainly due to the decrease in road repair and maintenance cost.

### Yingkeng Highway

The Group's effective interest in this project is 70%. During the year, the average daily traffic flow of this highway decreased by 12.8% to 4,478 vehicle trips (2006: 5,138 vehicle trips). There were more heavy vehicles paying a higher tariff using the road. As a result, revenue increased by 2.4% to HK$15,688,000 (2006: HK$15,313,000). The wear and tear occasioned by the increased heavy vehicle traffic has however significantly increased the road repair and maintenance cost not only this year but also in years to come. In view of the impact this will have on the future cashflow of the highway, a provision of diminution in value of HK$76,723,000 was made during the year.

In 2007, a loss before tax of HK$81,162,000 (2006: profit before tax of HK$1,687,000) was recorded as a result of the provision of diminution in value.

### Panyu Bridge

The Group's effective interest in this project is 20%. During the year, the average daily traffic flow of this bridge decreased by 22.5% to 53,010 vehicle trips (2006: 68,439 vehicle trips). The Xin Guang Highway which opened in late 2006 has diverted part of Panyu Bridge's traffic flow. As a result, revenue for the year has decreased by 22.3% to HK$126,046,000 (2006: HK$162,200,000). The profit before tax for the year was HK$52,826,000 (2006: HK$74,616,000), a decrease of 29.2%.

## Property Investment

### Mainland China

*Teem Plaza*

At the balance sheet date, the Group holds an effective equity interest of 75.85% in 廣東天河城(集團)股份有限公司 (Guangdong Teem (Holdings) Limited), which owns the Teem Plaza comprising of a shopping mall and two tower blocks.

Revenue of the plaza, comprising rental income from shopping mall (including rentals from department store run by the Group) and East Tower, during the year reached HK$481,498,000 (2006: HK$408,184,000), an increase of 18.0%. The profit before tax for the year increased by 225.0% to HK$1,061,264,000 (2006: HK$326,539,000), which included the effect of the increase in valuation of the shopping mall and the initial recognition of valuation gain on East Tower totally amounted to HK$717,983,000 (2006: HK$41,287,000).

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 mall continued to enjoy high average occupancy rate of approximately 99% during the year (2006: 99%). The mall is successful in retaining existing brand-name tenants and attracting new ones. The strong demands for shop spaces in the mall and the introduction of the open tender system for selecting tenants resulted in substantial rental increases.

The East Tower, also known as the Teem Tower (粵海天河城大廈), 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 responses to the leasing are encouraging and not only a number of multinational companies but also the consulate of a European country have already taken up leases.

The West Tower, which is expected to be completed in 2009, 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 further development costs now attributed to the West Tower) is about HK$780 million, of which approximately HK$182 million has been invested as at the balance sheet date.

### Hong Kong

*Guangdong Investment Tower*

The average occupancy rate at the Guangdong Investment Tower for 2007 was 98.37% (2006: 89.29%), 9.08% higher than 2006. This was mainly because the ground floor shop units had been leased to a major bank following the completion of the required renovation and improvement works. As a result of the increases in both occupancy rate and average rent rate, the total rental income for 2007 was HK$30,384,000 (2006: HK$19,612,000), an increase of 54.9%.

## Department Stores

At the balance sheet date, the Group holds an effective equity interest of 85.03% 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 38,837 square metres (2006: 40,066 square metres) selling a wide range of products and its sales rank very high among the major department stores in Guangzhou. During the year, GDTDS had a record high revenue of HK$1,573,377,000 (2006: HK$1,267,903,000), an increase of 24.1%. The increase in revenue arose from the success of the various promotion activities throughout the year and the adjustments in the product mix, especially with respect to the jewellery and gold accessories corners. The profit before tax for the year was HK$134,846,000 (2006: HK$96,689,000), an increase of 39.5%

廣東吉之島天貿百貨有限公司 (Guangdong Jusco Teem Stores Co., Ltd.), an 26.55% 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 31 December 2007, our hotel management team managed a total of 48 hotels (2006: 25 hotels), of which 2 were in Hong Kong, 1 in Macau and 45 in Mainland China. Of these 48 hotels, 8 were owned by the Group (2 in Hong Kong, 4 in Shenzhen, 1 in Zhuhai and 1 in Changzhou).

During the year 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 a hotel network. The average room rate of the 4 existing star-rated hotels of the Group in respectively Hong Kong, Shenzhen, and Zhuhai was HK$571, an increase of 5.0% as compared with that of the last year. This was the result of the management's effort in attracting a more upmarket clientele. In addition, with the Changzhou limited services hotel upgraded to a 4-star hotel during the year, the total number of our star-rated hotels has increased to 5. For the hotel management business as a whole together with all the 5 hotels as aforesaid, the revenue for the year increased by 9.9% to HK$310,608,000 (2006: HK$282,660,000), and their profit before tax increased by 17.8% to HK$71,115,000 (2006: HK$60,372,000).

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 year increased by 14.5% to HK$24,774,000 (2006: HK$21,646,000) and their profit before tax increased by 598% to HK$3,016,000 (2006: HK$432,000).

## LIQUIDITY, GEARING AND FINANCIAL RESOURCES

As at 31 December 2007, the cash and bank balances of the Group increased by HK$433 million to HK$2,687 million (2006: HK$2,254 million), of which 6% in Hong Kong dollars, 74% in Renminbi and 20% in US dollars.

During the year under review, the level of the Group's financial borrowing decreased by HK$1,982 million. The decrease was mainly due to the repayment of certain interest-bearing debts during the year.

As at 31 December 2007, the Group's financial borrowings amounted to HK$11,490 million (2006: HK$13,472 million), of which 10% in Renminbi and 90% in Hong Kong dollars, including the non-interest-bearing receipt in advance of HK$1,773 million. Of the Group's total financial borrowings, HK$411 million was repayable within one year while the remaining balance of HK$2,622 million and HK$8,457 million are repayable within two to five years and beyond five years from the balance sheet date, respectively.

Other than the bank debts incurred in respect of our water distribution business, the Group maintained credit facilities of RMB50 million as at 31 December 2007 (2006: RMB50 million).

The gearing (i.e. net financial indebtedness/ net asset value (excluded minority interests)) of the Group as at 31 December 2007 was 0.66 times (2006: 0.92 times). The improvement is in fact a reflection of the reduction in the level of the Group's financial borrowings and the increase in the net assets of the Group. The Group is in a healthy debt servicing position as the EBITDA / finance cost is 7.97 times (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 31 December 2007, none of the Group's property, plant and equipment, investment properties and bank deposits was pledged to secure general banking facilities granted to the Group (2006: Nil).

## CAPITAL EXPENDITURE

The Group's capital expenditure in 2007 amounted to HK$287 million which was principally related to the construction in progress of the East Tower at Guangzhou Teemall Plaza and the renovation works for our hotels.

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

As at 31 December 2007, total Renminbi borrowings amounted to HK$1,168 million (2006: HK$1,295 million).

As at 31 December 2007, the Group's total floating rate borrowings amounted to HK$9,717 million (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, amounting to HK$7,400 million (2006: HK$7,400 million), with an average remaining life ranging from 1 to 5 years.

## EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2007, the Group had a total of 3,736 employees, of which 863 were at the managerial level. Among the employees, 3,498 were employed by subsidiaries in Mainland China and 238 were employed by the head office and subsidiaries in Hong Kong. Total remuneration paid for the year was approximately HK$305,645,000 (2006: HK$274,528,000).

In 2007, based upon our achievement in building up and strengthening our human resources, the Group has further formalized and consolidated the "Credibility, Integrity and Profitability" core values of our corporate culture. And by reinforcing the various mechanisms in our business management system and enhancing the optimisation of our staff through the reward and discipline process, we have raised the overall standard of all our staff. The improvement in the quality and competence of our management team is particularly marked. The Group has in place the mechanism for regular performance appraisals of and feedback to 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 create added 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.

## DIRECTORS

**LI Wenyue**, aged 57, was appointed a Director and the Managing Director of the Company in March 2000. When he was appointed Chairman of the Company in March 2001, he resigned his post as Managing Director. He was appointed a Director and the General Manager of 廣東粵海控股有限公司 (Guangdong Holdings Limited) ("Guangdong Holdings") and GDH Limited ("GDH") in July 2000 and August 2000, respectively and acted as the Chairman and General Manager of both Guangdong Holdings and GDH in April 2005. Before joining the Company, Mr. LI was with Guangdong Power Group in a number of positions from 1977 to 1994 including Director and Deputy General Manager. From 1994 to 2000, he acted as Deputy Secretary-General of the Guangdong Provincial Government, mainly assisting the Governor in the management of transport, industry, energy, communication, labour and, subsequently, the restructuring of Guangdong Enterprises (Holdings) Limited ("GDE"). He has a Master's degree in Engineering.

**ZHANG Hui**, aged 49, was appointed a Director of the Company in October 2002 and was subsequently appointed Managing Director of the Company in December 2002. Mr. ZHANG graduated from Tsinghua University and holds a Master's degree in Business Administration from International East-West University USA. He worked for the Guangdong Province Dongshen Water Supply Management Bureau and worked in a number of positions including Section Chief and Vice President from July 1996 to September 2000. He joined the Company in July 2002. He is currently the Chairman of Guangdong Teem (Holdings) Limited, a subsidiary of the Company.

**LI Wai Keung**, aged 51, was appointed a Director of the Company in May 2000 and subsequently appointed as Chief Financial Officer of the Company in July 2006. Mr. LI graduated from Hong Kong Polytechnic. Mr. LI holds a Master's degree in Business Administration from the University of East Asia. He is a Fellow member of The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. LI held a number of positions for nearly twenty years with Sino Land Company Limited and Henderson Land Development Company Limited. Mr. LI has been a Director and Financial Controller of GDH since August 2000. He is also an Independent Non-Executive Director of Shenzhen Investment Limited and Hans Energy Company Limited, which are listed on the Stock Exchange of Hong Kong Limited.

**CHAN Cho Chak, John**, GBS, JP, aged 65, was appointed an Independent Non-Executive Director of the Company in June 1998.

Mr. CHAN is also a Non-Executive Director of Transport International Holdings Limited, The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited, a Non-Executive Director and Chairman of RoadShow Holdings Limited and an Independent Non-Executive Director of Hang Seng Bank Limited. He is the Chairman of the Hong Kong Jockey Club, Chairman of the Council of the Sir Edward Youde Memorial Fund and a Vice Patron of the Community Chest.

Mr. CHAN was educated in Hong Kong and graduated from the University of Hong Kong in 1964 with an Honours Degree in English Literature. He later obtained a Diploma in Management Studies from the same University following the completion of evening studies. He was awarded the degree of Doctor of Business Administration (honoris causa) by the International Management Centres in October 1997.

Mr. CHAN served in the Hong Kong Government for two periods: from 1964 to 1978 and from 1980 to 1993. Initially appointed as an Executive Officer Class II, he rose through the ranks of the civil service to become one of the Cabinet-level Policy Secretaries of the Government. Among the key posts he held over the years were those of Private Secretary to the Governor, Deputy Secretary (General Duties), Director of Information Services, Deputy Chief Secretary, Secretary for Trade and Industry and Secretary for Education and Manpower. He also served as a Member of the Executive Council from October 1992 to May 1993.

Mr CHAN was also the Executive Director and General Manager of Sun Hung Kai Finance Company Limited from 1978 and 1980, the Managing Director of The Kowloon Motor Bus Company (1933) Limited from 1993 to 2006 and the Managing Director of Transport International Holdings Limited from 1997 to April 2008.

Mr. CHAN was appointed as a Justice of the Peace (JP) in 1994 and was awarded the Gold Bauhinia Star (GBS) in 1999.

**Dr. The Honourable LI Kwok Po, David**, GBM, GBS, OBE, MA Cantab. (Economics & Law), Hon. DSc. (Imperial), Hon. DBA (Napier), Hon. D.Hum.Litt. (Trinity, USA), Hon. DSocSc (Lingnan), Hon. LLD (Hong Kong), Hon. LLD (Warwick), Hon. LLD (Cantab), FCA, FCPA, FCPA (Aust.), FCIB, FHKIB, FBCS, CITP, FCIArb, JP, Officier de L'Ordre de la Couronne, Grand Officer of the Order of the Star of Italian Solidarity, The Order of the Rising Sun, Gold Rays with Neck Ribbon, Officier de la Légion d'Honneur, aged 69, was appointed an Independent Non-Executive Director of the Company in June 1998.

Dr. LI is Chairman and Chief Executive of The Bank of East Asia Limited. Dr. LI is a Member of the Legislative Council of Hong Kong. He is a Member of the Banking Advisory Committee and a Member of the Council of the Treasury Markets Association. Dr. LI is the Pro-Chancellor of the University of Hong Kong, an Honorary Adviser of the Business and Economics Association of HKUSU and an Advisory Committee Member of the Chinese University of Hong Kong S.H. Ho College.

Dr. LI is the Chairman of The Chinese Banks' Association, Limited and the Chairman of the Hong Kong Management Association. He is the Honorary Advisor of The International Chamber of Commerce – Hong Kong, China and the First Honorary Chairman of Hong Kong Chamber of Commerce in China. He is also the Honorary Chairman of the Chamber of Hong Kong Listed Companies. Dr. LI is the Vice President of the Council of the Hong Kong Institute of Bankers, the Chairman of St. Joseph's College Foundation Limited and the Chairman of the Advisory Council to the Australian International School. He is also an Emeritus Trustee of the Cambridge Foundation and a Trustee of the Cambridge Overseas Trust. Dr. LI is the Chairman of the Advisory Board of The Salvation Army, Hong Kong and Macau Command, the Chairman of the Executive Committee of St. James' Settlement and he also serves on Hong Kong Red Cross Advisory Board. He is a Council Member of Employers' Federation of Hong Kong, a Director of David Li Kwok-po Charitable Foundation Limited, a Founder Member and an Executive Committee Member of Heung Yee Kuk Foundation Limited.

Dr. LI is a Director of China Merchants China Direct Investments Limited, China Overseas Land & Investment Limited, COSCO Pacific Limited, Criteria CaixaCorp, S.A., The Hong Kong and China Gas Company Limited, The Hongkong and Shanghai Hotels, Limited, Hong Kong Interbank Clearing Limited, The Hong Kong Mortgage Corporation Limited, PCCW Limited, San Miguel Brewery Hong Kong Limited, SCMP Group Limited, Vitasoy International Holdings Limited and IMG Worldwide Inc.

Dr. LI is a member of the Board of Trustees of Asia Society International Council and Asia Business Council, a board member of Deutsche Bank Asia Pacific Advisory Board. He serves on the advisory board of Capital magazine and the international advisory boards of Carlos P. Romulo Foundation for Peace and Development, Federal Reserve Bank of New York International Advisory Committee, Hospital for Special Surgery and Scripps International Network. Dr. LI is the Chairman of INSEAD East Asia National Council, the Non-executive Chairman for Edelman Asia-Pacific and a Senior Adviser of Metrobank.

**FUNG Daniel Richard**, SBS, QC, SC, JP, aged 54, was appointed an Independent Non-Executive Director of the Company in January 2000.

Mr. FUNG is Senior Counsel of the Hong Kong Bar specialising in commercial, corporate, constitutional and administrative law and litigation. Called to the English Bar in Middle Temple in 1975 and to the Hong Kong Bar in 1977, Mr. FUNG has been in continuous practice for over two decades, achieving in 1990 appointment as Queen's Counsel.

In 1994, Mr. FUNG became the first person of Chinese extraction to serve as Solicitor General of Hong Kong, a position he occupied for four years, becoming in 1997 the first Solicitor General of the Hong Kong Special Administrative Region of the People's Republic of China.

In 1998, Mr. FUNG left public office to take up successive appointments as Visiting Scholar at Harvard Law School and Senior Visiting Fellow at Yale Law School, prior to becoming in mid-1999 the founding President of the China Law Council, non-profit organization dedicated to legal and judicial education in the PRC.

Mr. FUNG served on respectively the Basic Law Consultative Committee (1985–90) and the Central Policy Unit of the Hong Kong Government (1993–4) and was Distinguished Fulbright Scholar for Hong Kong in the Year 2000. Additionally, Mr. FUNG currently serves as Chairman of the Broadcasting Authority, President of the International Law Association Hong Kong Branch, Member of the World Bank International Advisory Council on Law and Justice, International Consultant to the UNDP on Corporate Governance in the PRC, Special Advisor to the UNDP on the Rule of Law Development Program in Cambodia and in Laos, and Advisory Committee Member of the American Bar Association/United Nations Development Program Legal Resource Unit.

Mr. FUNG is a Hong Kong Delegate to the Chinese People's Political Consultative Conference.

**CHENG Mo Chi, Moses**, GBS, OBE, JP, aged 58, was appointed an Independent Non-Executive Director of the Company in November 1999. Mr. CHENG was re-designated as a Non-Executive Director of the Company in October 2004.

Mr. CHENG is the senior partner of Messrs. P.C. Woo & Co., a firm of solicitors and notaries in Hong Kong. He was a member of the Legislative Council of Hong Kong between 1991 and 1995. Mr. CHENG is the Founder Chairman of the Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. He also serves on the boards of many other listed companies as independent non-executive director.

**JIANG Jin**, aged 59, was appointed a Director of the Company in December 2006. Mr. JIANG obtained a Diploma in Agricultural Economics from the Specialised Cadre Development Department of Nanjing Agricultural University. He had been the Secretary and Mayor of Baoying County of Jiangsu Province, the Mayor of Yangzhou City of Jiangsu Province, the Secretary and Mayor of Jiangmen City and Chairman of the Standing Committee of the local People's Congress of Jiangmen City of Guangdong Province. He has been a Director and Deputy General Manager of Guangdong Holdings and an Executive Director of GDH since 2003. He is currently the Chairman of China City Water Supply Investment Holding Limited, a wholly-owned subsidiary of GDH.

**ZHAI Zhiming**, aged 59, was appointed a Director of the Company in April 2006. He was a Non-Executive Director of the Company for the period from January 2001 to September 2004. He graduated from Xian Foreign Language University in 1976. After his graduation, Mr. ZHAI worked with the Tianjin Bureau for Economic Relations with Foreign Countries ("TBER") and its related entity, namely, China Tianjin International Economic and Technical Cooperative Co. until 1992 in a number of positions including Section Chief, Vice Director and Deputy General Manager. He undertook further study abroad from 1993 to 1995 and obtained his Master's degree in Business Administration from the Business School of Emory University, USA From 1996 to 1999, he worked for IVY International LLC in USA as General Manager. Mr. ZHAI worked for the Guangdong Provincial Government in 2000. Mr. ZHAI has been working for GDH since 2001. He is currently a Director of GDH and the Chairman of Supertime Development Limited, a wholly-owned subsidiary of GDH. He was appointed a Director and Deputy General Manager of Guangdong Holdings in February 2006.

**SUN Yingming**, aged 55, was appointed a Director of the Company in December 2006. Mr. SUN obtained a Diploma in Political Theory from South China Normal University. He had worked for the Finance Section of the Commercial Bureau of Guangdong Province. From 1990 to 2000, he worked for GDE as Manager of the Finance Department and the Chief Audit and Supervision Officer and the General Manager of the Audit and Supervision Department. He has been the Chief Audit and Supervision Officer and the General Manager of the Audit and Supervision Department of GDH since 2000. He has also been a Director of GDH since 2001.

**WANG Xiaofeng**, aged 51, was appointed a Director of the Company in January 2002. Ms. WANG graduated from Guangzhou Non-Ferrous Metals Industry School, the Department of Computer Science in South China Normal University and completed a graduate study in Economics. Ms. WANG worked for the Guangdong Metallurgy and Industry Office as the Deputy Section Chief and was responsible for the technological work related to the production of iron and steel. She was then transferred to the General Office of the People's Government of Guangdong Province and worked in a number of positions including Vice Director and Research & Investigator. She was mainly responsible for the secretarial and co-ordination work in relation to different sectors namely transport, industry, agriculture and price. Ms. WANG is the Chief Administration Officer and General Manager of the Administration Department of GDH.

**XU Wenfang**, aged 53, was appointed a Director of the Company in March 2005. She is a Senior Economist and holds a Master's degree in Business Administration. Ms. XU is the Chief Personnel and Appraisal Officer and the General Manager of the Personnel and Appraisal Department of GDH, and is responsible for human resources management. She was the Vice-Chairman of Shenzhen Tourism Council and 深圳市女企業家會 (Shenzhen Woman Entrepreneur Association), President of Shenzhen Special Economic Zone Development (Group) Company, Chairman of the supervisory committee of ShenZhen Tellus Holding Co., Ltd. and the Managing Director of Shenzhen Technological Industrial Park Company.

## SENIOR MANAGEMENT

The senior management of the Group comprises the Executive Directors above, namely, Mr. LI Wenyue, Mr. ZHANG Hui and Mr. LI Wai Keung.

# Report of the Directors

The directors (the "Directors") of Guangdong Investment Limited (the "Company") herein present their report and the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2007.

## Principal Activities

The Group was principally engaged in investment holding, property holding and investment, investing in infrastructure and energy projects, water supply to Hong Kong, and Shenzhen and Dongguan in the mainland of the People's Republic of China, hotel ownership and operations, hotel management and department stores operation. Details of the principal activities of the principal subsidiaries, jointly-controlled entities and principal associates are set out in notes 18,19 and 20 to the financial statements respectively.

## Results and Dividends

The results of the Group for the year ended 31 December 2007 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 49 to 137.

An interim dividend of 5.0 HK cents (2006: 5.0 HK cents) per share was paid on 23 October 2007. The Directors recommend the payment of a final dividend of 6.0 HK cents (2006: 5.0 HK cents) per share for the year ended 31 December 2007. This recommendation has been incorporated in the financial statements as an allocation of retaining profits within the equity section of the balance sheet.

The proposed final dividend, if approved at the forthcoming annual general meeting of the Company to be held on Wednesday, 18 June 2008, is expected to be paid on Friday, 27 June 2008 to shareholders whose names appear on the register of members of the Company on Wednesday, 18 June 2008.

The register of members of the Company will be closed from Monday, 16 June 2008 to Wednesday, 18 June 2008 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the final 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, 13 June 2008.

