Guangdong Investment Limited
粵海投資有限公司
Stock Code 股份代號：270

Annual Report 年報 2008

Guangdong Investment Limited
粵海投資有限公司

Annual Report 2008

CONTENTS

CORPORATE INFORMATION

as at 15 April 2009

Board of Directors

Executive Directors

LI Wenyue	*(Chairman)*
ZHANG Hui	*(Managing Director)*
TSANG Hon Nam	*(Chief Financial Officer)*

Non-Executive Directors

CHENG Mo Chi, Moses, *GBS, OBE, JP*
HUANG Xiaofeng
ZHAI Zhiming
XU Wenfang
LI Wai Keung
SUN Yingming
WANG Xiaofeng

Independent Non-Executive Directors

CHAN Cho Chak, John, *GBS, JP*
Dr. The Honourable LI Kwok Po, David, *GBM, GBS, OBE, JP*
FUNG Daniel Richard, *SBS, QC, SC, JP*

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
China CITIC Bank, Guangzhou Branch
DBS Bank Ltd., Hong Kong 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

Share Registrar

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

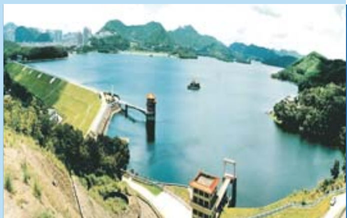
Shareholders' Calendar

Closure of Register of Members	1 June 2009 to 3 June 2009 (both days inclusive)
Annual General Meeting	3 June 2009 10:00 a.m.
Final Dividend	6.0 HK cents per ordinary share
Payable	29 June 2009

SIMPLIFIED CORPORATE STRUCTURE CHART OF THE GROUP'S PRINCIPAL BUSINESSES

15 April 2009

GDH Guangdong Investment Limited
粵海投資有限公司



Water Distribution

- 88.69% 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 (CONTINUED)

15 April 2009

Property Investment and Development

- * Guangdong Teem (Holdings) Limited (*Teem Plaza*) — 75.91%
- Global Head Developments Limited (*Guangdong Investment Tower properties*) — 100%
- Guangdong Properties Holdings Limited (*Guangdong Group Building properties*) — 100%

Department Stores

- Guangdong Teemall Development Stores Ltd. (*Department stores business*) — 85.06%

Hotel Operations & Management

- Guangdong (International) Hotel Management Holdings Limited — 100%
- Fill Success Investments Limited (*The Wharney Guang Dong Hotel Hong Kong*) — 100%
- Guangdong Hotel Limited (*Guangdong Hotel Hong Kong*) — 100%
- * Guangdong Hotel (Zhu Hai) — 100%
- * Shenzhen Guangdong Hotel Enterprise Ltd. (*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

	2008 HK'000	2007 HK'000	Changes %
Revenue	**7,590,712**	6,689,132	13.5
Profit for the year attributable to equity holders of the Company	**1,876,682**	1,697,034	10.6
Earnings per share — Basic	**30.54 HK cents**	27.83 HK cents	9.7
Dividends per share			
Interim	**4.00 HK cents**	5.00 HK cents	
Proposed final	**6.00 HK cents**	6.00 HK cents	
	10.00 HK cents	11.00 HK cents	(9.1)
EBITDA	**3,700,641**	3,910,660	(5.4)
Shareholders' equity	**15,395,522**	14,024,995	9.8
Total assets	**31,244,691**	30,492,623	2.5
Net financial borrowings[7]	**5,951,633**	8,805,504	(32.4)

Key ratios (as at 31 December)

	2008	2007
Gearing[1]	**0.41X**	0.66X
Interest cover[2]	**9.73X**	7.97X
Liquidity[3]	**1.56X**	1.26X
Return on average shareholders' equity[4]	**12.76%**	12.74%
Post-tax return on average assets[5]	**6.46%**	6.59%
Dividend payout ratio[6]	**33%**	40%

Share information (as at 31 December)