## Summary of Financial Information

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years extracted from the audited financial statements and reclassified as appropriate, is set out below:

### Results

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2007 HK$'000** | 2006 HK$'000 | 2005 HK$'000 | 2004 HK$'000 | 2003 HK$'000 (Note) |
| REVENUE | | | | | |
| Continuing operations | **6,689,132** | 6,056,331 | 5,249,158 | 5,109,127 | 4,825,784 |
| Discontinued operations | **—** | — | — | — | 338,159 |
| | **6,689,132** | 6,056,331 | 5,249,158 | 5,109,127 | 5,163,943 |
| PROFIT FROM OPERATING ACTIVITIES AFTER FINANCE COSTS | **2,356,403** | 1,926,710 | 1,623,732 | 1,159,547 | 1,555,490 |
| Share of profits of jointly-controlled entities | **3,030** | 66,858 | 66,023 | 33,886 | 63,359 |
| Share of profits less losses of associates | **44,589** | 54,173 | 38,420 | 44,660 | 53,713 |
| | **2,404,022** | 2,047,741 | 1,728,175 | 1,238,093 | 1,672,562 |
| PROFIT BEFORE TAX | | | | | |
| Continuing operations | **2,404,022** | 2,047,741 | 1,728,175 | 1,238,093 | 1,650,584 |
| Discontinued operations | **—** | — | — | — | 21,978 |
| | **2,404,022** | 2,047,741 | 1,728,175 | 1,238,093 | 1,672,562 |
| TAX | | | | | |
| Continuing operations | **(406,120)** | (268,724) | (218,163) | (159,235) | (221,793) |
| Discontinued operations | **—** | — | — | — | (1,794) |
| | **(406,120)** | (268,724) | (218,163) | (159,235) | (223,587) |
| PROFIT BEFORE MINORITY INTERESTS | **1,997,902** | 1,779,017 | 1,510,012 | 1,078,858 | 1,448,975 |
| Minority interests | **(300,868)** | (272,114) | (206,517) | (183,082) | (342,254) |
| NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | **1,697,034** | 1,506,903 | 1,303,495 | 895,776 | 1,106,721 |

## Summary of Financial Information (continued)

### Assets, liabilities and minority interests

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2007 HK$'000 | 2006 HK$'000 | 2005 HK$'000 | 2004 HK$'000 | 2003 HK$'000 (Note) |
| PROPERTY, PLANT AND EQUIPMENT | 6,265,504 | 7,544,787 | 7,722,849 | 7,978,794 | 12,737,077 |
| PROPERTIES UNDER DEVELOPMENT | — | — | 15,342 | 4,631 | 37,141 |
| INVESTMENT PROPERTIES | 4,277,760 | 2,385,480 | 2,302,685 | 2,085,292 | 2,106,139 |
| PREPAID LAND LEASE PAYMENTS | 4,024,220 | 4,175,244 | 4,058,923 | 4,199,344 | — |
| GOODWILL AND NEGATIVE GOODWILL, NET | 256,119 | 216,127 | 139,346 | (176,070) | (120,767) |
| INTERESTS IN JOINTLY-CONTROLLED ENTITIES | 852,142 | 915,052 | 917,756 | 1,014,362 | 961,297 |
| INTERESTS IN ASSOCIATES | 354,424 | 484,156 | 483,415 | 452,679 | 371,404 |
| CONTRACTUAL JOINT VENTURE | — | — | 46,569 | — | — |
| INTANGIBLE ASSETS | 11,161,801 | 11,655,088 | 12,148,375 | 12,641,662 | 13,134,949 |
| OTHER ASSETS | 3,279,035 | 2,775,324 | 2,704,296 | 2,149,863 | 2,311,506 |
| DEFERRED TAX ASSETS | 21,618 | 22,604 | 9,563 | 4,562 | 3,617 |
| TOTAL ASSETS | 30,492,623 | 30,173,862 | 30,549,119 | 30,355,119 | 31,542,363 |
| BONDS | — | — | — | (442,167) | (994,640) |
| OTHER LOANS AND LIABILITIES | (13,703,079) | (15,120,078) | (16,875,912) | (17,465,929) | (18,764,207) |
| DEFERRED TAX LIABILITIES | (758,058) | (641,794) | (592,217) | (527,113) | (881,907) |
| TOTAL LIABILITIES | (14,461,137) | (15,761,872) | (17,468,129) | (18,435,209) | (20,640,754) |
| MINORITY INTERESTS | (2,006,491) | (1,789,403) | (1,602,701) | (1,875,228) | (1,969,304) |
| NET ASSETS | 16,031,486 | 14,411,990 | 13,080,990 | 11,919,910 | 8,932,305 |

Note: The new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations ("HK-Ints")), of which HKAS 1, 2, 7, 8, 10, 12, 14, 16-21, 23, 24, 27, 28, 31-33, 36-40, HKFRS 2, 3, 5, HK-Int 1, 2, 4, HKAS-Int 15 and 21, which have become effective for accounting periods beginning on or after 1 January 2005, have affected the Group. The Group has adopted new accounting policies in accordance with the new changes. The amounts for the year 2004 have been adjusted accordingly. However, the directors opined that for years before 2004, as a result of the changes in the Group structure in those years and the inability to access the books and records of certain disposed companies, it is difficult to ascertain the full financial effects arising the current changes in accounting policies. As a result, it is not practicable for the Group to restate the amounts in those years for comparison purposes.

## Property, Plant and Equipment and Investment Properties

Details of movements in property, plant and equipment and investment properties of the Company and the Group during the year are set out in notes 14 and 15 to the financial statements, respectively.

## Ordinary Share Capital and Share Options

Details of movements in the Company's ordinary share capital and share options during the year are set out in notes 33 and 34 to the financial statements.

## Share Premium Accounts and Reserves

Details of movements in the share premium accounts and reserves of the Company and the Group during the year are set out in notes 33 and 35 to the financial statements and in the consolidated statement of changes in equity, respectively.

## Distributable Reserves

As at 31 December 2007, the Company's reserves available for distribution as calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance and in light of the undertakings more particularly referred to in note 35 to the financial statements amounted to HK$301,248,000.

## Charitable Contributions

The Group made no charitable contributions during the year (2006: HK$7,798,400).

## Share Options of the Company

During the year, no options have been granted under the share option scheme of the Company (the "Share Option Scheme"). Details of the options of the Company held by the directors of the Company and the detailed terms of the Share Option Scheme are set out in the section headed "Directors' Interests and Short Positions in Securities" of this report and in note 34 to the financial statements respectively.

## Arrangement to Acquire Shares or Debentures

Save as disclosed in the sections headed "Share Options of the Company" and "Directors' Interests and Short Positions in Securities" of this report, and in note 34 to the financial statements, at no time during the year 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.

## Directors

The Directors of the Company during the year and up to the date of this report are:

LI Wenyue *(Chairman)*
ZHANG Hui *(Managing Director)*
LI Wai Keung *(Chief Financial Officer)*
*CHAN Cho Chak, John
*LI Kwok Po, David
*FUNG, Daniel Richard
#CHENG Mo Chi, Moses
#JIANG Jin
#ZHAI Zhiming
#SUN Yingming
#WANG Xiaofeng
#XU Wenfang

* *Independent Non-Executive Director*
\# *Non-Executive Director*

Mr. ZHANG Hui, Mr. FUNG, Daniel R., Ms. WANG Xiaofeng and Ms. XU Wenfang will retire by rotation in accordance with Article 77 of the Articles of Association of the Company at the forthcoming annual general meeting. Being eligible, Mr. ZHANG Hui, Mr. FUNG, Daniel R., Ms. WANG Xiaofeng and Ms. XU Wenfang will offer themselves for re-election.

Mr. FUNG, Daniel R., Independent Non-Executive Director, and Ms. WANG Xiaofeng and Ms. XU Wenfang, Non-Executive Directors, agree to stand for re-election and if re-elected to hold office from the date of re-election, to the earlier of (i) the conclusion of the annual general meeting of the Company to be held in 2011 and (ii) 30 June 2011, subject to earlier determination in accordance with the Articles of Association of the Company and/or applicable laws and regulations.

Biographical details of the Directors of the Company as at the date of this report are set out on pages 25 to 28 of this annual report.

## Directors' Service Contracts

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

## Directors' Interests in Contracts of Significance

None of the Directors had a material beneficial interest, whether directly or indirectly, in any significant contract to which the Company or any of its subsidiaries, its holding companies or a subsidiary of its holding companies was a party during the year or as at 31 December 2007.

## Directors' Interests in Competing Business

As at 31 December 2007, Messrs. LI Wenyue, JIANG Jin and ZHAI Zhiming, Directors of the Company, were also directors of 廣東粵海控股有限公司 (Guangdong Holdings Limited) ("Guangdong Holdings") and GDH Limited ("GDH"). Messrs. LI Wai Keung, and SUN Yingming, Directors of the Company, were also directors of GDH. GDH is a wholly-owned subsidiary of Guangdong Holdings. Guangdong Holdings and its subsidiaries other than the Group (the "Guangdong Holdings Group") have certain business interests which include property, hotels, infrastructure, electric power generation and water supply investment. There may be some overlapping between the scope of the aforementioned businesses of the Guangdong Holdings Group and that of the Group. However the Directors do not believe that there exist any direct or indirect competition in any material respect between the businesses of the Guangdong Holdings Group and those of the Group.

## Directors' Interests and Short Positions in Securities

As at 31 December 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 interest | Number of ordinary shares held | Long/short position | Approximate percentage of interest held (Note) |
|---|---|---|---|---|
| LI Wenyue | Personal | 16,400,000 | Long position | 0.269% |
| 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 interest held was calculated on the basis of 6,103,938,071 ordinary shares of the Company in issue as at 31 December 2007.

## Directors' Interests and Short Positions in Securities (continued)

### 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 During the year Date (dd.mm.yyyy) | Options granted During the year Number | 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 during the year | Number of options held as at 31 December 2007 | Long/short position |
|---|---|---|---|---|---|---|---|---|---|
| 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 (continued)

## 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 During the year Date (dd.mm.yyyy) | Options granted During the year Number | 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 during the year | Number of options held as at 31 December 2007 | Long/short position |
|---|---|---|---|---|---|---|---|---|---|
| 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 any of the option periods is not a business day in Hong Kong, the option period shall expire at 5:01 p.m. on the business day preceding that day (Hong Kong time).

## Interests and short positions in Kingway Brewery Holdings Limited

### Interests in ordinary shares

| Name of Director | Capacity/nature of interest | Number of ordinary shares held | Long/short position | Approximate percentage of interest held (Note) |
|---|---|---|---|---|
| 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 interest held was calculated on the basis of 1,706,672,000 ordinary shares of Kingway Brewery Holdings Limited in issue as at 31 December 2007.

## Directors' Interests and Short Positions in Securities (continued)

### Interests and short positions in Guangnan (Holdings) Limited

#### Interests in ordinary shares

| Name of Director | Capacity/nature of interest | Number of ordinary shares held | Long/short position | Approximate percentage of interest held (Note) |
|---|---|---|---|---|
| LI Wenyue | Personal | 200,000 | Long position | 0.022% |
| LI Kwok Po, David | Personal | 15,000 | Long position | 0.002% |
| JIANG Jin | Personal | 550,000 | Long position | 0.061% |
| WANG Xiaofeng | Personal | 20,000 | Long position | 0.002% |

Note: The approximate percentage of interest held was calculated on the basis of 905,603,285 ordinary shares of Guangnan (Holdings) Limited in issue as at 31 December 2007.

### Interests and short positions in Guangdong Tannery Limited

#### Interests in ordinary shares

| Name of Director | Capacity/nature of interest | Number of ordinary shares held | Long/short position | Approximate percentage of interest held (Note) |
|---|---|---|---|---|
| LI Wenyue | Personal | 194,000 | Long position | 0.036% |
| JIANG Jin | Personal | 600,000 | Long position | 0.112% |
| WANG Xiaofeng | Personal | 20,000 | Long position | 0.004% |

Note: The approximate percentage of interest held was calculated on the basis of 537,504,000 ordinary shares of Guangdong Tannery Limited in issue as at 31 December 2007.

Save as disclosed above, as at 31 December 2007, to the knowledge of the Company, none of the Directors or chief executive of the Company or their respective associates 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.

## Substantial Shareholders' Interests

As at 31 December 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 interest | Number of ordinary shares held | Long/short position | Approximate percentage of interest held (Note 1) |
|---|---|---|---|---|
| 廣東粵海控股有限公司 (Guangdong Holdings Limited) (Note 2) | Interest of controlled corporation | 3,765,770,781 | Long position | 61.69% |
| GDH Limited (Note 3) | Beneficial owner/ Interest of controlled corporation | 3,765,770,781 | Long position | 61.69% |
| Guangdong Trust Ltd. | Beneficial owner/ Interest of controlled corporation | 576,404,918 | Long position | 9.44% |

Notes:

1. The approximate percentage of interest held was calculated on the basis of 6,103,938,071 ordinary shares of the Company in issue as at 31 December 2007.

2. The attributable interest which 廣東粵海控股有限公司 (Guangdong Holdings Limited) has in the Company is held through its 100% direct interest in GDH Limited.

3. The interest of GDH Limited set out above includes attributable interest held through its wholly-owned subsidiary, Guangdong Trust Ltd.

Save as disclosed above, as at 31 December 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.

## Significant Contracts with Controlling Shareholder

Save as disclosed in notes 41 and 42 to the financial statements, the Company and the controlling shareholders of the Company had not entered into any other contracts of significance during the year.

## Connected Transactions

Details of the connected transactions are disclosed in note 42 to the financial statements.

## Purchase, Sale and Redemption of Listed Securities

During the year, 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 year:

| | No. of new ordinary shares issued | Exercise price per ordinary share HK$ | Cash consideration HK$ |
|---|---|---|---|
| | 3,300,000 | 1.22 | 4,026,000 |
| | 3,390,000 | 1.25 | 4,237,500 |
| | 4,400,000 | 1.59 | 6,996,000 |
| | 1,900,000 | 3.405 | 6,469,500 |
| Total | 12,990,000 | | 21,729,000 |

## Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 58% of the total sales for the year and sales to the Group's largest customer included therein amounted to 37%. Purchases from the Group's five largest suppliers accounted for 22% of the total purchases for the year and purchases from the Group's largest supplier included therein amounted to 10%.

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

## Post Balance Sheet Events

Details of the significant post balance sheet events of the Group are set out in note 46 to the financial statements.

## Public Float

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

## Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board
**LI Wenyue**
*Chairman*

Hong Kong, 14 April 2008

# Corporate Governance Report

The Group recognises the importance of achieving and monitoring the highest standard of corporate governance consistent with the needs and requirements of its businesses and the best interest of all of its stakeholders and is fully committed to doing so. It is also with these objectives in mind that the Group has applied the principles of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

In the opinion of the directors of the Company (the "Directors"), the Company has met the code provisions set out in the CG Code.

## Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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, upon specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the year.

## Board of Directors

The 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 Richard.

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.

During the financial year ended 31 December 2007, the Board had five scheduled meetings. The attendances of the Directors at the Board meetings are as follows:

| Directors | Number of Attendance |
|---|---|
| LI Wenyue | 4/5 |
| ZHANG Hui | 4/5 |
| LI Wai Keung | 5/5 |
| CHAN Cho Chak, John | 5/5 |
| LI Kwok Po, David | 4/5 |
| FUNG, Daniel Richard | 4/5 |
| CHENG Mo Chi, Moses | 4/5 |
| JIANG Jin | 5/5 |
| ZHAI Zhiming | 5/5 |
| SUN Yingming | 5/5 |
| WANG Xiaofeng | 4/5 |
| XU Wenfang | 4/5 |

## Board of Directors (continued)

The Company has received confirmation of independence from the three Independent Non-Executive Directors, namely: Mr. CHAN Cho Chak, John, Dr. LI Kwok Po, David and Mr. FUNG, Daniel Richard, in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the Independent Non-Executive Directors are independent within the definition of the Listing Rules.

The Board members do not have any financial, business, family or other material/relevant relationships with each other. Such balanced board composition also ensures that strong independence exists across the Board. The biographies of the Directors are set out in pages 25 to 28 to the annual report, which demonstrate a diversity of skills, expertise, experience and qualifications.

## Chairman and Managing Director

The Chairman of the Board is Mr. LI Wenyue and the Managing Director is Mr. ZHANG Hui. Their roles are clearly defined and segregated to ensure independence and proper checks and balances. Mr. LI Wenyue as the Chairman has executive responsibilities, provides leadership to the Board and ensures the proper and effective functioning of the Board in the discharge of its responsibilities. Mr. ZHANG Hui as the Managing Director is accountable to the Board for the overall implementation of the Company's strategies and the co-ordination of overall business operations.

## Non-Executive Directors

All Directors, including Non-Executive Directors, appointed to fill a causal vacancy or as an addition to the existing Board, shall hold office only until the first general meeting after his appointment and shall then be eligible for re-election. Moreover, each Non-Executive Director of the Company will hold office for a specific term expiring on the earlier of either (i) the conclusion of the annual general meeting of the Company in the year of the third anniversary of the appointment or re-election of that director or (ii) the expiration of the period within which the annual general meeting of the Company is required to be held in the year of the third anniversary of the appointment or re-election of that director and in any event, subject to earlier determination in accordance with the articles of association of the Company and/or applicable laws and regulations.

## Remuneration of Directors

The Company established a remuneration committee (the "Remuneration Committee") in June 2005. The authorities and duties of the Remuneration Committee are as follows:

### Authority

1. The Remuneration Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Remuneration Committee.

2. The Remuneration Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

## Remuneration of Directors (continued)

### Duties

1. To make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

2. To have the delegated responsibilities to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment. Factors which should be taken into consideration include but are not limited to salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the group and desirability of performance-based remuneration.

3. To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

4. To review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company.

5. To review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate.

6. To make recommendations to the Board on the remuneration of non-executive directors.

7. To ensure that no director or any of his associates is involved in deciding his own remuneration.

8. To consult the chairman and/or the managing director about their proposals relating to the remuneration of executive directors and senior management and have access to professional advice if considered necessary.

9. To consider other topics as defined by the Board.

10. To report back to the Board on their work (including their decisions and recommendations) from time to time as appropriate and in any event not less than once every year.

The Remuneration Committee comprises three Independent Non-Executive Directors, being Mr. CHAN Cho Chak, John, Dr. LI Kwok Po, David and Mr. FUNG, Daniel Richard and one Non-Executive Director, being Mr. CHENG Mo Chi, Moses. Mr. CHAN Cho Chak, John is the Chairman of the Remuneration Committee.

## Remuneration of Directors (continued)

### Duties (continued)

During the financial year ended 31 December 2007, the Remuneration Committee held one meeting to approve the annual remuneration package and performance bonuses for the Executive Directors of the Company that came up for determination. The attendance of each member of the Remuneration Committee is set out as follows:

| Directors | Number of Attendance |
|---|---|
| CHAN Cho Chak, John | 1/1 |
| LI Kwok Po, David | 1/1 |
| FUNG, Daniel Richard | 1/1 |
| CHENG Mo Chi, Moses | 1/1 |

Details of the amount of Directors' emoluments are set out in note 8 to the financial statements.

## Nomination of Directors

The Board is responsible for the nomination and considering and approving the appointment of directors with a view to appointing to the Board suitable individuals with the relevant expertise and experience to enhance the constitution of a strong and diverse Board and to contribute to the functioning of the Board through their continuous participation.

## Auditors' Remuneration

During the year under review, the remuneration paid to the auditors of the Group (excluding jointly-controlled entities), is set out as follows:

| Services rendered | Fee paid/payable HK$'000 |
|---|---|
| Audit of financial statements | 5,755 |
| Review of interim results | 1,000 |
| Taxation services | 357 |
| Due diligent services | 1,080 |
| | 8,192 |

## Audit Committee

The Audit Committee of the Company (the "Audit Committee") was established in September 1998. The authorities and duties of the Audit Committee are as follows:

### Authority

1. The Audit Committee is authorized by the Board to investigate activity within its terms of reference. It is authorized to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Audit Committee.

2. The Audit Committee is authorized by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

### Duties

1. To be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor.

2. To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences.

3. To develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

4. To monitor the integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the Audit Committee should focus particularly on:

   i. any changes in accounting policies and practices;

   ii. major judgmental areas;

   iii. significant adjustments resulting from audit;

   iv. the going concern assumptions and any qualifications;

   v. compliance with accounting standards; and

   vi. compliance with the Listing Rules and other legal requirements in relation to financial reporting.

## Audit Committee (continued)

### Duties (continued)

5. In regard to (4) above:

   i. members of the Audit Committee must liaise with the Company's Board, senior management and the person appointed as the Company's qualified accountant and the Audit Committee must meet, at least once a year, with the Company's auditors; and

   ii. the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or auditors.

6. To review the Company's financial controls, internal controls and risk management systems.

7. To discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system.

8. To consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response.

9. Where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function.

10. To review the group's financial and accounting policies and practices.

11. To review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of controls and management's response.

12. To ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter.

13. To consider other topics, as defined by the Board.

14. To report to the Board on the matters set out in the terms of reference of the Audit Committee and the work of the Audit Committee (including their decisions and recommendations) from time to time as appropriate.

The Audit Committee comprises the three Independent Non-Executive Directors, being Dr. LI Kwok Po, David, Mr. CHAN Cho Chak, John and Mr. FUNG, Daniel Richard and one Non-Executive Director, being Mr. CHENG Mo Chi, Moses. Dr. LI Kwok Po, David is the Chairman of the Audit Committee.

## Audit Committee (continued)

### Duties (continued)

During the financial year ended 31 December 2007, the Audit Committee held three meetings. It reviewed the 2006 annual results and the 2007 interim results of the Company before their submission to the Board and monitored the integrity of such financial statements. The Audit Committee oversees matters concerning the external auditors including making recommendations to the Board regarding the appointment of the external auditors, reviewing the scope of their audit and approving their fees. In addition to its three meetings as aforesaid, the Audit Committee also has a private meeting with the external auditors at least once every year without the presence of the management to discuss any area of concern. The Audit Committee further ensures that the management has put in place an effective system of internal control. It maintains an overview of the Group's risk assessment, control and management processes. In addition, it reviews the internal audit schedules of the Group, considers the Group's internal audit reports and monitors the effectiveness of the internal audit function. The attendance of each member of the Audit Committee is set out as follows:

| Directors | Number of Attendance |
|---|---|
| LI Kwok Po, David | 3/3 |
| CHAN Cho Chak, John | 3/3 |
| FUNG, Daniel Richard | 2/3 |
| CHENG Mo Chi, Moses | 3/3 |

## Accountability and Audit

The Board is responsible for overseeing the preparation of financial statements for the year ended 31 December 2007, which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that financial year. In preparing the financial statements for the year ended 31 December 2007, the Board has selected appropriate accounting policies, applied them consistently in accordance with the Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are pertinent to its operations and relevant to the financial statements, made judgments and estimates that are prudent and reasonable, and ensured the preparation of the financial statements on the going concern basis.

The Group endeavours to present a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. The annual and interim results of the Company are announced in a timely manner within the limit of 4 months and 3 months respectively after the end of the relevant periods in accordance with the Listing Rules.

## Internal Control

The Board is responsible for the Group's system of internal controls and its effectiveness. Such a system is designed to prudently manage the Group's risks within an acceptable risk profile. The Board has delegated to executive management the implementation of such systems of internal controls as well as the review of relevant financial, operational and compliance controls and risk management procedures.