	2008	2007
Ordinary shares (HK$0.5 per share) in issue	**6,161m**	6,104m
Market capitalisation	**HK$19,162m**	HK$27,163m
Closing market price per share	**HK$3.11**	HK$4.45
Basic earnings per share	**30.54 HK cents**	27.83 HK cents
Diluted earnings per share	**30.12 HK cents**	27.23 HK cents
Net asset value[8] per share	**HK$2.50**	HK$2.30

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)

	2008	2007
	HK'000	HK'000
Loans maturity profile		
Within 1 year	**428,609**	410,543
In the 2nd year	**1,702,609**	410,543
In the 3rd to 5th years, inclusive	**6,213,592**	8,686,951
Over 5 years	**1,703,800**	1,982,000
	10,048,610	11,490,037
Currency	**%**	%
Hong Kong dollars	**90.7**	89.8
Renminbi	**9.3**	10.2
Interest rate	**%**	%
Floating	***83.5**	*84.6
Non-interest bearing	**16.5**	15.4

Note:

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

Source of financing (as at 31 December 2008)

	Available, committed and utilised %
Interest-bearing bank borrowings	**83.5**
Non-interest-bearing borrowing	**16.5**
	100.0

Analysis of the Group's Businesses

An analysis of the Group's revenue, segment results and earnings before interest, tax, depreciation and amortisation ("EBITDA") by principal activities and geographical area of operations for the years ended 31 December 2008 and 2007 is as follows:

Year ended 31 December 2008

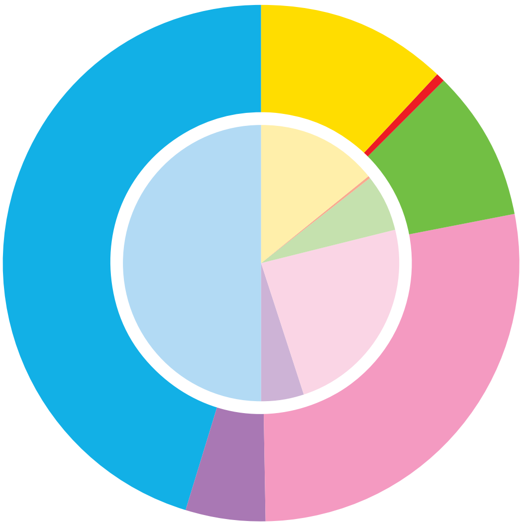
	Revenue		**Segment results**		**EBITDA**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
By activities:						
Water distribution	**3,443,842**	**45.37**	**2,511,234**	**86.11**	**3,389,126**	**85.36**
Electric power generation	**927,616**	**12.22**	**(281,404)**	**—**	**(258,795)**	**—**
Toll roads and bridges	**14,268**	**0.19**	**912**	**0.03**	**5,145**	**0.13**
Property investment and development	**722,856**	**9.52**	**135,723**	**4.65**	**194,733**	**4.90**
Department stores	**2,110,778**	**27.81**	**170,555**	**5.85**	**208,859**	**5.26**
Hotel operations and management	**371,352**	**4.89**	**97,976**	**3.36**	**172,916**	**4.35**
Others	**—**	**—**	**(28,759)**	**—**	**(11,343)**	**—**
	7,590,712	**100.00**	**2,606,237**	**100.00**	**3,700,641**	**100.00**
By geographical area:						
Mainland China	**7,368,229**	**97.07**				
Hong Kong	**222,483**	**2.93**				
	7,590,712	**100.00**				

Year ended 31 December 2007

	Revenue		Segment results		EBITDA	
	HK$'000	%	HK$'000	%	HK$'000	%
By activities:						
Water distribution	3,364,767	50.30	1,772,350	56.17	2,684,013	63.73
Electric power generation	942,576	14.09	(288,542)	—	(227,986)	—
Toll roads and bridges	15,688	0.23	(80,078)	—	(73,155)	—
Property investment and development	457,342	6.84	1,182,290	37.47	1,234,883	29.32
Department stores	1,573,377	23.53	104,118	3.30	120,182	2.85
Hotel operations and management	335,382	5.01	96,462	3.06	166,246	3.95
Others	—	—	(27,674)	—	6,477	0.15
	6,689,132	100.00	2,758,926	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				