The management under the supervision of the Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group and this process includes updating the systems of internal controls when there are changes to business environment or regulatory guidelines.

## Internal Control (continued)

The management assists the Board with the implementation of all relevant policies and procedures on risk and control by identifying and assessing the risk faced and designing, operating and monitoring suitable internal controls to mitigate and control these risks. The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls include the following:

A distinct organization structure is maintained with defined lines of authorities and proper segregation of duties, which is designed to safeguard assets from inappropriate use, maintain proper accounts and ensure compliance with regulations.

In addition to the duties of the Audit Committee as mentioned above, the Audit Committee, inter alia, reviews the financial controls, internal control and risk management systems of the Group and any significant internal control issues identified by the internal audit department, external auditors and management. It also conducts review of the internal audit functions with particular emphasis on the scope and quality of the internal audits and independence of the internal audit department.

The internal audit department monitors compliance with policies and procedures and the effectiveness of the internal control systems and highlights significant findings in respect of any non-compliance. It plays an important role in the Group's internal control framework, and provides objective assurance to the Board that a sound internal control system is maintained and operated in compliance with the established processes and standards by performing periodic checking. The internal audit department plans its internal audit schedules annually with audit resources being focused on higher risk areas. To preserve the internal audit independence, the head of internal audit department of the Group reports directly to the Board.

The Board is satisfied that the system of internal controls in place for the year under review and up to the date of issuance of the annual report and accounts is adequate and effective.

By order of the Board
**LI Wenyue**
*Chairman*

Hong Kong, 14 April 2008

# Independent Auditors' Report

ERNST & YOUNG

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

**To the shareholders of Guangdong Investment Limited**
*(Incorporated in Hong Kong with limited liability)*

We have audited the financial statements of Guangdong Investment Limited set out on pages 49 to 137, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**Ernst & Young**
*Certified Public Accountants*
Hong Kong
14 April 2008

# Consolidated Income Statement

Year ended 31 December 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| REVENUE | 5 | **6,689,132** | 6,056,331 |
| Cost of sales | | **(3,615,460)** | (3,182,968) |
| Gross profit | | **3,073,672** | 2,873,363 |
| Other income and gains | 5 | **123,570** | 147,376 |
| Selling and distribution costs | | **(72,631)** | (81,046) |
| Administrative expenses | | **(498,097)** | (429,921) |
| Other operating income, net | | **220,658** | 70,087 |
| Finance costs | 7 | **(490,769)** | (653,149) |
| Share of profits of jointly-controlled entities | | **3,030** | 66,858 |
| Share of profits of associates | | **44,589** | 54,173 |
| PROFIT BEFORE TAX | 6 | **2,404,022** | 2,047,741 |
| Tax | 10 | **(406,120)** | (268,724) |
| PROFIT FOR THE YEAR | | **1,997,902** | 1,779,017 |
| Attributable to: | | | |
| Equity holders of the Company | 11 | **1,697,034** | 1,506,903 |
| Minority interests | | **300,868** | 272,114 |
| | | **1,997,902** | 1,779,017 |
| DIVIDENDS | 12 | | |
| Interim | | **305,197** | 301,447 |
| Proposed final | | **366,236** | 304,597 |
| | | **671,433** | 606,044 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | 13 | | |
| Basic | | **27.83 HK cents** | 25.00 HK cents |
| Diluted | | **27.23 HK cents** | 24.33 HK cents |

# Consolidated Balance Sheet

31 December 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 14 | **6,265,504** | 7,544,787 |
| Investment properties | 15 | **4,277,760** | 2,385,480 |
| Prepaid land lease payments | 16 | **4,024,220** | 4,175,244 |
| Goodwill | 17 | **256,119** | 216,127 |
| Interests in jointly-controlled entities | 19 | **852,142** | 915,052 |
| Interests in associates | 20 | **354,424** | 484,156 |
| Operating right | 21 | **11,161,801** | 11,655,088 |
| Deferred tax assets | 32 | **21,618** | 22,604 |
| Other long term assets | | **18** | 58 |
| Total non-current assets | | **27,213,606** | 27,398,596 |
| CURRENT ASSETS | | | |
| Available-for-sale investments | 22 | **42,045** | 39,591 |
| Tax recoverable | | **33,437** | 27,779 |
| Inventories | 23 | **57,819** | 59,316 |
| Receivables, prepayments and deposits | 24 | **379,843** | 329,729 |
| Derivative financial instruments | 27 | **78,516** | 64,436 |
| Restricted cash and bank balances | 25 | **2,824** | 2,756 |
| Cash and cash equivalents | 25 | **2,684,533** | 2,251,659 |
| Total current assets | | **3,279,017** | 2,775,266 |
| CURRENT LIABILITIES | | | |
| Payables, accruals and other liabilities | 26 | **(1,416,203)** | (1,023,729) |
| Tax payable | | **(81,249)** | (46,109) |
| Derivative financial instruments | 27 | **(277,647)** | (235,885) |
| Due to minority shareholders of subsidiaries | 28 | **(415,349)** | (307,056) |
| Interest-bearing bank borrowings | 29 | **(292,343)** | (205,802) |
| Non-interest-bearing receipt in advance | 31 | **(118,200)** | (118,200) |
| Total current liabilities | | **(2,600,991)** | (1,936,781) |
| NET CURRENT ASSETS | | **678,026** | 838,485 |
| TOTAL ASSETS LESS CURRENT LIABILITIES — page 51 | | **27,891,632** | 28,237,081 |

# Consolidated Balance Sheet

31 December 2007

| | Notes | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES — page 50 | | **27,891,632** | 28,237,081 |
| NON-CURRENT LIABILITIES | | | |
| Due to minority shareholders of subsidiaries | 28 | **(22,594)** | (35,555) |
| Interest-bearing bank borrowings | 29 | **(9,424,694)** | (11,374,742) |
| Non-interest-bearing receipt in advance | 31 | **(1,654,800)** | (1,773,000) |
| Deferred tax liabilities | 32 | **(758,058)** | (641,794) |
| Total non-current liabilities | | **(11,860,146)** | (13,825,091) |
| Net assets | | **16,031,486** | 14,411,990 |
| EQUITY | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Issued capital | 33 | **3,051,969** | 3,045,474 |
| Reserves | 35(a) | **10,606,790** | 9,272,516 |
| Proposed final dividend | 12 | **366,236** | 304,597 |
| | | **14,024,995** | 12,622,587 |
| **Minority interests** | | **2,006,491** | 1,789,403 |
| Total equity | | **16,031,486** | 14,411,990 |

**LI Wenyue**
*Director*

**LI Wai Keung**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 December 2007

| | | Attributable to equity holders of the Company | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Issued capital HK$'000 | Ordinary share premium account HK$'000 | Share option reserve HK$'000 (note 35(a)(ii)) | Asset revaluation reserve HK$'000 | Capital reserve HK$'000 | Hedging reserve HK$'000 (note 35(a)(iii)) | Expansion fund reserve HK$'000 (note 35(a)(iv)) | Exchange fluctuation reserve HK$'000 | Special reserve HK$'000 (note 35(a)(i)) | Retained profits HK$'000 | Proposed final dividend HK$'000 | Total HK$'000 | Minority interests HK$'000 | Total equity HK$'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 | 27 | — | — | — | — | — | 1,674 | — | — | — | — | — | 1,674 | 1,132 | 2,806 |
| Exchange realignment | | — | — | — | — | — | — | — | 166,484 | — | — | — | 166,484 | 33,511 | 199,995 |
| Total income and expense recognised directly in equity | | — | — | — | — | — | 1,674 | — | 166,484 | — | — | — | 168,158 | 34,643 | 202,801 |
| Profit for the year | | — | — | — | — | — | — | — | — | — | 1,506,903 | — | 1,506,903 | 272,114 | 1,779,017 |
| Total income and expense for the year | | — | — | — | — | — | 1,674 | — | 166,484 | — | 1,506,903 | — | 1,675,061 | 306,757 | 1,981,818 |
| Share options exercised, net of share issue expenses | 33(i) | 36,715 | 22,979 | — | — | — | — | — | — | — | — | — | 59,694 | — | 59,694 |
| Capital reduction of a subsidiary | | — | — | — | — | — | — | — | — | — | — | — | — | (47,953) | (47,953) |
| Acquisition of minority interests | 36 | — | — | — | — | — | — | — | — | — | — | — | — | (81,769) | (81,769) |
| A contractual joint venture becoming a subsidiary | | — | — | — | — | — | — | — | — | — | — | — | — | 27,350 | 27,350 |
| Equity-settled share option arrangements | 34 | — | — | 3,366 | — | — | — | — | — | — | — | — | 3,366 | — | 3,366 |
| Transfer from the income statement | | — | — | — | — | — | — | 93,292 | — | — | (93,292) | — | — | — | — |
| Dividends paid to minority interests | | — | — | — | — | — | — | — | — | — | — | — | — | (17,683) | (17,683) |
| Release of reserve upon disposal of a subsidiary | 37 | — | — | — | — | — | — | — | 8,736 | — | — | — | 8,736 | — | 8,736 |
| Interim 2006 dividend paid | 12 | — | — | — | — | — | — | — | — | — | (301,447) | — | (301,447) | — | (301,447) |
| Proposed final 2006 dividend | 12 | — | — | — | — | — | — | — | — | — | (304,597) | 304,597 | — | — | — |
| Final 2005 dividend paid | | — | — | — | — | — | — | — | — | — | (111) | (301,001) | (301,112) | — | (301,112) |
| Transfer from retained profits during the year in accordance with the Undertaking | 35(a)(i) | — | — | — | — | — | — | — | — | 191,031 | (191,031) | — | — | — | — |
| Transfer to retained profits upon issue of new Ordinary Shares | 35(a)(i) | — | — | — | — | — | — | — | — | (191,031) | 191,031 | — | — | — | — |
| At 31 December 2006 | | 3,045,474 | 2,321,184 | 4,626 | — | 1,430,009 | (96,168) | 373,018 | 165,913 | — | 5,073,934 | 304,597 | 12,622,587 | 1,789,403 | 14,411,990 |

# Consolidated Statement of Changes in Equity

Year ended 31 December 2007

| | Notes | Issued capital HK$'000 | Ordinary share premium account* HK$'000 | Share option reserve* HK$'000 (note 35(a)(ii)) | Asset revaluation reserve* HK$'000 | Capital reserve* HK$'000 | Hedging reserve* HK$'000 (note 35(a)(iii)) | Expansion fund reserve* HK$'000 (note 35(a)(iv)) | Exchange fluctuation reserve* HK$'000 | Special reserve* HK$'000 (note 35(a)(i)) | Retained profits* HK$'000 | Proposed final dividend HK$'000 | Total HK$'000 | Minority interests HK$'000 | Total equity HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to equity holders of the Company | | | | | | | | | | | | | |
| At 1 January 2007 | | 3,045,474 | 2,321,184 | 4,626 | — | 1,430,009 | (96,168) | 373,018 | 165,913 | — | 5,073,934 | 304,597 | 12,622,587 | 1,789,403 | 14,411,990 |
| Fair value gains on property, plant and equipment | 14 | — | — | — | 8,406 | — | — | — | — | — | — | — | 8,406 | 2,676 | 11,082 |
| Net losses on cash flow hedges | 27 | — | — | — | — | — | (54,649) | — | — | — | — | — | (54,649) | (6,523) | (61,172) |
| Exchange realignment | | — | — | — | — | — | — | — | 339,822 | — | — | — | 339,822 | 83,539 | 423,361 |
| Total income and expense recognised directly in equity | | — | — | — | 8,406 | — | (54,649) | — | 339,822 | — | — | — | 293,579 | 79,692 | 373,271 |
| Profit for the year | | — | — | — | — | — | — | — | — | — | 1,697,034 | — | 1,697,034 | 300,868 | 1,997,902 |
| Total income and expense for the year | | — | — | — | 8,406 | — | (54,649) | — | 339,822 | — | 1,697,034 | — | 1,990,613 | 380,560 | 2,371,173 |
| Share options exercised, net of share issue expenses | 33(i) | 6,495 | 15,219 | — | — | — | — | — | — | — | — | — | 21,714 | — | 21,714 |
| Acquisition of minority interests | 36 | — | — | — | — | — | — | — | — | — | — | — | — | (43,157) | (43,157) |
| Equity-settled share option arrangements | 33(ii) | — | 3,141 | (3,141) | — | — | — | — | — | — | — | — | — | — | — |
| Transfer from the income statement | | — | — | — | — | — | — | 128,841 | — | — | (128,841) | — | — | — | — |
| Dividends paid to minority interests | | — | — | — | — | — | — | — | — | — | — | — | — | (120,315) | (120,315) |
| Interim 2007 dividend paid | 12 | — | — | — | — | — | — | — | — | — | (305,197) | — | (305,197) | — | (305,197) |
| Proposed final 2007 dividend | 12 | — | — | — | — | — | — | — | — | — | (366,236) | 366,236 | — | — | — |
| Final 2006 dividend paid | 12 | — | — | — | — | — | — | — | — | — | (125) | (304,597) | (304,722) | — | (304,722) |
| Transfer from retained profits during the year in accordance with the Undertaking | 35(a)(i) | — | — | — | — | — | — | — | — | 134,583 | (134,583) | — | — | — | — |
| Transfer to retained profits upon issue of new Ordinary Shares | 35(a)(i) | — | — | — | — | — | — | — | — | (60,534) | 60,534 | — | — | — | — |
| At 31 December 2007 | | 3,051,969 | 2,339,544 | 1,485 | 8,406 | 1,430,009 | (150,817) | 501,859 | 505,735 | 74,049 | 5,896,520 | 366,236 | 14,024,995 | 2,006,491 | 16,031,486 |

* These reserves accounts comprise the consolidated reserves of HK$10,606,790,000 (2006: HK$9,272,516,000) in the consolidated balance sheet.

# Consolidated Cash Flow Statement

Year ended 31 December 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | **2,404,022** | 2,047,741 |
| Adjustments for: | | | |
| Finance costs | 7 | **490,769** | 653,149 |
| Share of profits of jointly-controlled entities | | **(3,030)** | (66,858) |
| Share of profits of associates | | **(44,589)** | (54,173) |
| Bank interest income | 5 | **(72,439)** | (72,270) |
| Dividend income from available-for-sale investments | 5 | **(1,684)** | (1,053) |
| Ineffectiveness of cash flow hedges | 5 | **(7,135)** | 31,867 |
| Gain on disposal of available-for-sale investments | 5 | **—** | (39,619) |
| Write-back of an other payable | 5 | **—** | (23,154) |
| Excess over the cost of business combinations | 5 | **(2,141)** | (3,939) |
| Depreciation | 6 | **412,609** | 432,581 |
| Recognition of prepaid land lease payments | 6 | **157,549** | 158,250 |
| Amortisation of the operating right | 6 | **493,287** | 493,287 |
| Changes in fair value of investment properties | 6 | **(780,921)** | (86,248) |
| Impairment of items of property, plant and equipment | 6 | **394,282** | 31,970 |
| Impairment of interests in an associate | 6 | **151,813** | — |
| Write-off of construction in progress | 6 | **5,115** | — |
| Loss/(gain) on disposal of items of property, plant and equipment, net | 6 | **5,039** | (22,596) |
| Provision/(write-back of provision) for inventories, net | 6 | **(197)** | 1,582 |
| Impairment of trade receivables | 6 | **8** | 927 |
| Equity-settled share option expense | 6 | **—** | 3,366 |
| Loss on disposal of subsidiaries | 6 | **—** | 3,992 |
| Amortisation of other long term assets | | **43** | 1,775 |
| Operating profit before working capital changes | | **3,602,400** | 3,490,577 |
| Decrease/(increase) in amounts due from/(to) jointly-controlled entities | | **(744)** | 41,184 |
| Decrease in amounts due from associates | | **3,238** | 17,578 |
| Increase in an amount due from the immediate holding company | | **(286)** | (206) |
| Decrease in an amount due from the ultimate holding company | | **51** | 26 |
| Decrease/(increase) in amounts due from fellow subsidiaries | | **(301)** | 774 |
| Decrease in inventories | | **1,694** | 4,791 |
| Decrease/(increase) in receivables, prepayments and deposits | | **(147,176)** | 46,780 |
| Increase/(decrease) in payables, accruals and other liabilities | | **227,853** | (140,014) |
| Increase in an amount due to the immediate holding company | | **5,522** | 20,492 |
| Increase in amounts due to fellow subsidiaries | | **7,110** | 20,556 |
| Increase in an amount due to the ultimate holding company | | **—** | 14,313 |
| Increase/(decrease) in amounts due to minority shareholders of subsidiaries | | **31,632** | (9,991) |
| Cash generated from operations | | **3,730,993** | 3,506,860 |
| Interest received | | **72,439** | 72,270 |
| Dividends from jointly-controlled entities | | **119,340** | 81,549 |
| Dividends from associates | | **47,928** | 42,411 |
| Hong Kong profits tax paid | | **(5,452)** | (4,206) |
| Mainland China tax paid | | **(299,241)** | (273,360) |
| Net cash inflow from operating activities — page 55 | | **3,666,007** | 3,425,524 |

# Consolidated Cash Flow Statement

Year ended 31 December 2007

| | Notes | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|---|
| Net cash inflow from operating activities — page 54 | | **3,666,007** | 3,425,524 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Dividends received from available-for-sale investments | | **1,684** | 1,053 |
| Purchases of available-for-sale investments | | **(213,541)** | (10,301) |
| Proceeds from disposal of available-for-sale investments | | **213,647** | 58,265 |
| Purchases of items of property, plant and equipment | | **(161,112)** | (314,239) |
| Additions to properties under development | | **—** | (14,294) |
| Acquisition of additional interests in subsidiaries | 36 | **(81,008)** | (154,611) |
| Acquisition of a subsidiary | | **—** | 7,336 |
| Proceeds from disposal of items of property, plant and equipment | | **4,150** | 30,331 |
| Proceeds from disposal of subsidiaries | 37 | **—** | 33,119 |
| Capital reduction of a subsidiary paid to a minority shareholder | | **—** | (47,953) |
| Decrease/(increase) in restricted cash and bank balances | | **(68)** | 23,022 |
| Decrease/(increase) in non-pledged bank deposits with original maturity of more than three months when acquired | | **(447,279)** | 65,526 |
| Net cash outflow from investing activities | | **(683,527)** | (322,746) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of new Ordinary Shares | 33 | **21,714** | 59,694 |
| New bank loans | | **1,168,037** | 1,274,000 |
| Repayment of bank loans | | **(3,123,971)** | (2,977,766) |
| Other finance costs | 7 | **(1,967)** | (45,124) |
| Interest paid | 7 | **(477,280)** | (595,332) |
| Finance charges paid on cash flow hedges, net | 7 | **(11,522)** | (12,693) |
| Finance charges paid on derivative financial instruments not qualified as hedges | | **(26,355)** | (29,444) |
| Dividends paid to minority shareholders | | **(56,615)** | (17,683) |
| Dividends paid to shareholders | | **(609,919)** | (602,559) |
| Net cash outflow from financing activities | | **(3,117,878)** | (2,946,907) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | **(135,398)** | 155,871 |
| Cash and cash equivalents at beginning of year | | **1,826,742** | 1,623,601 |
| Effect of foreign exchange rate changes, net | | **120,993** | 47,270 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **1,812,337** | 1,826,742 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | 38(b) | | |
| Cash and bank balances | | **813,411** | 789,629 |
| Non-pledged bank deposits with original maturity of less than three months when acquired | | **998,926** | 1,037,113 |
| | | **1,812,337** | 1,826,742 |

# Balance Sheet

31 December 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 14 | **578** | 463 |
| Interests in subsidiaries | 18 | **7,373,756** | 7,293,633 |
| Interests in associates | 20 | **—** | 115,062 |
| Total non-current assets | | **7,374,334** | 7,409,158 |
| CURRENT ASSETS | | | |
| Receivables, prepayments and deposits | 24 | **6,131** | 5,145 |
| Cash and cash equivalents | 25 | **487,367** | 762,566 |
| Total current assets | | **493,498** | 767,711 |
| CURRENT LIABILITIES | | | |
| Payables, accruals and other liabilities | 26 | **(14,403)** | (15,293) |
| NET CURRENT ASSETS | | **479,095** | 752,418 |
| Net assets | | **7,853,429** | 8,161,576 |
| EQUITY | | | |
| Issued capital | 33 | **3,051,969** | 3,045,474 |
| Reserves | 35(b) | **4,435,224** | 4,811,505 |
| Proposed final dividend | 12 | **366,236** | 304,597 |
| Total equity | | **7,853,429** | 8,161,576 |

LI Wenyue
*Director*

LI Wai Keung
*Director*

## 1. Corporate information

Guangdong Investment Limited is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 28/F. and 29/F., Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong.

During the year, the Group was principally engaged in investment holding, property holding and investment, investing in infrastructure and energy projects, water supply to Hong Kong, and Shenzhen and Dongguan in the mainland of the People's Republic of China (the "PRC" or "Mainland China"), hotel ownership and operations, hotel management and department stores operations.

GDH Limited is the parent company of the Group. In the opinion of the directors, the ultimate holding company of the Group is 廣東粵海控股有限公司 (Guangdong Holdings Limited), formerly known as 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited), a company established in Mainland China.

## 2.1 Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, derivative financial instruments and equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

## 2.2 Impact of new and revised Hong Kong Financial Reporting Standards

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. 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 effect on these financial statements.

| | |
|---|---|
| HKFRS 7 | Financial Instruments: Disclosures |
| HKAS 1 Amendment | Capital 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 effects of adopting these new revised HKFRSs are as follows:

### (a) HKFRS 7 "Financial Instruments: Disclosures"

This standard 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. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

### (b) Amendment to HKAS 1 "Presentation of Financial Statements — Capital Disclosures"

This amendment requires the Group to make new disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 45 to the financial statements.

### (c) HK(IFRIC)-Int 8 "Scope of HKFRS 2"

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to the Group's employees for identified services provided in accordance with the Company's share option scheme, the interpretation has had no effect on these financial statements.

### (d) HK(IFRIC)-Int 9 "Reassessment of Embedded Derivatives"

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

## 2.2 Impact of new and revised Hong Kong Financial Reporting Standards (continued)

### (e) HK(IFRIC)-Int 10 "Interim Financial Reporting and Impairment"

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

## 2.3 Impact of issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| HKFRS 2 Amendment | Share-based Payments — Vesting Conditions and Cancellation[1] |
| HKFRS 3 (Revised) | Business Combinations[2] |
| HKFRS 8 | Operating Segments[1] |
| HKAS 1 (Revised) | Presentation of Financial Statements[1] |
| HKAS 23 (Revised) | Borrowing costs[1] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[2] |
| HK(IFRIC)-Int 11 | HKFRS 2 — Group and Treasury Share Transactions[3] |
| HK(IFRIC)-Int 12 | Service Concession Arrangements[4] |
| HK(IFRIC)-Int 13 | Customer Loyalty Programmes[5] |
| HK(IFRIC)-Int 14 | HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4] |

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 March 2007
4 Effective for annual periods beginning on or after 1 January 2008
5 Effective for annual periods beginning on or after 1 July 2008

Amendment to HKFRS 2 clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellations" by the counterparty to a share-based arrangement.

HKFRS 3 (Revised) amended the definition of a business and a business combination and additional guidance was added for identifying when a group of assets constitutes a business. It also clarifies how the acquirer makes any classifications, designations or assessments for the identifiable assets acquired and liabilities assumed in a business combination.

HKFRS 8, which will replace HKAS 14 "Segment Reporting", specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

## 2.3 Impact of issued but not yet effective Hong Kong Financial Reporting Standards (continued)

HKAS 1 has been revised to affect the presentation of owner changes in equity and comprehensive income. The revised standard will use "statement of financial position" and "statement of cash flows" to replace the titles "balance sheet" and "cash flow statement", and in making reference to these two statements within a complete set of financial statements.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HKAS 27 has been revised to add new term "non-controlling interest" to replace the term "minority interest", and required the changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity measures any gain or loss arising on the loss of control of a subsidiary.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 "Employee Benefits", on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2007. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

## 2.4 Summary of significant accounting policies

### Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

### Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group/Company, directly or indirectly, controls more than half of its voting power or issued share/registered capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to the joint venture's financial and operating policies;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

## 2.4 Summary of significant accounting policies (continued)

### Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated capital reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interest in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

### Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated capital reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

### Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

## 2.4 Summary of significant accounting policies (continued)

### Goodwill (continued)

#### Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently measured at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

#### Goodwill previously eliminated against consolidated capital reserve

Prior to the adoption of the HKICPA's Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against consolidated capital reserve in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated capital reserve and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

### Excess over the cost of business combinations

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

### Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

## 2.4 Summary of significant accounting policies (continued)

### Impairment of non-financial assets other than goodwill (continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

### Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

## 2.4 Summary of significant accounting policies (continued)

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment other than for a toll road, to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Hotel properties | 2.30%–3.39% |
| Leasehold land and buildings | 2%–20% |
| Tunnels, dams, water mains and reservoirs | 3.3%–10% |
| Plant and machinery | 4%–25% |
| Furniture, fixtures and equipment | 4%–32% |
| Leasehold improvements | Over the lease terms |
| Motor vehicles | 6%–30% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and plant and machinery under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

#### Toll Road

Depreciation is calculated to write off the carrying amount of the toll road over its estimated remaining useful life and is based on the traffic volume and forecast annual growth rate of the traffic volume throughout the toll road's remaining concession period. The method is more commonly referred to as the "unit of usage" method. This depreciation method has been adopted to better reflect the consumption pattern of the expected economic benefits over the remaining concession period of the toll road.

## 2.4 Summary of significant accounting policies (continued)

### Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transactions costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is dealt with as movements in the asset revaluation reserve. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuation is transferred to retained profits as a movement in reserves. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at the completion date and its previous carrying amount is recognised in the income statement.

### Operating right

The Group's operating right represents the right to supply natural water to Hong Kong and Shenzhen and Dongguan in Mainland China for a period of 30 years commencing from 18 August 2000. The purchased operating right is stated at cost less accumulated amortisation and any impairment loss. Amortisation is charged to the income statement on the straight-line basis over the period of grant of 30 years.

The operating right is assessed for impairment whenever there is an indication that the operating right may be impaired. The amortisation period and the amortisation method are reviewed at least at each balance sheet date.

### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases, net of any incentives received from the lessor, are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

## 2.4 Summary of significant accounting policies (continued)

### Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

#### Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity and debt securities that are designated as available for sale or are not classified in the above category. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

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

## 2.4 Summary of significant accounting policies (continued)

### Investments and other financial assets (continued)

#### Fair value

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

### Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

#### Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

#### Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

## 2.4 Summary of significant accounting policies (continued)

### Impairment of financial assets (continued)

#### Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

## 2.4 Summary of significant accounting policies (continued)

### Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including payables, accruals and other liabilities, amounts due to minority shareholders of subsidiaries and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement includes any interest charged on these financial liabilities.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

## 2.4 Summary of significant accounting policies (continued)

### Derivative financial instruments and hedging

The Group uses derivative financial instruments such as interest rate swap agreements to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

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

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria of hedge accounting are accounted for as cash flow hedges. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

## 2.4 Summary of significant accounting policies (continued)

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labour, and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including time deposits, which are not restricted as to use.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

## 2.4 Summary of significant accounting policies (continued)

### Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with interests in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with interests in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and 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, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

## 2.4 Summary of significant accounting policies (continued)

### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries, jointly-controlled entities and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of subsidiaries operating in Mainland China are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

### Government grants

Government grants in relation to subsidies for interest expenses for borrowings that are related to the Phase IV Renovation Project (as defined in note 14 to the financial statements) are recognised in profit or loss as a deduction of interest expenses. A government grant is recognised when it is received and when the Group has complied with all conditions attaching to such government grant.

### Employee benefits

#### Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

## 2.4 Summary of significant accounting policies (continued)

### Employee benefits (continued)

#### Share-based payment transactions (continued)

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Black-Scholes model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

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

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

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

#### Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its eligible employees. Contributions are made based on a percentage of the employees' basic salaries/relevant income and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer mandatory contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are proportionately refunded to the Group upon the employee's termination of services in accordance with the vesting scales of the MPF Scheme.

## 2.4 Summary of significant accounting policies (continued)

### Employee benefits (continued)

#### Retirement benefits schemes (continued)

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes (the "CP Schemes") operated by the respective local municipal government. These subsidiaries are required to contribute certain percentages of their covered payroll to the CP Schemes. The contributions are charged to the income statement as they become payable in accordance with the rules of the CP Schemes.

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the sale of electricity, based on the consumption recorded by meter readings;

(c) from the sale of water:

   (i) revenue from the sale of water to Dongguan and Shenzhen, based on the actual volume of water supplied; and

   (ii) revenue from the sale of water to Hong Kong Special Administrative Region ("HKSAR") for the three years from 2006 to 2008, based on a fixed amount for each year regardless of the volume of water supplied.

(d) from hotel services income, based on the period in which such services have been rendered;

(e) rental income, on a time proportion basis over the lease terms;

(f) toll revenue, net of business tax when received;

(g) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial assets; and

(h) dividend income, when the shareholders' right to receive payment has been established.

## 3. Significant accounting judgements and estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

#### (i) Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

#### (ii) Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

#### (iii) Impairment of assets

The Group has to exercise judgement in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could material affect the net present value used in the impairment test.

## 3. Significant accounting judgements and estimates (continued)

### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

#### (i) Estimation of fair value of investment properties and recoverable amounts of construction in progress

The best evidence of fair value is current prices in an active market for similar lease terms and other contracts. In the absence of such information, the Group considers information from a variety of sources, including (i) by reference to independent valuations; (ii) current prices in an active market for properties of a different nature, condition and location (or subject to different leases or other contracts), adjusted to reflect those differences; (iii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of transactions that occurred at those prices; and (iv) discounted cash flow projections, based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rates for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs.

#### (ii) Fair value of derivative financial instruments

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.

#### (iii) Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that is used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed, at each financial year end date based on changes in circumstances.

#### (iv) Impairment of goodwill

The Group determines whether a goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the asset or cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made. Further details of impairment test of goodwill is set out in note 17 to the financial statements.

## 3. Significant accounting judgements and estimates (continued)

### Estimation uncertainty (continued)

#### (v) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

#### (vi) Impairment of available-for-sale investments

The Group classifies certain assets as available-for-sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2007, the impairment losses recognised for available-for-sale assets was HK$72,134,000 (2006: HK$72,134,000). Further details are included in note 22 to the financial statements.

#### (vii) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2007 was HK$21.14 million (2006: HK$21.52 million). The amount of unrecognised tax losses at 31 December 2007 was HK$387 million (2006: HK$462 million). Further details are contained in note 32 to the financial statements.

## 4. Segment information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical 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 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;

## 4. Segment information (continued)

(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 the provision of corporate services to other segments.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets, except that, in respect of the Mainland China segment which substantially comprises the segment assets relating to water distribution located in Mainland China, the segment revenue derived therefrom, including that earned from the Government of the HKSAR, is included under this Mainland China segment. The directors consider this a fairer presentation of information relating to this geographical segment.

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.

### (a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2007 and 2006.

Group

| | Property Investment and Development | | Toll Roads and Bridges | | Water Distribution | |
|---|---|---|---|---|---|---|
| | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 |
| **Segment revenue:** | | | | | | |
| Sales to external customers | **457,342** | 428,786 | **15,688** | 15,313 | **3,364,767** | 3,225,939 |
| Intersegment sales | **85,161** | 81,179 | **—** | — | **—** | — |
| Other revenue from external sources (note) | **7,263** | 14,304 | **1,370** | 2,968 | **3,070** | — |
| Other revenue from Intersegment (note) | **—** | — | **—** | — | **—** | — |
| Exchange gains/(losses), net | **373** | (705) | **377** | (1,555) | **(72,112)** | (28,716) |
| Total | **550,139** | 523,564 | **17,435** | 16,726 | **3,295,725** | 3,197,223 |
| **Segment results** | **1,182,290** | 450,296 | **(80,078)** | (1,114) | **1,772,350** | 1,740,120 |
| Interest income | | | | | | |
| Unallocated other operation income/(expenses), net | | | | | | |
| Other unallocated gains, net | | | | | | |
| Finance costs | | | | | | |
| Share of profits of: | | | | | | |
| Jointly-controlled entities | **—** | — | **3,030** | 66,858 | **—** | — |
| Associates | **—** | — | **9,566** | 13,804 | **—** | — |
| Profit before tax | | | | | | |
| Tax | | | | | | |
| Profit for the year | | | | | | |

Note: Excluding exchange gains/(losses), net

# 4. Segment information (continued)

## (a) Business segments (continued)

### Group

| | Electric Power Generation | | Hotel Operations and Management | | Department Stores | |
|---|---|---|---|---|---|---|
| | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 |
| **Segment revenue:** | | | | | | |
| Sales to external customers | **942,576** | 814,083 | **335,382** | 304,306 | **1,573,377** | 1,267,904 |
| Intersegment sales | **—** | — | **—** | — | **—** | — |
| Other revenue from external sources (note) | **10,646** | 8,821 | **843** | 675 | **10,799** | 14,802 |
| Other revenue from intersegment (note) | **—** | — | **—** | — | **—** | — |
| Exchange gains/(losses), net | **1,221** | 3,772 | **1,332** | 834 | **2,768** | 888 |
| Total | **954,443** | 826,676 | **337,557** | 305,815 | **1,586,944** | 1,283,594 |
| **Segment results** | **(288,542)** | 140,893 | **96,462** | 86,632 | **104,118** | 90,702 |
| Interest income | | | | | | |
| Unallocated other operation income/(expenses), net | | | | | | |
| Other unallocated gains, net | | | | | | |
| Finance costs | | | | | | |
| Share of profits of: | | | | | | |
| Jointly-controlled entities | **—** | — | **—** | — | **—** | — |
| Associates | **16,046** | 29,583 | **—** | — | **18,977** | 10,786 |
| Profit before tax | | | | | | |
| Tax | | | | | | |
| Profit for the year | | | | | | |

Note: Excluding exchange gains/(losses), net

# 4. Segment information (continued)

## (a) Business segments (continued)

### Group

| | Others | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|
| | 2007 HK$'000 | 2006 HK$'000 | 2007 HK$'000 | 2006 HK$'000 | 2007 HK$'000 | 2006 HK$'000 |
| Segment revenue: | | | | | | |
| Sales to external customers | — | — | — | — | 6,689,132 | 6,056,331 |
| Intersegment sales | — | — | (85,161) | (81,179) | — | — |
| Other revenue from external sources (note) | 1,333 | 24,731 | — | — | 35,324 | 66,301 |
| Other revenue from intersegment (note) | 2,805 | 2,721 | (2,805) | (2,721) | — | — |
| Exchange gains/(losses), net | (204) | 6,329 | — | — | (66,245) | (19,153) |
| Total | 3,934 | 33,781 | (87,966) | (83,900) | 6,658,211 | 6,103,479 |
| Segment results | (27,674) | (4,753) | — | — | 2,758,926 | 2,502,776 |
| Interest income | | | | | 72,439 | 72,270 |
| Unallocated other operating income/(expenses), net | | | | | 1,684 | (2,939) |
| Other unallocated gains, net | | | | | 14,123 | 7,752 |
| Finance costs | | | | | (490,769) | (653,149) |
| Share of profits of: | | | | | | |
| Jointly-controlled entities | — | — | — | — | 3,030 | 66,858 |
| Associates | — | — | — | — | 44,589 | 54,173 |
| Profit before tax | | | | | 2,404,022 | 2,047,741 |
| Tax | | | | | (406,120) | (268,724) |
| Profit for the year | | | | | 1,997,902 | 1,779,017 |

Note: Excluding exchange gains/(losses), net

# 4. Segment information (continued)

## (a) Business segments (continued)

### Group

| | Property Investment and Development | | Toll Roads and Bridges | | Water Distribution | |
|---|---|---|---|---|---|---|
| | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 |
| Segment assets | **5,066,741** | 3,860,403 | **96,757** | 166,411 | **19,209,653** | 20,036,056 |
| Interests in associates | **—** | — | **61,426** | 66,861 | **—** | — |
| Interests in jointly-controlled entities | **—** | — | **852,142** | 915,052 | **—** | — |
| Unallocated assets | | | | | | |
| Total assets | | | | | | |
| Segment liabilities | **588,150** | 373,397 | **58,891** | 57,458 | **2,018,448** | 2,047,455 |
| Unallocated liabilities | | | | | | |
| Total liabilities | | | | | | |
| Other segment information: | | | | | | |
| Depreciation and amortisation | **34,530** | 28,078 | **6,923** | 6,444 | **898,370** | 914,040 |
| Ineffectiveness of cash flow hedges | **—** | — | **—** | — | **(7,135)** | 31,867 |
| Impairment losses recognised in the income statement | **—** | 922 | **76,723** | — | **—** | — |
| Other non-cash expenses/ (income), net | **(780,922)** | (86,248) | **—** | — | **(109)** | 50 |
| Capital expenditure | **212,914** | 258,892 | **79** | 167 | **23,254** | 6,597 |

# 4. Segment information (continued)

## (a) Business segments (continued)

### Group

| | Electric Power Generation | | Hotel Operations and Management | | Department Stores | |
|---|---|---|---|---|---|---|
| | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 |
| Segment assets | **310,336** | 550,344 | **1,666,344** | 1,652,315 | **65,904** | 94,262 |
| Interests in associates | **223,385** | 375,308 | **—** | — | **69,613** | 41,987 |
| Interests in jointly-controlled entities | **—** | — | **—** | — | **—** | — |
| Unallocated assets | | | | | | |
| Total assets | | | | | | |
| Segment liabilities | **337,451** | 294,875 | **54,993** | 48,697 | **530,331** | 389,202 |
| Unallocated liabilities | | | | | | |
| Total liabilities | | | | | | |
| Other segment information: | | | | | | |
| Depreciation and amortisation | **52,081** | 70,547 | **66,438** | 61,936 | **4,950** | 4,703 |
| Ineffectiveness of cash flow hedges | **—** | — | **—** | — | **—** | — |
| Impairment losses recognised in the income statement | **469,372** | 31,970 | **8** | 5 | **—** | — |
| Other non-cash expenses/(income), net | **—** | 1,507 | **(87)** | 25 | **—** | — |
| Capital expenditure | **21,133** | 25,528 | **21,083** | 29,117 | **8,172** | 7,764 |

## 4. Segment information (continued)

### (a) Business segments (continued)

Group

| | Others | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|
| | 2007 HK$'000 | 2006 HK$'000 | 2007 HK$'000 | 2006 HK$'000 | 2007 HK$'000 | 2006 HK$'000 |
| Segment assets | 5,417 | 3,330 | — | — | 26,421,152 | 26,363,121 |
| Interests in associates | — | — | — | — | 354,424 | 484,156 |
| Interests in jointly-controlled entities | — | — | — | — | 852,142 | 915,052 |
| Unallocated assets | | | | | 2,864,905 | 2,411,533 |
| Total assets | | | | | 30,492,623 | 30,173,862 |
| Segment liabilities | 20,443 | 23,428 | — | — | 3,608,707 | 3,234,512 |
| Unallocated liabilities | | | | | 10,852,430 | 12,527,360 |
| Total liabilities | | | | | 14,461,137 | 15,761,872 |
| Other segment information: | | | | | | |
| Depreciation and amortisation | 196 | 145 | — | — | 1,063,488 | 1,085,893 |
| Ineffectiveness of cash flow hedges | — | — | — | — | (7,135) | 31,867 |
| Impairment losses recognised in the income statement | — | — | — | — | 546,103 | 32,897 |
| Other non-cash expenses/ (income), net | — | — | — | — | (781,118) | (84,666) |
| Capital expenditure | 313 | 468 | — | — | 286,948 | 328,533 |

### (b) Geographical segments

The following table presents revenue and certain asset and capital expenditure information for the Group's geographical segments for the years ended 31 December 2007 and 2006.

Group

| | Hong Kong | | Mainland China | | Others | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 HK$'000 | 2006 HK$'000 | 2007 HK$'000 | 2006 HK$'000 | 2007 HK$'000 | 2006 HK$'000 | 2007 HK$'000 | 2006 HK$'000 | 2007 HK$'000 | 2006 HK$'000 |
| Segment revenue: | | | | | | | | | | |
| Sales to external customers | 205,871 | 183,597 | 6,483,261 | 5,872,734 | — | — | — | — | 6,689,132 | 6,056,331 |
| Other segment information: | | | | | | | | | | |
| Segment assets | 1,874,928 | 1,834,697 | 24,546,224 | 24,528,424 | — | — | — | — | 26,421,152 | 26,363,121 |
| Capital expenditure | 13,070 | 7,910 | 273,878 | 320,623 | — | — | — | — | 286,948 | 328,533 |

## 5. Revenue, other income and gains

Revenue, which is also the Group's turnover, represents the invoiced value of water and electricity sold; the gross invoiced revenue arising from the sale of goods in department stores; rental income; revenue from hotel ownership and operations; and toll revenue, after eliminations of all significant intra-group transactions.

An analysis of revenue, other income and gains is as follows:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| **Revenue** | | |
| Sale of water and electricity | 4,307,343 | 4,040,022 |
| Sale of goods | 1,573,377 | 1,267,904 |
| Hotel and rental income | 792,724 | 733,092 |
| Toll revenue | 15,688 | 15,313 |
| | 6,689,132 | 6,056,331 |
| **Other income** | | |
| Bank interest income | 72,439 | 72,270 |
| Excess over the cost of business combinations (note 36) | 2,141 | 3,939 |
| Dividend income from available-for-sale investments | 1,684 | 1,053 |
| Others | 40,171 | 37,743 |
| | 116,435 | 115,005 |
| **Gains** | | |
| Ineffectiveness of cash flow hedges (note 27) | 7,135 | (31,867) |
| Gain on disposal of available-for-sale investments | — | 39,619 |
| Write-back of an other payable | — | 23,154 |
| Others | — | 1,465 |
| | 7,135 | 32,371 |
| | 123,570 | 147,376 |

## 6. Profit before tax

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

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| Cost of inventories sold* | | 1,874,053 | 1,511,565 |
| Depreciation | 14 | 412,609 | 432,581 |
| Recognition of prepaid land lease payments | | 157,549 | 158,250 |
| Amortisation of the operating right* | 21 | 493,287 | 493,287 |
| Minimum lease payments under operating leases in respect of land and buildings | | 9,998 | 7,725 |
| Auditors' remuneration | | 5,755 | 4,905 |
| Employee benefits expense (excluding directors' remuneration — note 8) | | | |
| Wages and salaries | | 305,645 | 274,528 |
| Equity-settled share option expense | 34 | — | 3,366 |
| Pension scheme contributions | | 26,159 | 19,334 |
| Less: Forfeited contributions | | (213) | (18) |
| Net pension scheme contributions# | | 25,946 | 19,316 |
| | | 331,591 | 297,210 |
| Gross rental income from investment properties | | (326,833) | (308,832) |
| Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties | | 1,959 | 3,120 |
| Net rental income from investment properties | | (324,874) | (305,712) |
| Foreign exchange differences, net | | 66,245 | 19,153 |
| Changes in fair value of investment properties^ | 15 | (780,921) | (86,248) |
| Impairment of items of property, plant and equipment^ | 14 | 394,282 | 31,970 |
| Impairment of interests in an associate^ | 20 | 151,813 | — |
| Write-off of construction in progress^ | 14 | 5,115 | — |
| Loss/(gain) on disposal of items of property, plant and equipment, net^ | | 5,039 | (22,596) |
| Loss on disposal of subsidiaries^ | 37 | — | 3,992 |
| Provision/(write-back of provision) for inventories, net^ | | (197) | 1,582 |
| Impairment of trade receivables^ | 24 | 8 | 927 |

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

\# As at 31 December 2006 and 2007, the Group had no material forfeited pension scheme contributions available to reduce its contributions to the pension scheme in future years.

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

## 7. Finance costs

| | Group | |
|---|---|---|
| | 2007 HK$'000 | 2006 HK$'000 |
| Interest on bank loans wholly repayable[1]: | | |
| Within five years | 79,128 | 112,958 |
| Over five years | 398,152 | 482,374 |
| Total interest expense on financial liabilities not at fair value through profit or loss | 477,280 | 595,332 |
| Finance charges on cash flow hedges, net (note 27) | 11,522 | 12,693 |
| Other finance costs | 1,967 | 45,124 |
| Total finance costs for the year | 490,769 | 653,149 |

[1] Net of government grants of HK$52,595,000 (2006: HK$58,762,000) in respect of subsidies for interest expense arising from bank loans borrowed by the Group for the purpose of the Phase IV Renovation Project (as defined in note 14 to the financial statements). There are no unfulfilled conditions or contingencies relating to these grants.