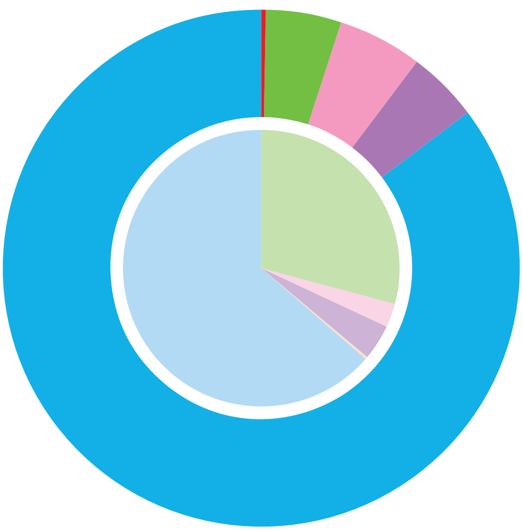
FINANCIAL HIGHLIGHTS (CONTINUED)

Revenue by Business Segments



	2008	2007
Water Distribution	45.37%	50.30%
Electric power generation	12.22%	14.09%
Toll roads and bridges	0.19%	0.23%
Property investment and development	9.52%	6.84%
Department stores	27.81%	23.53%
Hotel operations and management	4.89%	5.01%
Others	—	—