## 8. Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | Group | |
|---|---|---|
| | 2007 HK$'000 | 2006 HK$'000 |
| Fees: | | |
| Executive directors | — | — |
| Independent non-executive directors | 902 | 902 |
| Non-executive director | 275 | 275 |
| | 1,177 | 1,177 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | 404 | 1,094 |
| Performance related bonuses | 880 | 1,330 |
| Pension scheme contributions | 261 | 331 |
| Less: Forfeited contributions | — | — |
| Net pension scheme contributions | 261 | 331 |
| Total directors' remuneration | 2,722 | 3,932 |

## 8. Directors' remuneration (continued)

### (a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| CHAN Cho Chak, John | 302 | 302 |
| Dr. The Honourable LI Kwok Po, David | 325 | 325 |
| FUNG Daniel R. | 275 | 275 |
| | 902 | 902 |

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

### (b) Executive directors and other non-executive directors

| | Fees HK$'000 | Salaries, allowances, and benefits in kind HK$'000 | Performance related bonuses HK$'000 | Net pension scheme contributions HK$'000 | Total remuneration HK$'000 |
|---|---|---|---|---|---|
| **2007** | | | | | |
| Executive directors: | | | | | |
| LI Wenyue | — | — | — | — | — |
| ZHANG Hui | — | 404 | 880 | 261 | 1,545 |
| LI Wai Keung | — | — | — | — | — |
| | — | 404 | 880 | 261 | 1,545 |
| Non-executive directors: | | | | | |
| CHENG Mo Chi, Moses | 275 | — | — | — | 275 |
| Jiang Jin | — | — | — | — | — |
| ZHAI Zhiming | — | — | — | — | — |
| Sun Yingming | — | — | — | — | — |
| WANG Xiaofeng | — | — | — | — | — |
| XU Wenfang | — | — | — | — | — |
| | 275 | 404 | 880 | 261 | 1,820 |
| 2006 | | | | | |
| Executive directors: | | | | | |
| LI Wenyue | — | — | — | — | — |
| ZHANG Hui | — | 389 | 1,170 | 296 | 1,855 |
| LI Wai Keung | — | — | — | — | — |
| FUNG Sing Hong, Stephen | — | 705 | 160 | 35 | 900 |
| | — | 1,094 | 1,330 | 331 | 2,755 |
| Non-executive directors: | | | | | |
| CHENG Mo Chi, Moses | 275 | — | — | — | 275 |
| Jiang Jin | — | — | — | — | — |
| ZHAI Zhiming | — | — | — | — | — |
| Sun Yingming | — | — | — | — | — |
| WANG Xiaofeng | — | — | — | — | — |
| XU Wenfang | — | — | — | — | — |
| | 275 | 1,094 | 1,330 | 331 | 3,030 |

There was no arrangement under which a director waived or agreed to waive any remuneration during the current and the prior years.

## 9. Five highest paid employees

The five highest paid employees during the year included one (2006: one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the other four (2006: four) non-director, highest paid employees for the year are as follows:

| | Group | |
|---|---|---|
| | 2007 HK$'000 | 2006 HK$'000 |
| Salaries, allowances and benefits in kind | 3,312 | 3,186 |
| Performance related bonuses | 2,809 | 2,624 |
| Employee share option benefits | — | 1,485 |
| Pension scheme contributions | 314 | 317 |
| | 6,435 | 7,612 |

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

| | Number of employees | |
|---|---|---|
| | 2007 | 2006 |
| HK$1,000,001 – HK$1,500,000 | 3 | 1 |
| HK$1,500,001 – HK$2,000,000 | — | 2 |
| HK$2,000,001 – HK$2,500,000 | 1 | — |
| HK$2,500,001 – HK$3,000,000 | — | 1 |
| | 4 | 4 |

During the year ended 31 December 2006, share options were granted to a non-director, highest paid employee in respect of her services to the Group, further details of which are included in the disclosures in note 34 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the prior year included in the above non-director, highest paid employees' remuneration disclosures.

## 10. Tax

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

Under the PRC income tax law, enterprises are subject to corporate income tax ("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.

On 16 March 2007, the National People's Congress approved the PRC Corporate Income Tax Law (the "New CIT Tax Law"), which is effective from 1 January 2008. Under the New CIT Tax Law, corporate income tax rate for domestic companies and foreign-invested enterprises will decrease from 33% to 25% since 1 January 2008. In addition, for those enterprises benefiting from lower preferential tax rates, such preferential rates will be gradually phased out by increasing them over the next five years. This change in the income tax rate will directly increase the Group's effective tax rate prospectively from 1 January 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. The effect on the change of tax rate is not material to the Group for the year ended 31 December 2007.

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Group: | | |
| Current — Hong Kong | | |
| Charge for the year | **6,009** | 5,439 |
| Overprovision in prior years | **(5)** | (12) |
| Current — Mainland China | | |
| Charge for the year | **320,783** | 240,137 |
| Underprovision in prior years | **7,388** | 10,943 |
| Deferred (note 32) | **71,945** | 12,217 |
| Total tax charge for the year | **406,120** | 268,724 |

## 10. Tax (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

| | 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Hong Kong | | Mainland China | | Total | |
| | HK$'000 | % | HK$'000 | % | HK$'000 | % |
| Profit before tax | 52,359 | | 2,351,663 | | 2,404,022 | |
| Tax at the statutory tax rates | 9,163 | 17.5 | 776,049 | 33.0 | 785,212 | 32.7 |
| Lower tax rates for specific provinces or local authority and as a result of tax holidays | — | — | (356,773) | (15.2) | (356,773) | (14.8) |
| Effect on opening deferred tax of increase in rates | — | — | (53,800) | (2.3) | (53,800) | (2.2) |
| Adjustments in respect of current tax of previous periods | (5) | — | 7,388 | 0.3 | 7,383 | 0.3 |
| Profits attributable to jointly-controlled entities and associates | (4,914) | (9.4) | (6,263) | (0.3) | (11,177) | (0.5) |
| Income not subject to tax | (12,921) | (24.7) | (90,895) | (3.9) | (103,816) | (4.3) |
| Expenses not deductible for tax | 12,564 | 24.0 | 21,470 | 0.9 | 34,034 | 1.4 |
| Tax losses utilised from previous periods | (15,795) | (30.2) | (5,313) | (0.2) | (21,108) | (0.9) |
| Tax losses not recognised | 26,582 | 50.8 | 26,504 | 1.2 | 53,086 | 2.2 |
| Others | 2,720 | 5.2 | 70,359 | 3.0 | 73,079 | 3.0 |
| Tax charge at the Group's effective rate | 17,394 | 33.2 | 388,726 | 16.5 | 406,120 | 16.9 |

| | 2006 | | | | | |
|---|---|---|---|---|---|---|
| | Hong Kong | | Mainland China | | Total | |
| | HK$'000 | % | HK$'000 | % | HK$'000 | % |
| Profit before tax | 280,670 | | 1,767,071 | | 2,047,741 | |
| Tax at the statutory tax rates | 49,117 | 17.5 | 583,133 | 33.0 | 632,250 | 30.9 |
| Lower tax rates for specific provinces or local authority and as a result of tax holidays | — | — | (289,680) | (16.4) | (289,680) | (14.1) |
| Adjustments in respect of current tax of previous periods | (12) | — | 10,943 | 0.6 | 10,931 | 0.5 |
| Profits attributable to jointly-controlled entities and associates | (15,644) | (5.5) | (10,439) | (0.6) | (26,083) | (1.3) |
| Income not subject to tax | (18,223) | (6.5) | (62,033) | (3.5) | (80,256) | (3.9) |
| Expenses not deductible for tax | 13,331 | 4.7 | 10,913 | 0.6 | 24,244 | 1.2 |
| Tax losses utilised from previous periods | (21,101) | (7.5) | (11,072) | (0.6) | (32,173) | (1.6) |
| Tax losses not recognised | 2,360 | 0.8 | 1,522 | 0.1 | 3,882 | 0.2 |
| Others | 5,449 | 1.9 | 20,160 | 1.1 | 25,609 | 1.3 |
| Tax charge at the Group's effective rate | 15,277 | 5.4 | 253,447 | 14.3 | 268,724 | 13.2 |

The share of tax attributable to jointly-controlled entities and associates amounting to HK$47,854,000 (2006: HK$8,321,000) (note 19) and HK$13,895,000 (2006: HK$19,035,000), respectively, is included in "Share of profits of jointly-controlled entities" and "Share of profits of associates" on the face of the consolidated income statement.

## 11. Profit attributable to equity holders of the Company

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2007 includes a profit of HK$280,058,000 (2006: HK$477,614,000) which has been dealt with in the financial statements of the Company (note 35(b)).

## 12. Dividends

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Interim — 5.0 HK cents (2006: 5.0 HK cents) per Ordinary Share | **305,197** | 301,447 |
| Proposed final — 6.0 HK cents (2006: 5.0 HK cents) per Ordinary Share | **366,236** | 304,597 |
| | **671,433** | 606,044 |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The total final dividend payable is based on the total number of shares as at the date of approval of these financial statements by the board of directors which includes the shares issued subsequent to the balance sheet date.

## 13. Earnings per share attributable to ordinary equity holders of the Company

The calculations of the basic and diluted earnings per share are based on:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Earnings: | | |
| Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation | **1,697,034** | 1,506,903 |

| | Number of shares | |
|---|---|---|
| | 2007 | 2006 |
| Shares: | | |
| Weighted average number of Ordinary Shares in issue during the year used in the basic earnings per share calculation | **6,097,594,400** | 6,027,048,811 |
| Effect of dilution — weighted average number of Ordinary Shares that assumed to have been issued: | | |
| Share options* | **134,482,779** | 165,841,079 |
| For the purpose of diluted earnings per share calculation | **6,232,077,179** | 6,192,889,890 |

* No share options (2006: share options expiring on 10 June 2011) had an anti-dilutive effect on the basic earnings per share and have not been included in the diluted earnings per share calculation for the year ended 31 December 2007.

# 14. Property, plant and equipment

## Group — 2007

| | Hotel properties HK$'000 | Land and buildings HK$'000 | Tunnels, dams, water mains and reservoirs HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and equipment HK$'000 | Leasehold improvements HK$'000 | Motor vehicles HK$'000 | Toll road HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2007: | | | | | | | | | | |
| Cost | 948,860 | 1,075,718 | 4,658,273 | 1,720,845 | 223,301 | 136,964 | 20,058 | 236,549 | 837,797 | 9,858,365 |
| Accumulated depreciation and impairment | (266,447) | (229,146) | (698,144) | (758,711) | (190,185) | (66,054) | (14,219) | (80,986) | (9,686) | (2,313,578) |
| Net carrying value | 682,413 | 846,572 | 3,960,129 | 962,134 | 33,116 | 70,910 | 5,839 | 155,563 | 828,111 | 7,544,787 |
| At 1 January 2007, net of accumulated depreciation and impairment | 682,413 | 846,572 | 3,960,129 | 962,134 | 33,116 | 70,910 | 5,839 | 155,563 | 828,111 | 7,544,787 |
| Additions | 590 | 2,885 | 4,360 | 27,611 | 14,127 | 7,160 | 1,539 | — | 228,676 | 286,948 |
| Disposal and write-off | (164) | (295) | (1,715) | (1,087) | (422) | (5,418) | (88) | — | (5,115) | (14,304) |
| Surplus on revaluation on transfer to investment properties | — | 11,082 | — | — | — | — | — | — | — | 11,082 |
| Impairment (note 6)[#] | — | (163,635) | — | (153,924) | — | — | — | (76,723) | — | (394,282) |
| Depreciation provided during the year (note 6) | (25,262) | (54,024) | (167,613) | (128,689) | (11,863) | (16,638) | (1,638) | (6,882) | — | (412,609) |
| Transfer to investment properties (note 15) | — | (20,748) | — | — | — | — | — | — | (923,469) | (944,217) |
| Reclassification | — | — | 674 | 17,087 | — | — | — | — | (17,761) | — |
| Exchange realignment | 41,314 | 49,372 | — | 10,265 | 1,514 | 3,202 | 398 | 12,793 | 69,241 | 188,099 |
| At 31 December 2007, net of accumulated depreciation and impairment | 698,891 | 671,209 | 3,795,835 | 733,397 | 36,472 | 59,216 | 6,050 | 84,751 | 179,683 | 6,265,504 |
| At 31 December 2007 | | | | | | | | | | |
| Cost | 996,898 | 1,138,415 | 4,659,211 | 1,798,988 | 223,225 | 144,685 | 21,803 | 253,823 | 189,369 | 9,426,417 |
| Accumulated depreciation and impairment | (298,007) | (467,206) | (863,376) | (1,065,591) | (186,753) | (85,469) | (15,753) | (169,072) | (9,686) | (3,160,913) |
| Net carrying value | 698,891 | 671,209 | 3,795,835 | 733,397 | 36,472 | 59,216 | 6,050 | 84,751 | 179,683 | 6,265,504 |

## 14. Property, plant and equipment (continued)

### Group — 2006

| | Hotel properties HK$'000 | Land and buildings HK$'000 | Tunnels, dams, water mains and reservoirs HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and equipment HK$'000 | Leasehold improvements HK$'000 | Motor vehicles HK$'000 | Toll road HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2006: | | | | | | | | | | |
| Cost | 929,508 | 958,714 | 4,911,368 | 1,789,575 | 238,145 | 108,455 | 23,794 | 228,350 | 557,886 | 9,745,795 |
| Accumulated depreciation and impairment | (243,663) | (215,599) | (527,101) | (678,695) | (203,671) | (52,888) | (18,700) | (72,942) | (9,687) | (2,022,946) |
| Net carrying value | 685,845 | 743,115 | 4,384,267 | 1,110,880 | 34,474 | 55,567 | 5,094 | 155,408 | 548,199 | 7,722,849 |
| At 1 January 2006, net of accumulated depreciation and impairment | 685,845 | 743,115 | 4,384,267 | 1,110,880 | 34,474 | 55,567 | 5,094 | 155,408 | 548,199 | 7,722,849 |
| Additions | 939 | 893 | 76 | 12,110 | 9,128 | 29,285 | 3,294 | 76 | 258,438 | 314,239 |
| Acquisition of a subsidiary | — | 54,582 | — | 97,709 | 141 | — | 322 | — | — | 152,754 |
| Disposal and write-off | (699) | (474) | (2,277) | (2,345) | (544) | (1) | (1,395) | — | — | (7,735) |
| Disposal of subsidiaries (note 37) | — | — | — | — | (103) | (70) | (213) | — | — | (386) |
| Impairment (note 6)## | — | — | — | (31,970) | — | — | — | — | — | (31,970) |
| Depreciation provided during the year (note 6) | (24,644) | (48,856) | (174,501) | (150,370) | (11,277) | (14,895) | (1,883) | (6,155) | — | (432,581) |
| Transfers | — | — | 1,186 | 6,518 | 562 | (526) | 438 | — | (8,178) | — |
| Transfer from investment properties (note 15) | — | 62,250 | — | — | — | — | — | — | — | 62,250 |
| Reclassification* | — | — | (248,622) | (87,948) | — | — | — | — | 5,168 | (331,402) |
| Exchange realignment | 20,972 | 35,062 | — | 7,550 | 735 | 1,550 | 182 | 6,234 | 24,484 | 96,769 |
| At 31 December 2006, net of accumulated depreciation and impairment | 682,413 | 846,572 | 3,960,129 | 962,134 | 33,116 | 70,910 | 5,839 | 155,563 | 828,111 | 7,544,787 |
| At 31 December 2006 | | | | | | | | | | |
| Cost | 948,860 | 1,075,718 | 4,658,273 | 1,720,845 | 223,301 | 136,964 | 20,058 | 236,549 | 837,797 | 9,858,365 |
| Accumulated depreciation and impairment | (266,447) | (229,146) | (698,144) | (758,711) | (190,185) | (66,054) | (14,219) | (80,986) | (9,686) | (2,313,578) |
| Net carrying value | 682,413 | 846,572 | 3,960,129 | 962,134 | 33,116 | 70,910 | 5,839 | 155,563 | 828,111 | 7,544,787 |

# During the year, certain items of land and buildings, plant and machinery and toll road of non-wholly-owned subsidiaries of the Group, which were engaged in power generation operation and toll road project, respectively, were impaired with reference to the recoverable amount of these items. The recoverable amounts of these items of land and buildings, plant and machinery and toll road were determined as the value in use. The discount rate used in estimating the amount of the value in use was the weighted average cost of capital of the Group's power generation operation and the toll road project. Due to the change in market environment of the power generation business and toll road project in Mainland China, an impairment of HK$394,282,000 was charged to the consolidated income statement during the year.

## During the year ended 31 December 2006, certain items of plant and machinery of a non-wholly-owned subsidiary of the Group, which was engaged in power generation operation, were impaired with reference to the recoverable amounts of these items. The recoverable amounts of these items of plant and machinery were determined as the value in use. The discount rate used in estimating the amount of the value in use was the weighted average cost of capital of the Group's power generation operation. Due to the change in market environment of the power generation business in Mainland China, an impairment of HK$31,970,000 was charged to the consolidated income statement in year 2006.

## 14. Property, plant and equipment (continued)

* Dongshen Water Supply Phase IV Renovation Project (the "Phase IV Renovation Project"), which comprises certain newly constructed and improved water supply related facilities of the Group, was completed in October 2003 and the Group classified the assets based on the estimation provided by the constructor. In September 2006, the constructor issued the final assets completion report for the Phase IV Renovation Project. Accordingly, during the year ended 31 December 2006, certain items of property, plant and equipment were reclassified to prepaid land lease payments according to the details of each category of assets as stated in the final assets completion report.

### Group

The net book values the Group's hotel properties and land and buildings at the balance sheet date are analysed as follows:

| | Hotel properties | | Land and buildings | |
|---|---|---|---|---|
| | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 |
| Long term leases in Hong Kong | **128,304** | 132,653 | **99,222** | 98,845 |
| Medium term leases in Hong Kong | **88,486** | 93,269 | **50,872** | 49,421 |
| Medium term leases in Mainland China | **482,101** | 456,491 | **453,310** | 459,048 |
| Short term leases in Mainland China | **—** | — | **67,805** | 239,258 |
| | **698,891** | 682,413 | **671,209** | 846,572 |

### Company — 2007

| | Furniture, fixtures and equipment HK$'000 | Leasehold improvements HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2007, net of accumulated depreciation | 282 | 172 | 9 | 463 |
| Additions | 250 | 62 | — | 312 |
| Depreciation provided during the year | (124) | (70) | (3) | (197) |
| At 31 December 2007, net of accumulated depreciation | 408 | 164 | 6 | 578 |
| At 31 December 2007: | | | | |
| Cost | 7,090 | 8,769 | 621 | 16,480 |
| Accumulated depreciation | (6,682) | (8,605) | (615) | (15,902) |
| Net carrying amount | 408 | 164 | 6 | 578 |

## 14. Property, plant and equipment (continued)

### Company — 2006

| | Furniture, fixtures and equipment HK$'000 | Leasehold improvements HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2006, net of accumulated depreciation | 79 | 62 | — | 141 |
| Additions | 276 | 181 | 10 | 467 |
| Depreciation provided during the year | (73) | (71) | (1) | (145) |
| At 31 December 2006, net of accumulated depreciation | 282 | 172 | 9 | 463 |
| At 31 December 2006: | | | | |
| Cost | 6,840 | 8,707 | 621 | 16,168 |
| Accumulated depreciation | (6,558) | (8,535) | (612) | (15,705) |
| Net carrying amount | 282 | 172 | 9 | 463 |

## 15. Investment properties

| | Group | |
|---|---|---|
| | **2007 HK$'000** | 2006 HK$'000 |
| Carrying amount at 1 January | **2,385,480** | 2,302,685 |
| Net profit from fair value adjustments credited to the income statement (note 6) | **780,921** | 86,248 |
| Transfer from/(to) property, plant and equipment, net (note 14) | **944,217** | (62,250) |
| Exchange realignment | **167,142** | 58,797 |
| Carrying amount at 31 December | **4,277,760** | 2,385,480 |

The Group's investment properties are held under the following lease terms:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Long term leases in Hong Kong | **557,850** | 500,970 |
| Medium term leases in Mainland China | **3,719,910** | 1,884,510 |
| | **4,277,760** | 2,385,480 |

The Group's investment properties were revalued on 31 December 2007 by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, at an aggregate amount of HK$4,277,760,000 on an open market, existing use basis. The investment properties are leased to third parties and the GDH Group under operating leases, further summary details of which are included in note 39(a) to the financial statements.

Further particulars of the Group's investment properties are included on page 140.

## 16. Prepaid land lease payments

At 31 December 2007, the Group held certain temporary land use right certificates for the existing water supply operation issued from the Shenzhen and Dongguan Land Authorities. The procedures for the conversion from the temporary land use right certificates previously obtained in 2000 to formal land use right certificates are in progress as at 31 December 2007. For land related to the Phase IV Renovation Project, the application for land use right certificates has been submitted and these land use right certificates were not yet issued by the relevant offices of the Land Authority in the PRC as at 31 December 2007. Notwithstanding this, the directors are of the opinion that the Group has obtained the beneficial title to these assets as at 31 December 2007 and the land use right certificates can be received.

The Group's interests in leasehold land are analysed as follows:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Long term leases in Hong Kong | **492,570** | 496,692 |
| Medium term leases in Hong Kong | **250,180** | 258,122 |
| Medium term leases in Mainland China | **3,272,938** | 3,411,094 |
| Short term leases in Mainland China | **8,532** | 9,336 |
| | **4,024,220** | 4,175,244 |

## 17. Goodwill

| | Group | |
|---|---|---|
| | 2007<br>HK$'000 | 2006<br>HK$'000 |
| Cost and net carrying amount at 1 January | **216,127** | 139,346 |
| Acquisition of minority interests (note 36) | **39,992** | 76,781 |
| Cost and net carrying amount at 31 December | **256,119** | 216,127 |

As further detailed in note 2.4 to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001, to remain eliminated against consolidated capital reserve.

The amounts of goodwill remaining in consolidated capital reserve, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, was HK$303,703,000 as at 31 December 2006 and 2007. The amount of goodwill is stated at its cost of HK$367,599,000, less cumulative impairment of HK$63,896,000 which arose in years prior to 1 January 2005.

## 17. Goodwill (continued)

### Impairment testing of goodwill and the operating right

Goodwill acquired through business combinations and the operating right, as further detailed in note 2.4 to the financial statements, is principally related to the water supply cash-generating unit for impairment testing.

The recoverable amount of the water supply cash-generating unit has been determined based on a value in use calculation using cash flow projections approved by the Company's directors covering the concession period of 30 years commencing from 18 August 2000. The discount rate applied to cash flow projections is 7% (2006: 7%). The cash flows of the water supply cash-generating unit depend principally on the pricing and volume of the water supply to the HKSAR, Shenzhen and Dongguan. The cash flow projections have been prepared based on the actual results of the water supply cash-generating unit for the year ended 31 December 2007. Based on the approved cash flow projections, the directors believe that any reasonably possible change in the key assumptions on which the recoverable amount of the water supply cash-generating unit is based would not cause the aggregated carrying amount of goodwill and the operating right to exceed their recoverable amounts.

The carrying amount of goodwill allocated to the water supply cash-generating unit was HK$255,761,000 (2006: HK$215,769,000) as at 31 December 2007.

## 18. Interests in subsidiaries

| | Company | |
|---|---|---|
| | 2007<br>HK$'000 | 2006<br>HK$'000 |
| Unlisted investments, at cost | **4,698,516** | 5,519,448 |
| Due from subsidiaries | **4,295,512** | 3,963,929 |
| Due to subsidiaries | **(35,470)** | (912,674) |
| | **8,958,558** | 8,570,703 |
| Less: Impairments | **(1,584,802)** | (1,277,070) |
| | **7,373,756** | 7,293,633 |

At each balance sheet date, the Company assesses the prospects and financial positions of its subsidiaries, on an individual basis, as to whether there is any indication of impairment of its interests in subsidiaries or any impairment loss previously recognised for subsidiaries in prior years may no longer exist or may need to be adjusted accordingly.

The recoverable amount of the cash-generating unit was estimated based on (i) the value in use of investment properties and hotel properties valued by Vigers Appraisal & Consulting Limited and (ii) present values of discounted cash flows of power operation and toll road at the discount rates of 7% to 10% (2006: 7%). As the recoverable amounts of the interests in subsidiaries are lower than their respective carrying amounts, impairment has been made accordingly.

Other than the balances as mentioned below, the amounts due from/(to) subsidiaries are unsecured, non-interest-bearing and have no specific terms of repayment.

## 18. Interests in subsidiaries (continued)

Included in the amounts due from subsidiaries are: (i) unsecured loans in an aggregate amount of HK$289,482,000 (2006: HK$314,482,000), which bear interest at the Hong Kong Dollar Prime Rate (the "Prime Rate") plus 1% or fixed rates of 8% (2006: Prime Rate plus 1% or fixed rates of 8%) per annum and are repayable within five years from 1 October 2003; (ii) an unsecured loan of HK$81,479,000 (2006: HK$81,479,000) which bears interest at fixed rate of 9% per annum (2006: fixed rate of 9%) and is repayable on demand; (iii) an unsecured loan of HK$400,000,000 (2006: HK$400,000,000) which bears interest at the Prime Rate minus 1.5% (2006: Prime Rate minus 1.5%) per annum and has no specific terms of repayment; and (iv) an unsecured loan of HK$15,000,000 (2006: HK$15,000,000) which bears interest at the Hong Kong Inter Bank Offered Rates (the "HIBOR") plus 0.6% (2006: HIBOR plus 0.6%) per annum and is repayable over five years from 24 April 2006.

The carrying amounts of the amounts due from/(to) subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

| Company | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Global Head Developments Limited | British Virgin Islands/ Hong Kong | US$1 | 100% | — | Property investment |
| Fill Success Investments Limited | Hong Kong | HK$2 ordinary HK$2 non-voting deferred | — | 100% | Hotel ownership |
| GH Water Supply (Holdings) Limited ("GH Holdings")* | Cayman Islands/ Mainland China | HK$1,000,000 ordinary HK$100 Class A special shares HK$10 Class B special shares | 88.17% | — | Investment holding |
| 廣東天河城(集團)股份有限公司 (Guangdong Teem (Holdings) Limited) ("GD Teem")(1)* | Mainland China | RMB840,000,000 | 11.51% | 75.85% | Property investment and investment holding |
| Guangdong Hotel Limited | Hong Kong | HK$2 ordinary HK$5,000,000 non-voting deferred | — | 100% | Hotel ownership and operations |
| Guangdong (International) Hotel Management Holdings Limited | Hong Kong | HK$10,000,000 | 100% | — | Hotel management |
| Guangdong Nan Fang (Holdings) Co. Ltd.* | British Virgin Islands/ Mainland China | US$10,000 | 56.34% | — | Property investment |
| Guangdong Power (International) Limited ("GPIL") | British Virgin Islands/ Hong Kong | US$31,286,250 | 51% | — | Investment holding |
| Guangdong Properties Holdings Limited ("GHL") | Hong Kong | HK$2 | 100% | — | Investment holding |
| 廣東天河城百貨有限公司 (Guangdong Teemall Department Stores Ltd.)(4)* | Mainland China | RMB8,000,000 | — | 85.03% | Department stores operations |

# 18. Interests in subsidiaries (continued)

| Company | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| 廣東粵港供水有限公司 (Guangdong Yue Gang Water Supply Company Limited) ("WaterCo") [(2)]* | Mainland China | HK$6,116,000,000 | — | 87.29% | Water supply business |
| Guangdong Yingde Highway Ltd.[(2)]* | Mainland China | RMB93,200,000 | — | 70% | Highway operations |
| Sen International Ventures Corporation (Hong Kong) Limited | Hong Kong | HK$2 | — | 100% | Hotel operations |
| Shaoguan Power Plant (D) Ltd.[(1)]* | Mainland China | US$51,500,000 | — | 45.9% | Power plant operations |
| 深圳粵海酒店企業有限公司 (Shenzhen Guangdong Hotel Enterprise Ltd.)[(2)]* | Mainland China | HK$114,787,016 | 99% | — | Hotel ownership and operations |
| 珠海粵海酒店 (Guangdong Hotel (Zhu Hai))[(3)]* | Mainland China | US$10,000,000 | — | 100% | Hotel ownership and operations |
| Yue Sheng Finance Limited | Hong Kong | HK$2 | 100% | — | Finance and investment |
| Zhongshan Power (Hong Kong) Limited ("ZPHK") | Hong Kong | HK$100 | 95% | — | Investment holding |
| 中山火力發電有限公司 ("Zhongshan Power Plant")[(2)]* | Mainland China | US$35,000,000 | — | 59.85% | Power plant operations |
| 廣州市天河城萬博百貨有限公司[(4)]* | Mainland China | RMB1,000,000 | — | 85.03% | Department stores operations |

Notes:

1. Sino-foreign equity joint venture.
2. Sino-foreign co-operative joint venture.
3. Wholly-foreign-owned enterprise.
4. Limited company established in Mainland China.

* Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

During the years ended 31 December 2006 and 2007, the Group acquired additional interests in GH Holdings and GD Teem from minority interests. Further details of these acquisitions are included in note 36 to the financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 19. Interests in jointly-controlled entities

| | Group | |
|---|---|---|
| | 2007 HK$'000 | 2006 HK$'000 |
| Share of net assets | 852,142 | 915,796 |
| Due to jointly-controlled entities (note 41(b)) | — | (744) |
| | 852,142 | 915,052 |

The amounts due to jointly-controlled entities were unsecured, non-interest-bearing and had no specific terms of repayment. The carrying amounts of the amounts due to jointly-controlled entities approximated to their fair values.

Particulars of the jointly-controlled entities are as follows:

| Company | Particulars of issued shares held | Place of incorporation/ registration | Percentage of attributable equity interest held by the Group | Principal activities |
|---|---|---|---|---|
| Guangdong Transport Investment (BVI) Company Limited | Registered capital of US$1 each | British Virgin Islands | 51% | Investments in highway and bridge projects |
| Xin Yue Qinglian Company Limited | Registered capital of US$1 each | British Virgin Islands | 51% | Dormant |

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Share of the jointly-controlled entities' assets and liabilities: | | |
| Non-current assets | 784,147 | 890,811 |
| Current assets | 70,216 | 26,762 |
| Current liabilities | (2,221) | (1,777) |
| Net assets | 852,142 | 915,796 |
| Share of the jointly-controlled entities' results: | | |
| Revenue | — | — |
| Share of profits of jointly-controlled entities | 58,422 | 109,730 |
| | 58,422 | 109,730 |
| Total expenses | (7,538) | (34,551) |
| Tax (note 10) | (47,854) | (8,321) |
| Profit after tax | 3,030 | 66,858 |

## 20. Interests in associates

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 HK$'000 | 2006 HK$'000 | 2007 HK$'000 | 2006 HK$'000 |
| Unlisted investments, at cost | — | — | 115,062 | 115,062 |
| Share of net assets | 506,237 | 480,918 | — | — |
| Due from associates (note 41(b)) | — | 3,238 | — | — |
| | 506,237 | 484,156 | 115,062 | 115,062 |
| Less: Impairments (note 6) | (151,813) | — | (115,062) | — |
| | 354,424 | 484,156 | — | 115,062 |

The amounts due from associates are unsecured, non-interest-bearing and have no specific terms of repayment. The carrying amounts of the amounts due from associates approximate to their fair values.

The recoverable amount of the cash-generating unit was estimated based on the present value of discounted cash flows of power operation at the discount rate of 8%. As the recoverable amount of the interest in an associate is lower than its respective carrying amount, impairment has been made accordingly.

Particulars of the associates are as follows:

| Company | Nominal value of issued ordinary/ registered share capital | Place of incorporation/ registration and operations | Percentage of ownership interest attributable to Company | Group | Principal activities |
|---|---|---|---|---|---|
| Guangdong Jusco Teem Stores Co. Ltd.* | RMB56,000,000 | Mainland China | — | 26.55% | Department stores operation |
| Guangdong Power Investment Limited* | US$30,068,220 | British Virgin Islands/ Hong Kong | 49% | 49% | Investment holding |
| 廣東省韶關粵江發電有限責任公司 (Guangdong Shaoguan Yue Jiang Power Supply Limited) ("Yue Jiang")* | RMB770,000,000 | Mainland China | — | 11.48% | Power plant operations |
| 廣東番禺大橋有限公司 (Guangdong Pan Yu Bridge Company Limited)* | RMB270,000,000 | Mainland China | — | 20% | Toll bridge operations |

* Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

## 20. Interests in associates (continued)

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts and financial statements:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Assets | **4,400,962** | 4,337,178 |
| Liabilities | **(2,657,387)** | (2,653,791) |
| Revenues | **3,356,112** | 2,650,501 |
| Profit | **144,240** | 205,089 |

## 21. Operating right

| | Group | |
|---|---|---|
| | 2007<br>HK$'000 | 2006<br>HK$'000 |
| Cost at 1 January and 31 December | **14,798,611** | 14,798,611 |
| Accumulated amortisation: | | |
| At 1 January | **3,143,523** | 2,650,236 |
| Provided during the year (note 6) | **493,287** | 493,287 |
| At 31 December | **3,636,810** | 3,143,523 |
| Net carrying amount at 31 December | **11,161,801** | 11,655,088 |

Prior to the acquisition of an 81% interest in GH Holdings in 2000, WaterCo acquired the operating right from Guangdong Holdings Limited to operate a water supply business, which supplies natural water to HKSAR, Shenzhen and Dongguan, for a period of 30 years commencing from 18 August 2000. The operating right also grants WaterCo a right and licence to take up to 2.423 billion cubic metres of natural water annually from the Dongjiang River at Qiaotou Township in Dongguan, the exclusive right to supply natural water to HKSAR and the non-exclusive right to supply natural water to Shenzhen and Dongguan for a period of 30 years commencing from 18 August 2000 or such longer period as extended in accordance with the terms stipulated in a concession agreement dated 18 August 2000 entered into between the Guangdong Provincial Government ("GPG") and WaterCo (the "Concession Agreement"). Upon dissolution of WaterCo after the expiration of the operating period, WaterCo is required, at its cost and expense and without compensation, to return all of the assets to the GPG.

## 22. Available-for-sale investments

| | Group | |
|---|---|---|
| | **2007 HK$'000** | 2006 HK$'000 |
| Unlisted equity investment, at cost | **72,134** | 72,134 |
| Less: Impairments | **(72,134)** | (72,134) |
| Net carrying value | **—** | — |
| Unlisted equity investment, at fair value | **21** | 19 |
| Unlisted debt investment, at fair value | **42,024** | 39,572 |
| Total available-for-sale investments | **42,045** | 39,591 |

The movement in provision for individual impairment of available-for-sale investments are as follows:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| At 1 January | **72,134** | 77,679 |
| Impairment losses reversed on disposal | **—** | (5,545) |
| At 31 December | **72,134** | 72,134 |

The above investments consist of investments in equity and debt securities which were designated as available-for-sale financial assets. The equity investment has no specific maturity date or coupon rate and the debt investment is to be matured within one year for a range of fixed coupon rates.

The fair values of unlisted available-for-sale equity and debt investments are based on quoted prices. The unlisted available-for-sale equity investment, which fair value cannot be measured reliably, has been stated at cost less impairment.

## 23. Inventories

| | Group | |
|---|---|---|
| | **2007 HK$'000** | 2006 HK$'000 |
| Raw materials | **44,229** | 24,883 |
| Finished goods | **13,590** | 34,433 |
| | **57,819** | 59,316 |

## 24. Receivables, prepayments and deposits

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 |
| Trade receivables, net of impairment | | **200,929** | 119,694 | **—** | — |
| Other receivables, prepayments and deposits | | **175,623** | 207,280 | **6,094** | 5,111 |
| Due from the ultimate holding company | 41(b) | **—** | 51 | **—** | — |
| Due from the immediate holding company | 41(b) | **606** | 320 | **—** | — |
| Due from fellow subsidiaries | 41(b) | **2,685** | 2,384 | **37** | 34 |
| | | **379,843** | 329,729 | **6,131** | 5,145 |

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

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 electricity supply business (2006: water supply business) and the Group has a certain concentration of credit risk as 33% (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:

| | Group | |
|---|---|---|
| | **2007 HK$'000** | 2006 HK$'000 |
| Within 3 months | **200,656** | 119,482 |
| 3 months to 6 months | **258** | 86 |
| 6 months to 1 year | **15** | 484 |
| More than 1 year | **11,030** | 10,664 |
| | **211,959** | 130,716 |
| Less: Impairments | **(11,030)** | (11,022) |
| | **200,929** | 119,694 |

## 24. Receivables, prepayments and deposits (continued)

The movements in provision for individual impairment of trade receivables are as follows:

| | Group | |
|---|---|---|
| | 2007<br>HK$'000 | 2006<br>HK$'000 |
| At 1 January | 11,022 | 10,485 |
| Impairment losses recognised (note 6) | 8 | 927 |
| Impairment losses reversed | — | (390) |
| At 31 December | 11,030 | 11,022 |

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$11,030,000 (2006: HK$11,022,000) with a carrying amount of HK$211,959,000 (2006: HK$130,716,000).

The individually impaired trade receivables relate to customers that were in default payments and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

| | Group | |
|---|---|---|
| | 2007<br>HK$'000 | 2006<br>HK$'000 |
| Neither past due nor impaired | 199,769 | 119,179 |
| Less than 1 month past due | 399 | 53 |
| Equal to and over 1 month past due | 761 | 462 |
| | 200,929 | 119,694 |

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The Group's and the Company's trade and other receivables, prepayments and deposits are non-interest-bearing and their carrying amounts approximate to their fair values.

## 25. Cash and cash equivalents and restricted cash and bank balances

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 |
| Cash and bank balances (notes (a) and (b)) | **813,411** | 789,629 | **11,103** | 7,324 |
| Time deposits (notes (a) and (b)) | **1,871,122** | 1,462,030 | **476,264** | 755,242 |
| Trust account (note (c)) | **2,824** | 2,756 | **—** | — |
| | **2,687,357** | 2,254,415 | **487,367** | 762,566 |
| Less: Restricted cash and bank balances (note (c)) | **(2,824)** | (2,756) | **—** | — |
| Cash and cash equivalents (note (d) and note 38(b)) | **2,684,533** | 2,251,659 | **487,367** | 762,566 |

Notes:

(a) A subsidiary of the Company is required to reserve certain cash and bank balances and time deposits for, amongst other things, payment of interest, repayment of debts and distribution to shareholders of that subsidiary pursuant to an agreement entered into between the subsidiary and other parties. As at 31 December 2007, cash and bank balances and time deposits retained for such purpose amounted to HK$3,123,000 (2006: HK$1,333,000).

(b) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and more than three months depending on the immediate cash requirements of the Group and the Company, and earn interest at the respective time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and bank balances and time deposits approximate to their fair values.

(c) Pursuant to the Undertaking as defined in note 35(a)(i) to the financial statements, in December 2003, the Company set up a separate bank account with a local reputable bank in the name of Guangdong Investment (Nominees) Limited, as trustee and designated such bank account as "Guangdong Investment Limited Capital Reduction Trust Account" (the "Trust Account"). A sum of HK$34,000,000 was deposited into the Trust Account in accordance with the terms of trust deed in the form approved by the court (the "Trust Deed"). Unless and until all amounts due to those creditors of the Company who would be entitled to prove in a notional winding-up of the Company were one to commence on 24 December 2003 ("the Effective Date") and who have not consented to the proposed reduction shall have been paid or satisfied or otherwise extinguished, or such creditors shall subsequently give their consent, or any period of limitation shall have expired, the Company shall retain to the credit of the Trust Account a sum in cash equal to the amount due to such non-consenting creditors for the time being unpaid. As at 31 December 2007, the amount standing to the credit of the Trust Account was HK$2,824,000 (2006: HK$2,756,000). The Trust Account shall be maintained for a period of six years from the Effective Date or such shorter period as provided under the Trust Deed. The Trust Account balance was classified as restricted cash and bank balances. The Trust Account earns interest at floating rates based on daily bank deposit rates and the carrying amount approximates to its fair value.

(d) At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$2,001,400,000 (2006: HK$1,380,099,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

## 26. Payables, accruals and other liabilities

| | Note | Group 2007 HK$'000 | Group 2006 HK$'000 | Company 2007 HK$'000 | Company 2006 HK$'000 |
|---|---|---|---|---|---|
| Trade payables | | **226,479** | 159,141 | **—** | — |
| Accruals and other liabilities | | **1,175,188** | 862,684 | **14,241** | 14,881 |
| Due to the immediate holding company | 41(b) | **7,138** | 1,616 | **162** | 412 |
| Due to fellow subsidiaries | 41(b) | **7,398** | 288 | **—** | — |
| | | **1,416,203** | 1,023,729 | **14,403** | 15,293 |

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

| | Group 2007 HK$'000 | Group 2006 HK$'000 |
|---|---|---|
| Within 3 months | **211,740** | 148,091 |
| 3 months to 6 months | **9,924** | 3,736 |
| 6 months to 1 year | **4,815** | 1,958 |
| More than 1 year | **—** | 5,356 |
| | **226,479** | 159,141 |

The Group's and the Company's payables, accruals and other liabilities are non-interest-bearing and are normally settled on 60-day terms. The carrying amounts of payables, accruals and other liabilities approximate to their fair values.

## 27. Derivative financial instruments

| | 31 December 2007 Assets HK$'000 | 31 December 2007 Liabilities HK$'000 |
|---|---|---|
| Interest rate swap agreements | **78,516** | **(277,647)** |

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

## 27. Derivative financial instruments (continued)

The Group entered into certain interest rate swap agreements to hedge the interest rate risk arising from the Refinancing Facility A and the Refinancing Facility B (collectively, the "Refinancing Facilities") as detailed in note 30 to the financial statements.

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 the current market conditions and the current creditworthiness of the swap counterparties. The above transactions involving derivative financial instruments are with creditworthy banks with no recent history of default.

### Cash flow hedges

At 31 December 2007, the Group had certain interest rate swap agreements with a total notional amount of HK$5,200 million (2006: HK$5,200 million) designated and qualified as hedges in respect of the Group's Refinancing Facilities, whereby the Group receives interest at HIBOR plus 0.6% 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.

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 loss on cash flow hedges of HK$54,649,000 (2006: net fair value gain on cash flow hedges of HK$1,674,000) included in the hedging reserve was as follows:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Total fair value losses included in the hedging reserve | **(72,694)** | (9,887) |
| Fair value losses transferred from the hedging reserve and recognised in the income statement (note 7) | **11,522** | 12,693 |
| Net movement on cash flow hedges | **(61,172)** | 2,806 |
| Portion shared by minority interests | **6,523** | (1,132) |
| Net movement attributable to equity holders of the Company for the year ended 31 December | **(54,649)** | 1,674 |

### Derivatives not qualified for hedge accounting

At 31 December 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$7,135,000 (note 5) (2006: net loss of HK$31,867,000) was charged to the income statement during the year.

Amounts payable under the interest rate swap agreements are senior in right of payment to the Refinancing Facilities as detailed in note 30 to the financial statements.

## 28. Due to minority shareholders of subsidiaries

The amounts due to minority shareholders of subsidiaries as at the balance sheet date are analysed as follows:

| | Group | |
|---|---|---|
| | 2007<br>HK$'000 | 2006<br>HK$'000 |
| Non-interest-bearing borrowings: | | |
| Current portion | 415,349 | 307,056 |
| Non-current portion | 22,594 | 35,555 |
| | 437,943 | 342,611 |

The maturities of the amounts due to minority shareholders of subsidiaries as at the balance sheet date were as follows:

| | Group | |
|---|---|---|
| | 2007<br>HK$'000 | 2006<br>HK$'000 |
| Within one year or no specific terms of repayment | 415,349 | 307,056 |
| In the second year | 6,438 | 5,438 |
| In the third to fifth years, inclusive | 16,156 | 30,117 |
| | 437,943 | 342,611 |

The balances due to minority shareholders of subsidiaries as at 31 December 2007 are unsecured and non-interest-bearing. The carrying amounts of the amounts due approximate to their fair values.

## 29. Interest-bearing bank borrowings

| | | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|---|
| | Note | Effective interest rate | Maturity | HK$'000 | Effective interest rate | Maturity | HK$'000 |
| **Current** | | | | | | | |
| Bank loans — secured | 30 | 5,47%–5.81% | 2008 | 292,343 | 5.51% – 6.16% | 2007 | 172,954 |
| Bank loan — unsecured# | | — | | — | 5.86% | 2007 | 32,848 |
| | | | | 292,343 | | | 205,802 |
| **Non-current** | | | | | | | |
| Bank loans — secured | 30 | 4.08%–5.81%* | 2009–2017 | 9,424,694 | 4.58% – 6.16%* | 2008–2017 | 11,374,742 |
| | | | | 9,717,037 | | | 11,580,544 |

* Includes the effects of cash flow hedges of related interest rate swap agreements as further detailed in note 27 to the financial statements.

\# In 2006, the unsecured bank loan of HK$32,848,000 is denominated in RMB and was repayable within one year. The bank loan was fully settled during the year.

## 29. Interest-bearing bank borrowings (continued)

Other interest rate information:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Fixed rate HK$'000 | Floating rate HK$'000 | Fixed rate HK$'000 | Floating rate HK$'000 |
| Bank loans — secured | — | 9,717,037 | — | 11,547,696 |
| Bank loan — unsecured | — | — | 32,848 | — |

The carrying amounts of the Group's interest-bearing bank borrowings approximate to their fair values.

The fair values of interest-bearing bank borrowings are estimated as the present values of future cash flows, discounted at current market interest rates for similar financial instruments.