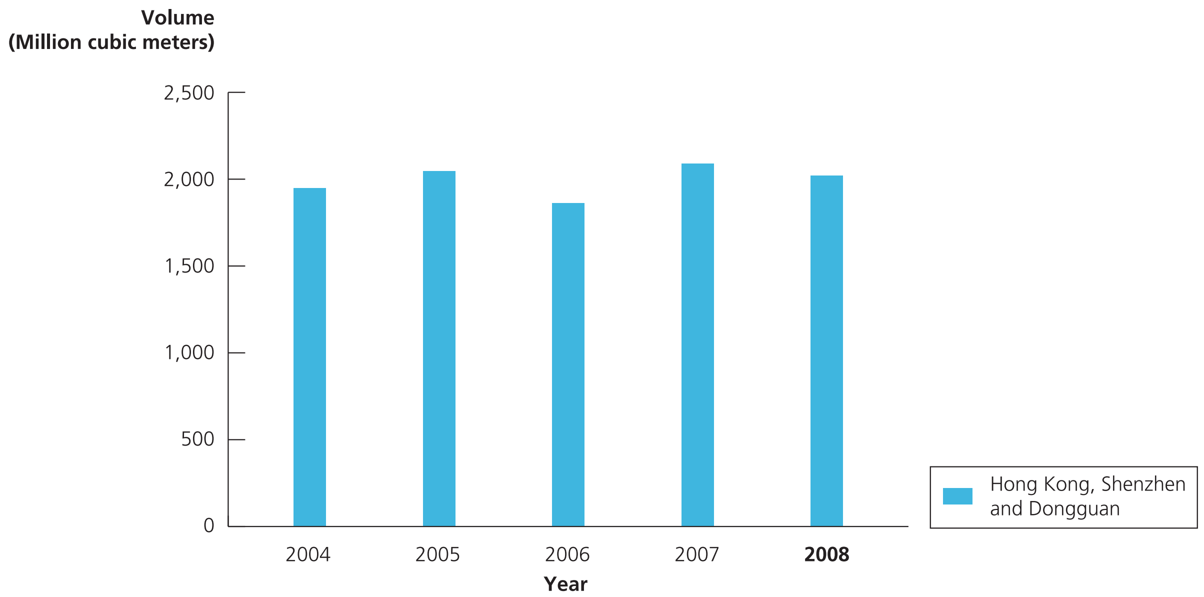
EBITDA by Business Segments



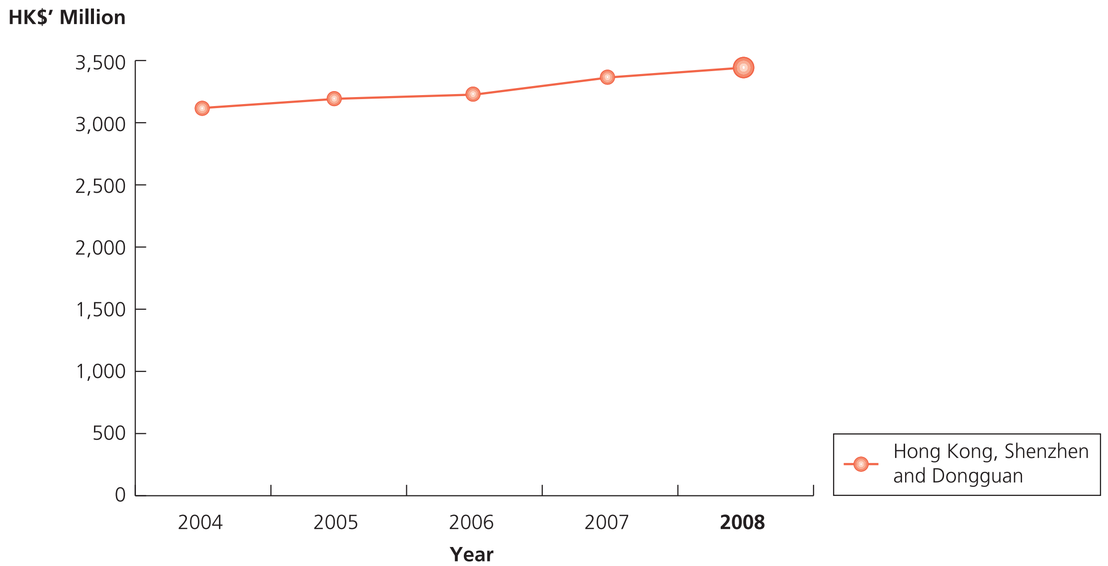
	2008	2007
Water Distribution	85.36%	63.73%
Electric power generation	—	—
Toll roads and bridges	0.13%	—
Property investment and development	4.90%	29.32%
Department stores	5.26%	2.85%
Hotel operations and management	4.35%	3.95%
Others	—	0.15%