## 30. Bank loans — secured

The maturities of the secured bank loans are analysed into:

| | | Group | |
|---|---|---|---|
| | Note | 2007 HK$'000 | 2006 HK$'000 |
| Within one year or on demand | | 292,343 | 172,954 |
| In the second year | | 292,343 | 272,497 |
| In the third to fifth years, inclusive | | 1,857,351 | 2,853,020 |
| Over five years | | 7,275,000 | 8,249,225 |
| | | 9,717,037 | 11,547,696 |
| Less: Portion classified as current liabilities | 29 | (292,343) | (172,954) |
| Non-current portion | 29 | 9,424,694 | 11,374,742 |

Pursuant to a facility agreement entered into by the Group and certain parties in a prior year (the "Refinancing Agreement"), the Group obtained two credit facilities of HK$12,800 million (the "Refinancing Facility A") and HK$2,000 million (the "Refinancing Facility B").

As at 31 December 2007, included in the Group's secured bank loans was an outstanding bank loan of HK$7,749 million (2006: HK$9,486 million) drawn under the Refinancing Facility A, with aggregate amounts of HK$6,475 million (2006: HK$8,212 million) bears interest at 3-month HIBOR plus 0.6% (2006: 3-month HIBOR plus 0.6%) per annum and is repayable in 18 consecutive instalments within 10 years commencing from December 2003 and HK$1,274 million (2006: HK$1,274 million) bears interest at 3-month HIBOR plus 0.4% (2006: 3-month HIBOR plus 0.4%) per annum and is repayable in full in December 2010.

## 30. Bank loans — secured (continued)

As at 31 December 2007, included in the Group's secured bank loans was another outstanding bank loan of HK$800 million (2006: HK$800 million) drawn under the Refinancing Facility B which bears interest at 3-month or 6-month HIBOR plus 0.6% (2006: 3-month or 6-month HIBOR plus 0.6%) per annum with the first repayment due in 2013.

At 31 December 2007, the Group had certain outstanding interest rate swaps to convert the interest from the floating rate of HIBOR to a range of fixed interest rates or the floating rate of LIBOR for the respective periods up to various maturity dates ranging from 2008 to 2012. Amounts payable under the interest rate swap agreements are senior in right of payment to the Refinancing Facility A and the Refinancing Facility B.

The Refinancing Facility A and the Refinancing Facility B are both guaranteed by WaterCo on a subordinated basis and are secured by the pledge of the water revenue of WaterCo.

The remaining bank loans of HK$1,168,037,000 (2006: HK$1,261,696,000) are denominated in RMB and secured by a charge over the designated debt service accounts for the Phase IV Renovation Project. These loans are repayable over four years in four equal annual consecutive instalments. The first repayment date was 22 August 2008. They bear interest at 5.267% per annum and the interest rate will be adjusted in line with the interest rate for 3-5 year term loans published by the People's Bank of China (2006: 90% of the interest rate for over 5-year term loans published by the People's Bank of China).

## 31. Non-interest-bearing receipt in advance

| | Group | |
|---|---|---|
| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
| Carrying amount at 1 January | **1,891,200** | 2,009,400 |
| Recognised as revenue in the income statement | **(118,200)** | (118,200) |
| Carrying amount at 31 December | **1,773,000** | 1,891,200 |
| Less: Portion classified as current liabilities | **(118,200)** | (118,200) |
| Non-current portion | **1,654,800** | 1,773,000 |

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

## 32. Deferred tax

The movements in deferred tax liabilities and assets during the year were as follows:

### Deferred tax liabilities

Group

| | 2007 | | | |
|---|---|---|---|---|
| | Depreciation allowance in excess of related depreciation HK$'000 | Revaluation of investment properties HK$'000 | Others HK$'000 | Total HK$'000 |
| At 1 January 2007 | 372,594 | 279,435 | (10,235) | 641,794 |
| Deferred tax charged/(credited) to the income statement during the year (note 10) | (57,160) | 126,825 | 1,229 | 70,894 |
| Exchange differences | 23,198 | 22,868 | (696) | 45,370 |
| Gross deferred tax liabilities recognised in the consolidated balance sheet at 31 December 2007 | 338,632 | 429,128 | (9,702) | 758,058 |

### Deferred tax assets

Group

| | 2007 | | |
|---|---|---|---|
| | Depreciation expense in excess of related depreciation allowance HK$'000 | Losses available for offset against future taxable profits HK$'000 | Total HK$'000 |
| At 1 January 2007 | (1,088) | (21,516) | (22,604) |
| Deferred tax charged to the income statement during the year (note 10) | 671 | 380 | 1,051 |
| Exchange differences | (65) | — | (65) |
| Gross deferred tax assets recognised in the consolidated balance sheet at 31 December 2007 | (482) | (21,136) | (21,618) |
| Net deferred tax liabilities at 31 December 2007 | | | 736,440 |

## 32. Deferred tax (continued)

### Deferred tax liabilities

Group

| | 2006 | | | |
|---|---|---|---|---|
| | Depreciation allowance in excess of related depreciation HK$'000 | Revaluation of investment properties HK$'000 | Others HK$'000 | Total HK$'000 |
| At 1 January 2006 | 354,757 | 247,416 | (9,956) | 592,217 |
| Acquisition of a subsidiary | 4,556 | — | — | 4,556 |
| Deferred tax charged to the income statement during the year (note 10) | 1,594 | 23,561 | 72 | 25,227 |
| Exchange differences | 11,687 | 8,458 | (351) | 19,794 |
| Gross deferred tax liabilities recognised in the consolidated balance sheet 31 December 2006 | 372,594 | 279,435 | (10,235) | 641,794 |

### Deferred tax assets

Group

| | 2006 | | |
|---|---|---|---|
| | Depreciation expense in excess of related depreciation allowance HK$'000 | Losses available for offset against future taxable profits HK$'000 | Total HK$'000 |
| At 1 January 2006 | (854) | (8,709) | (9,563) |
| Deferred tax credited to the income statement during the year (note 10) | (203) | (12,807) | (13,010) |
| Exchange differences | (31) | — | (31) |
| Gross deferred tax assets recognised in the consolidated balance sheet at 31 December 2006 | (1,088) | (21,516) | (22,604) |
| Net deferred tax liabilities at 31 December 2006 | | | 619,190 |

The Group has tax losses arising in Hong Kong approximately of HK$354,619,000 (2006: HK$412,365,000) that are available indefinitely and in Mainland China approximately of HK$32,712,000 (2006: HK$49,394,000) that are available for five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as the directors considered that it is not probable that sufficient taxable profits will be available against which the unused tax losses can be utilised by the Group.

## 32. Deferred tax (continued)

At 31 December 2007, there was no significant unrecognised deferred tax liability (2006: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or jointly-controlled entities as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 33. Share capital

### Shares

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Authorised: | | |
| 8,000,000,000 (2006: 8,000,000,000) ordinary shares of HK$0.50 each ("Ordinary Shares") | **4,000,000** | 4,000,000 |
| Issued and fully paid: | | |
| 6,103,938,071 (2006: 6,090,948,071) Ordinary Shares | **3,051,969** | 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:

| | Number of Ordinary Shares in issue | Issued capital HK$'000 | Ordinary Share premium account HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2006 | 6,017,518,071 | 3,008,759 | 2,298,205 | 5,306,964 |
| Share options exercised (note (i)) | 73,430,000 | 36,715 | 22,979 | 59,694 |
| At 31 December 2006 and 1 January 2007 | 6,090,948,071 | 3,045,474 | 2,321,184 | 5,366,658 |
| Share options exercised (note (i)) | 12,990,000 | 6,495 | 15,219 | 21,714 |
| Release of share option reserve (note (ii)) | — | — | 3,141 | 3,141 |
| At 31 December 2007 | 6,103,938,071 | 3,051,969 | 2,339,544 | 5,391,513 |

Notes:

(i) The subscription rights attaching to 12,990,000 (2006: 73,430,000) share options were exercised at subscription prices ranging from HK$1.220 to HK$3.405 (2006: from HK$0.5312 to HK$2.575) per Ordinary Share, resulting in the issue of 12,990,000 (2006: 73,430,000) Ordinary Shares for a total consideration, net of expenses, of HK$21,714,000 (2006: HK$59,694,000).

(ii) During the year, 12,990,000 (2006: 73,430,000) share options were exercised, resulting in the release of share option reserve of HK$3,141,000 (2006: nil) to the Ordinary Share premium account.

## 33. Share capital (continued)

### Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 34 to the financial statements.

## 34. Share option scheme

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

The maximum number of Ordinary Shares which may be issued upon exercise of all outstanding options granted and yet to be granted under the GDI Scheme and any other schemes of the Company must not exceed 30% of the Ordinary Shares in issue from time to time. The total number of Ordinary Shares which may be issued upon exercise of all options to be granted under the GDI Scheme and any other schemes of the Company must not in aggregate exceed 10% of the Ordinary Shares of the Company in issue as at the date of adopting the GDI Scheme, but the Company may seek approval of its shareholders in a general meeting to refresh the 10% limit under the GDI Scheme.

The total number of shares issued and to be issued upon exercise of the share options granted and to be granted to each eligible participant (including both exercised and outstanding options) in any 12-month period up to the date of grant must not exceed 1% of the Ordinary Shares in issue at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting of the Company.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the Ordinary Shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's Ordinary Shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting of the Company.

An offer of the grant of a share option may be accepted within 14 days from the date of the offer upon payment of a consideration of HK$1.00 by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of grant of the share options.

The exercise price of the share options is determinable by the directors, but must not be less than the highest of (i) the closing price of the Company's Ordinary Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of the share options, which must be a business day; (ii) the average closing price of the Company's Ordinary Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the share options; and (iii) the nominal value of the Ordinary Shares.

## 34. Share option scheme (continued)

Share options do not confer rights on the holders to dividends or to vote in shareholders' meetings.

The 12,990,000 (2006: 73,430,000) share options exercised in the year resulted in the issue of 12,990,000 (2006: 73,430,000) Ordinary Shares of the Company and new share capital of HK$6,495,000 (2006: HK$36,715,000) and Ordinary Share premium account of HK$18,360,000 (after release of share option reserve and net of issue expenses) (2006: HK$22,979,000), as detailed in note 33 to the financial statements.

At 31 December 2007, the number of Ordinary Shares issuable under the share options granted under the GDI Scheme was 180,500,000 (2006: 193,490,000), which represented approximately 3.0% (2006: 3.2%) of the Company's Ordinary Shares in issue as at that date.

The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 180,500,000 new Ordinary Shares of the Company and increase share capital of HK$90,250,000 and Ordinary Share premium account of HK$134,283,000 (before issue expenses).

Subsequent to the balance sheet date, a total of 34,450,000 share options were exercised, which resulted in the issue of 34,450,000 Ordinary Shares of the Company, and 28,000,000 share options were lapsed.

At the date of approval of these financial statements, the Company had 118,050,000 share options outstanding under the GDI Scheme, which represented approximately 1.92% of the Company's shares in issue as at that date.

# 34. Share option scheme (continued)

The following share options were outstanding under the GDI scheme during the year:

| | Number of share options | | | | | | | | Price of the Company's Ordinary Shares*** | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Name or category of participants | At 1 January 2007 | Granted during the year | Cancelled/ lapsed during the year | Exercised during the year | At 31 December 2007 | Date of grant of share options* (DD.MM.YYYY) | Exercise period of share options (both days inclusive)# (DD.MM.YYYY) | Exercise price of share options** HK$ per share | At grant date of options HK$ per share | Immediately before the exercise date 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 | — | — |
| 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 | 3.58 | 3.62 |
| | 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 | 5.04 | 4.98 |
| 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 | — | — |
| LI Wai Keung | 1,500,000 | — | — | (1,500,000) | — | 07.05.2003 | 08.08.2003 to 07.08.2008 | 1.22 | 1.22 | 5.04 | 4.93 |
| | 1,500,000 | — | — | (1,500,000) | — | 06.02.2004 | 07.05.2004 to 06.05.2009 | 1.59 | 1.57 | 5.04 | 4.93 |
| | 1,000,000 | — | — | (1,000,000) | — | 24.05.2004 | 25.08.2004 to 24.08.2009 | 1.25 | 1.25 | 5.04 | 4.93 |
| 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 | — | — |
| | 44,450,000 | — | — | (5,450,000) | 39,000,000 | | | | | | |
| Former directors and employees | 48,000,000 | — | — | — | 48,000,000 | 04.12.2002 | 05.03.2003 to 04.03.2008 | 0.96 | 0.89 | — | — |
| | 23,300,000 | — | — | (800,000) | 22,500,000 | 07.05.2003 | 08.08.2003 to 07.08.2008 | 1.22 | 1.22 | 5.04 | 4.93 |
| | 33,900,000 | — | — | (2,900,000) | 31,000,000 | 06.02.2004 | 07.05.2004 to 06.05.2009 | 1.59 | 1.57 | 4.91 | 4.91 |
| | 40,440,000 | — | — | (1,940,000) | 38,500,000 | 24.05.2004 | 25.08.2004 to 24.08.2009 | 1.25 | 1.25 | 4.91 | 4.91 |
| | 3,400,000 | — | — | (1,900,000) | 1,500,000 | 10.03.2007 | 11.06.2007 to 10.06.2011 | 3.405 | 3.30 | 5.00 | 5.00 |
| | 149,040,000 | — | — | (7,540,000) | 141,500,000 | | | | | | |
| Total | 193,490,000 | — | — | (12,990,000) | 180,500,000 | | | | | | |

## 34. Share option scheme (continued)

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

* 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 the date which the options were granted.

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

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

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

No share options was granted during the year ended 31 December 2007. In 2006, the fair value of the share options granted during the year was HK$3,366,000, of which the Group recognised a share option expense of HK$3,366,000 in the income statement during the year ended 31 December 2006.

## 35. Reserves

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 52 to 53 of the financial statements.

(i) One of the undertakings given to the High Court of the HKSAR by the Company in its capital reduction application (the "Undertaking") relates to the setting up of a special reserve on the terms that for so long as there shall remain outstanding any debt of or claim against the Company which would be admissible to proof in a notional winding-up of the Company on the Effective Date and the person entitled to the benefit thereof shall not have consented to the said reduction of capital or agreed otherwise, the Company shall credit to a special reserve in the books of the Company (the "Special Reserve"): (a) any amount arising by reason of a release of any provision taken into account in establishing the accumulated losses of the Company as at 30 June 2003; or (b) any amount received by the Company as profit by way of distribution from a corporation which was a subsidiary of the Company at the Effective Date (a "subsidiary") which is made by such subsidiary out of the 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 year ended 31 December 2007, the release of provision as determined above was HK$127,087,792 (2006: HK$191,031,371); and the profit was distributed from the Company's subsidiaries as determined above was HK$7,495,581 (2006: Nil), resulting in an aggregate transfer from retained profits to the Special Reserve of the Group and the Company of HK$134,583,373 (2006: HK$191,031,371).

## 35. Reserves (continued)

### (a) Group (continued)

(i) (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 Hong Kong Companies Ordinance. Further, the Special Reserve may be applied for the same purposes as an Ordinary 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 Ordinary 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 year, 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 Ordinary Share premium account due to the issue of the Company's Ordinary Shares in both the current year and prior years (before any share issue expenses), amounted to HK$60,534,348 (2006: HK$191,031,371). 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 Ordinary Share premium account of the Company which results from an 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 year, no non-permanent loss which was turned into a permanent loss of the Group and the Company (2006: HK$364,930,217).

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 31 December 2007, the Limit of the Group's and the Company's Special Reserve was reduced by (i) an increase in paid-up share capital due to the issue of the Company's Ordinary Shares of HK$21,729,000 (2006: HK$59,750,200); and (ii) the amount of a non-permanent loss of nil (2006: HK$364,930,217) which was turned into a permanent loss for the year ended 31 December 2007.

The Limit, as adjusted, was HK$702,960,533 (2006: HK$724,689,533) and the amount standing to the credit of the Group's and the Company's Special Reserve was HK$74,049,025 (2006: Nil) as at 31 December 2007.

## 35. Reserves (continued)

### (a) Group (continued)

(ii) The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the Ordinary Share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

(iii) The hedging reserve comprises the effective portion of the cumulative net gain or loss on the hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flows in accordance with the accounting policy adopted for cash flow hedges.

(iv) Pursuant to the relevant laws and regulations for sino-foreign joint venture enterprises, a portion of the profits of the Group's subsidiaries which are established/registered in the Mainland China has been transferred to the expansion fund reserve which are restricted as to use.

### (b) Company

| | Notes | Ordinary Share premium account HK$'000 | Capital reserve HK$'000 | Share option reserve HK$'000 (note 35(a)(ii)) | Exchange fluctuation reserve HK$'000 | Special reserve HK$'000 (note 35(a)(i)) | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2006 | | 2,298,205 | 1,733,711 | 1,260 | (14,813) | — | 895,338 | 4,913,701 |
| Share options exercised, net of issue expenses | 33 | 22,979 | — | — | — | — | — | 22,979 |
| Equity-settled share option arrangements | 34 | — | — | 3,366 | — | — | — | 3,366 |
| Profit for the year | 11 | — | — | — | — | — | 477,614 | 477,614 |
| Interim 2006 dividend paid | 12 | — | — | — | — | — | (301,447) | (301,447) |
| Proposed final 2006 dividend | 12 | — | — | — | — | — | (304,597) | (304,597) |
| Final 2005 dividend paid | | — | — | — | — | — | (111) | (111) |
| Transfer from retained profits during the year in accordance with the Undertaking | 35(a)(i) | — | — | — | — | 191,031 | (191,031) | — |
| Transfer to retained profits upon issue of new Ordinary Shares | 35(a)(i) | — | — | — | — | (191,031) | 191,031 | — |
| At 31 December 2006 | | 2,321,184 | 1,733,711 | 4,626 | (14,813) | — | 766,797 | 4,811,505 |

## 35. Reserves (continued)

### (b) Company (continued)

| | Notes | Ordinary Share premium account HK$'000 | Capital reserve HK$'000 | Share option reserve HK$'000 (note 35(a)(ii)) | Exchange fluctuation reserve HK$'000 | Special reserve HK$'000 (note 35(a)(i)) | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2007 | | 2,321,184 | 1,733,711 | 4,626 | (14,813) | — | 766,797 | 4,811,505 |
| Share options exercised, net of issue expenses | 33 | 15,219 | — | — | — | — | — | 15,219 |
| Equity-settled share option arrangements | 33(ii) | 3,141 | — | (3,141) | — | — | — | — |
| Profit for the year | 11 | — | — | — | — | — | 280,058 | 280,058 |
| Interim 2007 dividend paid | 12 | — | — | — | — | — | (305,197) | (305,197) |
| Proposed final 2007 dividend | 12 | — | — | — | — | — | (366,236) | (366,236) |
| Final 2006 dividend paid | | — | — | — | — | — | (125) | (125) |
| Transfer from retained profits during the year in accordance with the Undertaking | 35(a)(i) | — | — | — | — | 134,583 | (134,583) | — |
| Transfer to retained profits upon issue of new Ordinary Shares | 35(a)(i) | — | — | — | — | (60,534) | 60,534 | — |
| At 31 December 2007 | | 2,339,544 | 1,733,711 | 1,485 | (14,813) | 74,049 | 301,248 | 4,435,224 |

## 36. Business combinations effected during the year

During the year ended 31 December 2007, the Company acquired (i) an aggregate additional 0.55% equity interest in GH Holdings at a total cash consideration of HK$79,054,000; and (ii) an aggregate additional 0.12% effective equity interest in GD Teem at a total cash consideration of HK$1,954,000, from the minority shareholders of the respective subsidiaries. As a result of these acquisitions, the Group increased its holdings in (i) GH Holdings from 87.62% at 31 December 2006 to 88.17% at 31 December 2007, resulting in a total positive goodwill of approximately HK$39,992,000 (note 17); and (ii) GD Teem from 75.73% at 31 December 2006 to 75.85% at 31 December 2007, resulting in an excess over the cost of business combinations of approximately HK$2,141,000 (note 5).

During the year ended 31 December 2006, the Company acquired (i) an aggregate additional 1.28% equity interest in GH Holdings at a total cash consideration of HK$150,072,000; and (ii) an aggregate additional 0.33% effective equity interest in GD Teem at a total cash consideration of HK$4,539,000, 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 87.62% at 31 December 2006, resulting in a total positive goodwill of approximately HK$76,781,000 (note 17); and (ii) GD Teem from 75.40% at 31 December 2005 to 75.73% at 31 December 2006, resulting in an excess over the cost of business combinations of approximately HK$3,939,000 (note 5).

Further details of these subsidiaries are set out in note 18 to the financial statements.

## 37. Disposal of subsidiaries

The carrying amounts of the identifiable assets and liabilities disposed of as at the date of disposal were as follows:

| | Notes | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|---|
| Net assets disposed of: | | | |
| Property, plant and equipment | 14 | — | 386 |
| Property under development | | — | 29,965 |
| Prepaid land lease payments | | — | 45,511 |
| Cash and bank balances | | — | 4,511 |
| Receivables, prepayments and deposits | | — | 15,935 |
| Payables, accruals and other payables | | — | (128) |
| Due to minority shareholders of a subsidiary | | — | (1,011) |
| Due to the ultimate holding company | | — | (16,091) |
| Due to the immediate holding company | | — | (19,814) |
| Due to fellow subsidiaries | | — | (26,378) |
| Exchange fluctuation reserve realised | | — | 8,736 |
| | | — | 41,622 |
| Loss on disposal of subsidiaries | 6 | — | (3,992) |
| | | — | 37,630 |
| Satisfied by: | | | |
| Cash | | — | 37,630 |

## 37. Disposal of subsidiaries (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Cash consideration | — | 37,630 |
| Cash and bank balances disposed of | — | (4,511) |
| Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries | — | 33,119 |

## 38. Notes to the consolidated cash flow statement

### (a) Major non-cash transactions

During the year, the Group settled the non-interest-bearing receipt in advance of an amount of HK$118,200,000 (2006: HK$118,200,000) by offsetting it against the water revenue receivable of WaterCo. Details of the non-interest-bearing receipt in advance are set out in note 31 to the financial statements.

### (b) Cash and cash equivalents

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Cash and cash equivalents for the purpose of the consolidated balance sheet as at 31 December (note 25) | **2,684,533** | 2,251,659 |
| Non-pledged time deposits with original maturity of more than three months when acquired | **(872,196)** | (424,917) |
| Cash and cash equivalents for the purpose of the consolidated cash flow statement as at 31 December | **1,812,337** | 1,826,742 |

## 39. Operating lease arrangements

### Group

#### (a) As lessor

The Group leases its investment properties (note 15 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to twelve years (2006: one to twelve years). The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | Group | |
|---|---|---|
| | 2007<br>HK$'000 | 2006<br>HK$'000 |
| Within one year | **490,212** | 270,723 |
| In the second to fifth years, inclusive | **956,194** | 330,732 |
| After five years | **88,168** | 71,878 |
| | **1,534,574** | 673,333 |

#### (b) As lessee

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

At 31 December 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | |
|---|---|---|
| | 2007<br>HK$'000 | 2006<br>HK$'000 |
| Within one year | **10,143** | 9,717 |
| In the second to fifth years, inclusive | **41,559** | 38,055 |
| After five years | **60,948** | 67,850 |
| | **112,650** | 115,622 |

In addition to the operating lease arrangements as disclosed above, the Group leases certain leasehold properties for the department store operations of a subsidiary of the Group. The rental charge amounting to HK$5,245,000 (2006: HK$2,080,000) is calculated with reference to the revenue generated by the subsidiary of the Group.