Water Distribution

Water Distribution — Annual Volume

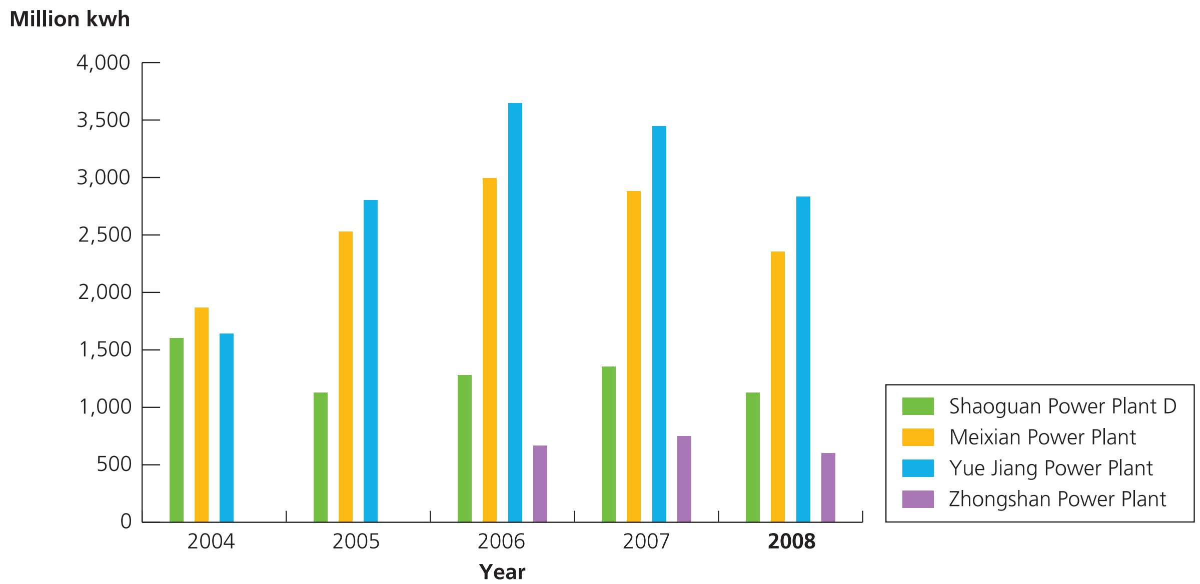


Water Distribution — Annual Revenue

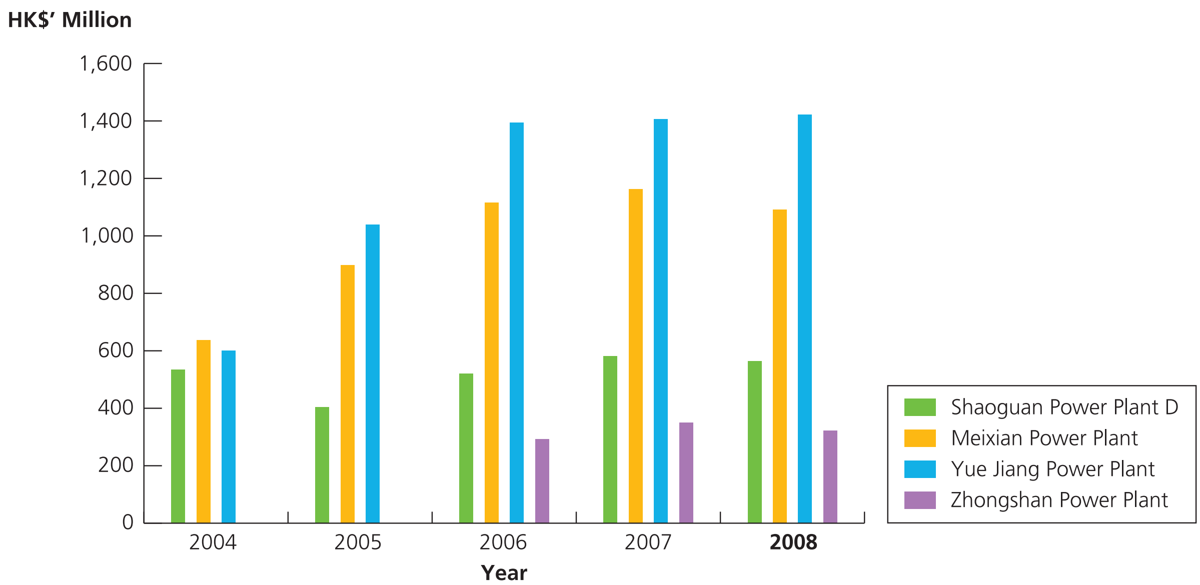


Electric Power Generation

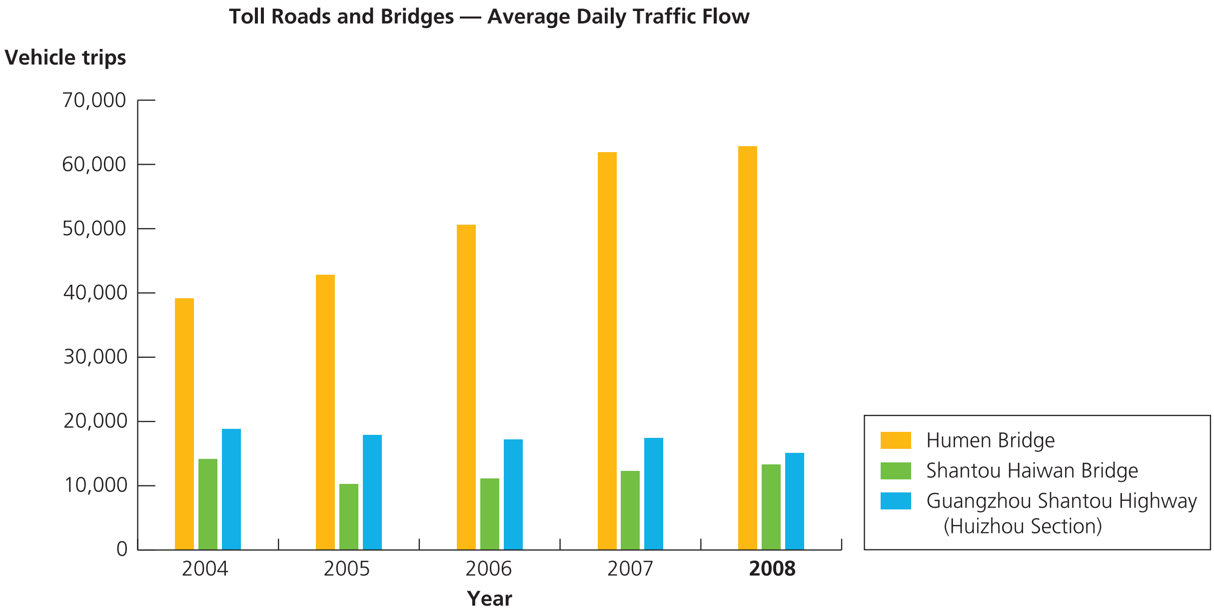