The Company did not have significant operating lease arrangements as at the balance sheet date (2006: Nil).

## 40. Commitments

In addition to the operating lease commitments detailed in note 39(b), the Group and the Company had the following commitments at the balance sheet date:

| | Group | |
|---|---|---|
| | 2007<br>HK$'000 | 2006<br>HK$'000 |
| (a) Capital commitments in respect of property, plant and equipment: | | |
| Contracted for | **106,482** | 52,520 |
| Authorised, but not contracted for | **530,354** | 784,934 |
| | **636,836** | 837,454 |

(b) During the year, the Company has signed a letter of intent regarding the construction of two 300,000 kilowatts heat and electricity supply plants (the "Zhongshan Project") utilising the existing land and production facilities of Zhongshan Power Plant. At present, it is estimated that the Zhongshan Project will have a total investment cost of approximately RMB2.8 billion. A lot of the details of the Zhongshan Project including the terms of the contractual documents, the number and identities of the other investors and the percentage of the Group's interest in the Zhongshan Project have yet to be worked out. In addition, the Zhongshan Project is also very much contingent upon all the various requisite PRC approvals being obtained.

(c) Pursuant to WaterCo's article of association, Guangdong Holdings Limited, which directly holds an 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 Guangdong Holdings Limited (collectively referred to as the "Deferred Dividend"). Once Guangdong Holdings Limited has received the Deferred Dividend in full, all of the WaterCo's distributable profits are to be distributed to GH Holdings and Guangdong Holdings Limited according to their respective equity interests in WaterCo during the remaining operating period.

## 41. Related party transactions

In addition to the transactions and balances set out elsewhere in these financial statements, the Group had the following significant related party transactions during the year.

### (a) Transactions with related parties

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| Dividend income received from an associate | (i) | **(11,466)** | (30,576) |
| Rental income from GDH Limited and certain of its subsidiaries | (ii) | **(5,284)** | (3,863) |
| Storage and handling fee income from an associate | (iii) | **(3,203)** | (3,048) |
| Interest income from a contractual joint venture | (iv) | **—** | (13,162) |
| Hotel management fees received from fellow subsidiaries | (v) | **(3,777)** | (2,363) |
| Property management service fees paid to fellow subsidiaries | (vi) | **1,374** | 1,900 |
| Interest expenses to GDH Limited and certain of its subsidiaries | (vii) | **—** | 6,286 |
| Dividend paid to GDH Limited and certain of its subsidiaries by GH Holdings | (viii) | **17,524** | 5,404 |
| Dividend paid to GDH Limited and certain of its subsidiaries by the Company | (ix) | **376,577** | 376,577 |

Notes:

(i) During the year, the Company recorded dividend income of HK$11,466,000 (2006: HK$30,576,000) from an associate.

(ii) The rental income arose from the letting of certain of the Group's office premises to GDH Limited and certain of its subsidiaries in accordance with their respective tenancy agreements.

(iii) The income arose from the services rendered by the Group for the storage and handling of coal and coal ashes. The income was calculated with reference to the number of units of electricity generated by Yue Jiang and relevant costs incurred by the Group.

(iv) During the year ended 31 December 2006, the Group agreed and 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 fixed rate of 7.56% per annum and was repaid in full in prior years.

(v) The management fee income arose from the hotel management services rendered to certain fellow subsidiaries in accordance with the terms of agreements entered into between the Group's subsidiaries and those fellow subsidiaries.

(vi) The management fees arose from the property management services rendered by certain fellow subsidiaries of the Company to the Group in accordance with the terms of agreements entered into between the Group and those fellow subsidiaries.

(vii) The interest expense for the period ended 31 December 2006 arose from (a) the Tranche B Credit charged at 8% per annum of HK$79,080,000 held by GDH Limited; and (b) loans totalling RMB6,124,000, which were charged at interest rates ranging from 4.17% to 4.5%, provided to the Group by a fellow subsidiary. The Tranche B Credit and the loans were repaid in December 2006 and February 2006, respectively.

(viii) During the year, out of the dividend distributions made by GH Holdings, a 88.17% (2006: 87.62%) subsidiary of the Group, to all its shareholders in accordance with their respective shareholdings in GH Holdings, the total divided distributions of approximately HK$17,524,000 (2006: HK$5,404,000), was paid or payable to GDH Limited and certain of its subsidiaries as shareholders of GH Holdings.

(ix) During the year, the Company paid dividends, in aggregate of approximately HK$376,577,000 (2006: HK$376,577,000) to GDH Limited and certain of its subsidiaries as the Company's shareholders. The dividend payment was made to all shareholders of the Company in accordance with their respective shareholdings in the Company.

# 41. Related party transactions (continued)

## (b) Outstanding balances with related parties

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 |
| Balances due from: | | | | | |
| Ultimate holding company | (i) | **—** | 51 | **—** | — |
| Immediate holding company | (ii) | **606** | 320 | **—** | — |
| Fellow subsidiaries | (iii) | **2,685** | 2,384 | **37** | 34 |
| Associates | (iv) | **—** | 3,238 | **—** | — |
| Balances due to: | | | | | |
| Immediate holding company | (ii) | **(7,138)** | (1,616) | **(162)** | (412) |
| Fellow subsidiaries | (iii) | **(7,398)** | (288) | **—** | — |
| Jointly-controlled entities | (v) | **—** | (744) | **—** | — |

Notes:

(i) The balances with the ultimate holding company are unsecured, non-interest-bearing and have no specific terms of repayment. The carrying amounts of the amounts due approximate to their fair values. The balances were fully settled in the current year.

(ii) The balances with the immediate holding company 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 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.

(iv) The balances with associates are unsecured, non-interest-bearing, and have no specific terms of repayment. The carrying amounts of the amounts due approximate to their fair values. The balances were fully settled in the current year.

(v) The balances with 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. The balances were fully settled in the current year.

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

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Short term employee benefits | **2,461** | 3,601 |
| Post-employment benefits | **261** | 331 |
| Total compensation paid to key management personnel | **2,722** | 3,932 |

Further details of directors' emoluments are included in note 8 to the financial statements.

## 42. Connected transactions

In addition to the disclosures set out elsewhere in the financial statements, the other connected transactions disclosed in accordance with Chapter 14A of the Listing Rules are as follows:

(a) As at 31 December 2007, outstanding advances of HK$256,868,000 (2006: HK$249,424,000) were made by the Company to Nan Fang Holdings, a 56.34% subsidiary of the Company, to finance its working capital. Included in the amount due from Nan Fang Holdings is an unsecured loan of HK$81,479,000 (2006: HK$81,479,000) which bears interest at a rate of 9% (2006: 9%) per annum and is repayable on demand. The remaining balance of HK$175,389,000 (2006: HK$167,945,000) is unsecured, interest-free and has no specific terms of repayment.

(b) As at 31 December 2007, an outstanding advance of HK$132,369,000 (2006: HK$162,744,000) was made to ZPHK, a 95% subsidiary of the Company, to finance its investment in Zhongshan Power Plant, a 59.9% subsidiary of the Group. The balance is unsecured, interest-free and has no specific terms of repayment.

(c) In a prior year, the Company's wholly-owned subsidiary made a loan to Zhongshan Power Plant to finance its expansion of the power plant project and the loan had to be repaid in full together with interest. Although the loan to Zhongshan Power Plant was fully repaid in January 2003, the outstanding loan interest of US$1,687,473 (equivalent to HK$13,162,000) was not settled and full provision had been made in prior years. In 2005, the interest was agreed to be charged at a rate of 7.56% per annum up to January 2003. The loan interest amounting to US$687,473 (equivalent to HK$5,362,000) and US$1,000,000 (equivalent to HK$7,800,000) was received in November 2006 and April 2007, respectively.

(d) On 30 September 2007, WaterCo, a 87.29% subsidiary of the Group entered into an Assets Transfer Agreement with Guangdong Holdings Limited, the ultimate holding company of the Group pursuant to which WaterCo agreed to purchase certain property, plant and equipments from Guangdong Holdings Limited at a consideration of RMB15,980,000.

## 43. Pledge of assets

At 31 December 2007, none of the Group's property, plant and equipment, investment properties and bank deposits were pledged to secure the interest-bearing bank borrowings, and the general banking facilities granted to the Group (2006: Nil).

## 44. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

### 2007

| | Group | | | |
|---|---|---|---|---|
| Financial assets | Financial assets at fair value through profit or loss — held for trading HK$'000 | Loans and receivables HK$'000 | Available-for-sale financial assets HK$'000 | Total HK$'000 |
| Available-for-sale investments | — | — | 42,045 | 42,045 |
| Receivables, prepayments and deposits | — | 379,843 | — | 379,843 |
| Derivative financial instruments | 78,516 | — | — | 78,516 |
| Restricted cash and bank balances | — | 2,824 | — | 2,824 |
| Cash and cash equivalents | — | 2,684,533 | — | 2,684,533 |
| | 78,516 | 3,067,200 | 42,045 | 3,187,761 |

| Financial liabilities | Financial liabilities at fair value through profit or loss — held for trading HK$'000 | Financial liabilities at amortised cost HK$'000 | Derivative financial instruments for hedge HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Payables, accruals and other liabilities | — | (1,259,958) | — | (1,259,958) |
| Derivative financial instruments | (87,724) | — | (189,923) | (277,647) |
| Due to minority shareholders of subsidiaries | — | (437,943) | — | (437,943) |
| Interest-bearing bank borrowings | — | (9,717,037) | — | (9,717,037) |
| | (87,724) | (11,414,938) | (189,923) | (11,692,585) |

## 44. Financial instruments by category (continued)

### 2006

| | Group | | | |
|---|---|---|---|---|
| Financial assets | Financial assets at fair value through profit and loss — held for trading HK$'000 | Loans and receivables HK$'000 | Available-for-sale financial assets HK$'000 | Total HK$'000 |
| Available-for-sale investments | — | — | 39,591 | 39,591 |
| Receivables, prepayments and deposits | — | 329,729 | — | 329,729 |
| Derivative financial instruments | 64,436 | — | — | 64,436 |
| Restricted cash and bank balances | — | 2,756 | — | 2,756 |
| Cash and cash equivalents | — | 2,251,659 | — | 2,251,659 |
| | 64,436 | 2,584,144 | 39,591 | 2,688,171 |

| Financial liabilities | Financial liabilities at fair value through profit or loss — held for trading HK$'000 | Financial liabilities at amortised cost HK$'000 | Derivative financial instruments for hedge HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Payables, accruals and other liabilities | — | (882,887) | — | (882,887) |
| Derivative financial instruments | (107,135) | — | (128,750) | (235,885) |
| Due to minority shareholders of subsidiaries | — | (342,611) | — | (342,611) |
| Interest-bearing bank borrowings | — | (11,580,544) | — | (11,580,544) |
| | (107,135) | (12,806,042) | (128,750) | (13,041,927) |

## 44. Financial instruments by category (continued)

| | Company | |
|---|---|---|
| Financial assets — Loans and receivables | 2007 HK$'000 | 2006 HK$'000 |
| Financial assets included in receivables, prepayments and deposits | **6,131** | 5,145 |
| Cash and cash equivalents | **487,367** | 762,566 |
| | **493,498** | 767,711 |

| Financial liabilities — Financial liabilities at amortised cost | HK$'000 | HK$'000 |
|---|---|---|
| Payables, accruals and other liabilities | **(14,403)** | (15,293) |

## 45. Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank borrowings, cash and bank balances, and short term time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swap agreements. The purpose is to manage the interest rate risk arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

### (i) Interest rate risk

The Group's exposure to the risk for changes in market interest rate relates primarily to the Group's long term debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using an appropriate mix of fixed and floating rate borrowings. To manage this mix in a cost-effective manner, the Group enters into interest rate swap agreements, in which the Group agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swap agreements are designated to hedge the Group's obligation to the Refinancing Facilities as detailed in note 30 to the financial statements.

At 31 December 2007, the Group had interest rate swap agreements with an aggregate notional contract amount of HK$5,200 million (2006: HK$5,200 million) which qualified as hedges. The swap agreements will mature over the next five years (2006: six years) matching the maturity of the Refinancing Facilities and have fixed swap interest rates ranging from 4.43% to 4.70% (2006: 4.43% to 4.70%) per annum.

## 45. Financial risk management objectives and policies (continued)

### (i) Interest rate risk (continued)

The net fair value of these interest rate swap agreements entered into (including those not qualified as hedges) at 31 December 2007 was HK$199,131,000 (2006: HK$171,449,000). These amounts are recognised as derivative financial instruments in the consolidated financial statements.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on derivative financial instruments and interest-bearing bank borrowings) and the Group's equity.

#### Derivative financial instruments

| | Increase/ (decrease) in basis points | Increase/ (decrease) in profit before tax HK$'000 | Increase/ (decrease) in equity HK$'000 |
|---|---|---|---|
| **2007** | | | |
| Hong Kong dollar | **50** | **4,488** | **116,696** |
| Hong Kong dollar | **(50)** | **(4,488)** | **(116,696)** |
| **2006** | | | |
| Hong Kong dollar | 50 | 5,250 | 136,514 |
| Hong Kong dollar | (50) | (5,250) | (136,514) |

#### Interest-bearing bank borrowings

*Hong Kong dollar bank loans*

| | Increase/ (decrease) in basis points | Increase/ (decrease) in profit before tax HK$'000 | Increase/ (decrease) in equity HK$'000 |
|---|---|---|---|
| **2007** | | | |
| Hong Kong dollar | **10** | **(3,149)** | **(3,149)** |
| Hong Kong dollar | **(180)** | **56,682** | **56,682** |
| **2006** | | | |
| Hong Kong dollar | 75 | (36,645) | (36,645) |
| Hong Kong dollar | (155) | 75,733 | 75,733 |

# 45. Financial risk management objectives and policies (continued)

## (ii) Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from revenue or expenses of operating units in currencies other than the units' functional currency. The Group's monetary assets, financing and transactions are principally denominated in RMB and HK$. The Group is exposed to the foreign exchange risk arising from changes in the exchange rate of HK$ against RMB. At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations. However, the Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in future as may be necessary.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's and Company's profit before tax and equity (due to changes in the fair value of monetary assets and liabilities).

| | Increase/ (decease) RMB rate % | Increase/ (decrease) in profit before tax HK$'000 | Increase/ (decrease) in equity HK$'000 |
|---|---|---|---|
| **2007** | | | |
| If Hong Kong dollar weakens against RMB | **7** | **(66,506)** | **(66,506)** |
| If Hong Kong dollar strengthens against RMB | **(1)** | **9,501** | **9,501** |
| **2006** | | | |
| If Hong Kong dollar weakens against RMB | 7 | (67,303) | (67,303) |
| If Hong Kong dollar strengthens against RMB | (1) | 9,615 | 9,615 |

## (iii) Credit risk

The Group trades only with creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets, and interest rate swap agreements, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with creditworthy third parties, there is no requirement for collateral.

## (iv) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings.

The Group will consistently maintain a prudent financing policy and ensure that it maintains sufficient cash and credit lines to meet its liquidity requirements.

## 45. Financial risk management objectives and policies (continued)

### (iv) Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

| Year ended 31 December 2007 | On demand HK$'000 | Less than 3 months HK$'000 | 3 to 12 months HK$'000 | 1 to 5 years HK$'000 | >5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Payables, accruals and other liabilities | **292,839** | **490,768** | **476,351** | — | — | **1,259,958** |
| Derivative financial instruments | — | — | **59,133** | **179,552** | — | **238,685** |
| Due to minority shareholders of subsidiaries | — | — | **415,349** | **22,594** | — | **437,943** |
| Interest-bearing bank borrowings | — | — | **672,164** | **9,973,973** | **969,486** | **11,615,623** |
| | **292,839** | **490,768** | **1,622,997** | **10,176,119** | **969,486** | **13,552,209** |

| Year ended 31 December 2006 | On demand HK$'000 | Less than 3 months HK$'000 | 3 to 12 months HK$'000 | 1 to 5 years HK$'000 | >5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Payables, accruals and other liabilities | 207,179 | 527,156 | 148,552 | — | — | 882,887 |
| Derivative financial instruments | — | — | 67,637 | 139,559 | 28,157 | 235,353 |
| Due to minority shareholders of subsidiaries | — | — | 307,056 | 35,555 | — | 342,611 |
| Interest-bearing bank borrowings | — | — | 658,296 | 4,965,743 | 8,774,485 | 14,398,524 |
| | 207,179 | 527,156 | 1,181,541 | 5,140,857 | 8,802,642 | 15,859,375 |

#### Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Group monitors capital using a net debt to adjusted capital ratio which is net debt divided by total adjusted capital. The Group's policy is to keep the ratio lower than 100%. Net debt includes due to minority shareholders of subsidiaries, interest-bearing bank borrowings, less cash and cash equivalents. Adjusted capital includes equity attributable to the equity holders of the Company less the hedging reserve.

## 45. Financial risk management objectives and policies (continued)

### (iv) Liquidity risk (continued)

#### Capital management (continued)

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Due to minority shareholders of subsidiaries | **437,943** | 342,611 |
| Interest-bearing bank borrowings | **9,717,037** | 11,580,544 |
| Less: cash and cash equivalents | **(2,684,533)** | (2,251,659) |
| Net debt | **7,470,447** | 9,671,496 |
| Equity attributable to equity holders of the Company | **14,024,995** | 12,622,587 |
| Hedging reserve | **(150,817)** | (96,168) |
| Total adjusted capital | **13,874,178** | 12,526,419 |
| Net debt to adjusted capital ratio | **54%** | 77% |

## 46. Post balance sheet events

(i) Subsequent to the balance sheet date, GPIL entered into the framework agreement with Guangdong Yudean Group Co. Ltd. and Guangdong Electric Power Development Co. Ltd. regarding possible investment in the construction of two 600-megawatt power generation units (the "Proposed Project") in Yue Jiang. At present, it is estimated that the Proposed Project will have a total investment cost of approximately RMB4.7 billion. Many aspects of the matters envisaged in the framework agreement remain the subject of further negotiation between the parties and it is likely to entail the entering into formal contracts. In addition, the implementation of the Proposed Project will be contingent upon, among other things, all the requisite PRC Government approvals being obtained.

(ii) Subsequent to the balance sheet date, the Company succeeded in its bid for the acquisition of certain existing hydro-power generation units in the Yangshan County and the right to, inter alia, upgrade and redevelop the same (the "Yangshan Project"). At present, it is estimated that the Yangshan Project will have a total investment cost of approximately RMB510 million and after the upgrading and redevelopment the total capacity will be increased to 37.5-megawatt. The upgrading and redevelopment as aforesaid is however conditional upon all the requisite PRC Government approvals being obtained.

## 47. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 14 April 2008.

# Details of Major Properties held by the Group

31 December 2007

## Details of Property, Plant and Equipment

| Property | Lot No. | Category of lease | Use |
|---|---|---|---|
| Water Supply Project's (from Dongguan to Shenzhen) land use rights, reservoirs and related buildings | N/A | Medium term | Water Supply |
| Wharney Guangdong Hotel Hong Kong 57–73 Lockhart Road and 84–88 Jaffe Road Wan Chai Hong Kong | Subsection 1 of Section E and Subsection 2 of Section D of Inland Lot No. 2819, Section F of Inland Lot No. 2818, the remaining portion of Inland Lot No. 2817, Section G of Inland Lot No. 2818 and the remaining portion of Section D of Inland Lot No. 2817 | Long term | Hotel |
| Guangdong Hotel (Hong Kong) 18 Prat Avenue Tsimshatsui Kowloon Hong Kong | Kowloon Inland Lot Nos. 8340, 8342, 8550, 8748 and 8915 | Medium term | Hotel |
| Guangdong Hotel (Shen Zhen) Shennan East Road Luohu District Shenzhen Guangdong Province Mainland China | N/A | Medium term | Hotel |
| Zhongshan Power Plant Lands and various buildings and structures of Huang Pu Town Zhongshan City Guangdong Province Mainland China | N/A | Short term | Factory |

## Details of Property, Plant and Equipment (continued)

| Property | Lot No. | Category of lease | Use |
|---|---|---|---|
| Guangdong Hotel (Zhu Hai)<br>No. 1145 Yuehai Road East<br>Gongbei, Zhuhai<br>Guangdong Province<br>Mainland China | N/A | Medium term | Hotel, offices and serviced apartments |
| Shaoguan Power Plant D<br>Wushi Town, Qujiang County<br>Shaoguan City<br>Guangdong Province<br>Mainland China | N/A | Short term | Factory |
| Flat Roof of 2nd Floor, 28th Floor, Units A and B2 on 29th Floor, Unit A1 on 30th Floor<br>Guangdong Investment Tower,<br>148 Connaught Road Central<br>Hong Kong | Part of Marine Lot No. 332, Marine Lot No. 333, Section A and the remaining portion of Marine Lot No. 334, Marine Lot No. 335, Section A and the remaining portion of Marine Lot No. 336, Inland Lot No. 2142 and Inland Lot No. 2143 | Long term | Office |

## Details of Investment Properties

| Description | Interest in property attributable to the Group | Category of lease | Existing use |
|---|---|---|---|
| Units 901, 905–08, 1101, 1108, 10th Floor, 17th Floor 19th–22nd Floors Guangdong Group Building 555 Dongfeng Dong Road Guangzhou Guangdong Province Mainland China | 100% | Medium term | Commercial |
| Teem Tower and Teemall No. 208 Tianhe Road, Tianhe District, Guangzhou, Guangdong Province, Mainland China | 75.85% | Medium term | Commercial and shopping mall |
| Ground Floor, 1st Floor, 5th–10th Floors, Unit A and B2 of 11th Floor, 12th Floor, 16th Floor 19th Floor, Unit B on 20th Floor, 22nd–23rd Floors, 25th–27th Floor, Unit B1 on 29th Floor and Units A2 and B on 30th Floor Guangdong Investment Tower 148 Connaught Road Central Hong Kong | 100% | Long term | Commercial |
| 18th Floor, Guangdong Investment Tower 148 Connaught Road Central Hong Kong | 51% | Long term | Commercial |
| 1st–4th Floor, Guangzhou Exchange Plaza Guangzhou, Guangdong Province Mainland China | 56.34% | Medium term | Shopping mall |

Guangdong Investment Limited
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