Electric Power Generation — Annual Sales of Electricity

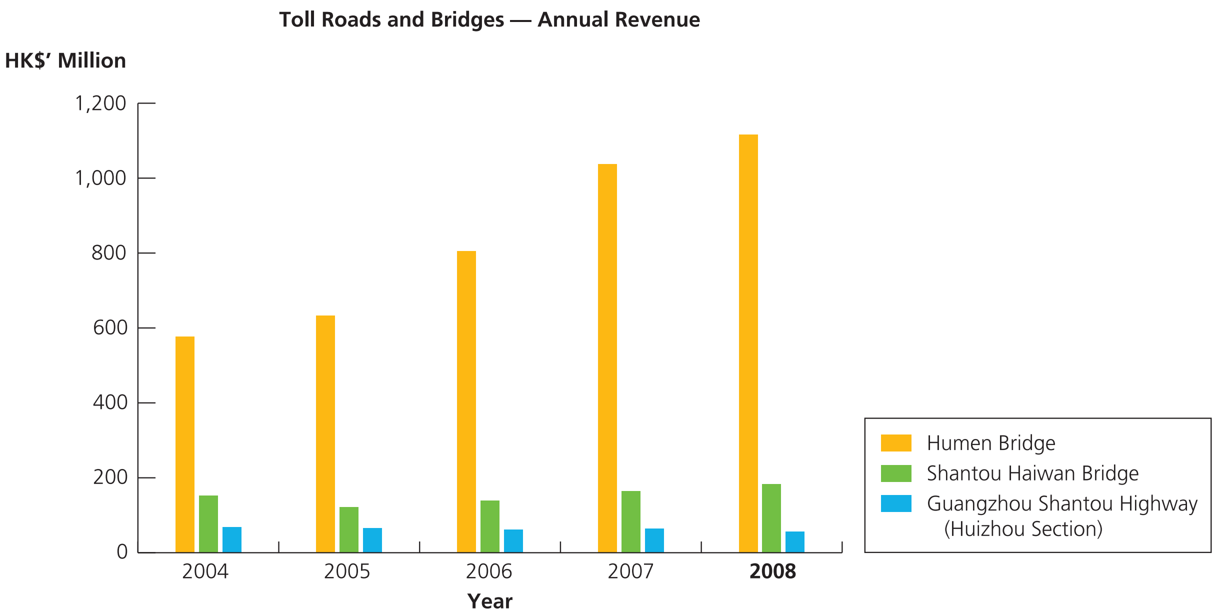


Electric Power Generation — Annual Revenue



Toll Roads and Bridges





Hotel Operations and Management

"Credibility and Integrity are the Foundation of Profitability.

They are the Building Blocks of an International First Class Corporation."

Results

I am pleased to be able to report that our results for 2008 has continued to maintain a steady growth. For the year 2008, the Group's audited consolidated net profit attributable to shareholders amounted to HK$1,877 million (2007: HK$1,697 million), representing a growth of 10.6% as compared with 2007. The basic earnings per share were 30.54 HK cents (2007: 27.83 HK cents), representing a growth of 9.7% as compared with 2007.

Dividend

The Board recommends a final dividend of 6.0 HK cents per share for 2008. Aggregating such dividend with the interim dividend of 4.0 HK cents per share which has already been paid in 2008, the total dividend for the entire year will be 10.0 HK cents per share (2007: 11.0 HK cents). The said final dividend for 2008, if approved by the shareholders of the Company at the forthcoming annual general meeting, will be paid on 29 June 2009.

Review

As a result of the financial tsunami that swept across the world in 2008, the Group encountered unprecedented difficulties and challenges in its business operations. Even at the beginning of the year, the Group took timely measures to adjust its strategies in light of the changing market conditions. The Group operated its businesses in a prudent and cost effective manner. The Group also stepped up its efforts to innovate its management and increase efficiency. Taking precaution against the looming dangers, the Group improved and regularized the management of its investment projects so as to minimize investment risks on the one hand and to seek out opportunity amidst the crisis on the other. It is all the measures that have together secured the steady and healthy development of the Group as a whole in the year past.

Through the effort of management, the Group's net profit attributable to shareholders has increased by 10.6% to HK$1,877 million, and our profit before tax increased by 1.4% (i.e. HK$33 million) to HK$2,437 million. The growth was mainly contributed by our water distribution and department stores businesses, their respective contribution being HK$739 million and HK$66 million. This is however offset in part by the impairment losses of HK$683 million in the electric power generation business and the property investment and development business. The growth in water distribution business was mainly due to the water tariff subsidy of HK$730 million. The decline of profits in the property investment and development business was due to the revaluation deficit in Teem Plaza property in Guangzhou amounting to HK$379 million whereas there was a gain in valuation for HK$718 million in 2007.

Prospects

The goal of the Group for 2009 is to convert all the external pressures on our business operations brought about by the severe macroeconomic conditions into the force and energy that will drive the Group to improve and strengthen itself and to further increase its competitiveness in the market. Notwithstanding the unfavourable external environment, the Group will seek to transform the challenges it faces into opportunities and thereby to maintain its steady and healthy growth.

It may not be realistic to expect the macroeconomic conditions to improve much in the short run. However, the businesses of the Group are likely to remain stable. This together with the substantial cash in hand and the low debt level put the Group in a good position to take advantage of the growth and development opportunities that may arise as a result of current crisis. The Group will therefore step up its business development efforts, with particular emphasis on utilities, infrastructure and shopping malls. 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, as well as possible new investments in highway and shopping mall projects so as to create even higher values for shareholders.

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, 15 April 2009

Financial Overview

The consolidated revenue of the Group for 2008 was HK$7,591 million (2007: HK$6,689 million), an increase of 13.5% as compared with year 2007. The growth was mainly contributed by the property investment and development business and the department store business, but partially offset by the decrease in the power generation business.

The consolidated net profit attributable to shareholders of the Group for 2008 amounted to HK$1,877 million (2007: HK$1,697 million), an increase of HK$180 million or 10.6%. The increase was mainly contributed by the water distribution business benefiting from a subsidy of approximately HK$730 million and the department store business, but partially offset by the property investment and development business and the power generation business. Although the property investment and development business achieved a good growth in revenue, losses on revaluation of investment properties of HK$494 million has decreased the profit significantly.

A decrease in the fair value of investment properties for HK$494 million (2007: increase in value for HK$781 million) and an impairment of items of property, plant and equipment and intangible assets for HK$89 million (2007: HK$394 million) were recorded in the consolidated income statement for the year. Mainly because of the lower interest rate, the finance cost decreased by 22.5% to HK$380 million.

Under the new PRC Corporation Income Tax Law that came into effect as from 1 January 2008, the preferential tax rates enjoyed by certain of our subsidiaries will be gradually phased out over a five year period from 2008 to 2012. The effective tax rate for the year under review has increased to 18.2% (2007: 16.9%). Tax has likewise increased by HK$36 million to HK$442 million.

The basic earnings per share were 30.54 HK cents (2007: 27.83 HK cents), representing an increase of 9.7% as compared with 2007.

Business Overview

A summary of the performance of the Group's major businesses during 2008 is as follows:

Water Distribution

Profit contribution from the Dongshen Water Supply Project remained significant to the Group. The Company's interest in the holding company of the Dongshen Water Supply Project has increased by 0.28% to 88.45% during the year. The holding company in turn has a 99% interest in the Dongshen Water Supply Project.

The designed 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 2.019 billion cubic meters (2007: 2.089 billion cubic meters), an decrease of 3.4%, generating revenue amounted to HK$3,443,842,000 (2007: HK$3,364,767,000), an increase of 2.4%.

According to the Hong Kong Water Supply Agreement for 2006 to 2008 as concluded between the Government of Hong Kong and the Guangdong Provincial Government (the "GPG") in 2006, the total annual revenue for water sales to Hong Kong is fixed at HK$2,494.8 million. The Hong Kong Water Supply Agreement for 2009 to 2011 was signed between the Government of Hong Kong and the GPG during the year. Under the new Hong Kong Water Supply Agreement, the annual revenue for the three years 2009, 2010 and 2011 are to be HK$2,959 million, HK$3,146 million and HK$3,344 million, respectively.

The water sales volume to the Shenzhen area increased by 1.6% to 958 million cubic meters during the year (2007: 943 million cubic meters). The water sales revenue to the Shenzhen area in 2008 increased by 11.9% to HK$817,717,000 (2007: HK$730,842,000).

Affected by the economic slowdown, some factories in Dongguan were closed down or moved to other areas. The water sales volume to the Dongguan area decreased by 5.3% to 408 million cubic meters during the year (2007: 431 million cubic meters). The water sales revenue to the Dongguan area in 2008 decreased by 5.6% to HK$131,325,000 (2007: HK$139,127,000).

During the year, the GPG finalized the details of subsidy arrangements in respect of the relevant Hong Kong water supply agreements between Hong Kong Government and the GPG for the period from 2005 to 2008. The total subsidy amounted to RMB652 million (approximately HK$730 million) and the first instalment in the sum of RMB391 million was received during the year. The balance of RMB261 million will be paid by instalments over three year starting from 2009. Mainly because of the subsidy, the profit before tax of the water distribution business increased by HK$834 million to HK$2,130 million (2007: HK$1,296 million), an increase of 64.4%.

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 Shaoguan PPD). Shaoguan PPD had 1 power generation unit with installed capacity of 200 MW. The sales of electricity for the year amounted to 1,130 million kwh (2007: 1,356 million kwh), a decrease of 16.7%. Sales revenue for the year amounted to HK$563,935,000 (2007: HK$582,574,000), a decrease of 3.2%. The decrease in revenue was mainly due to the deceases in the electricity sales but compensated in part by a 6.4% increase in average electricity tariff. The decrease in electricity sales was mainly because of the fact that some operation of the power plant was suspended in February, March and April for repair and maintenance. Because of the significant increase in coal price, the profit margin decreased from 22.5% as in 2007 to a negative margin of 5.8% during the year.

Given the eventual closure of Shaoguan PPD already planned for, it would not be justified to incur the substantial capital expenditure to meet the new PRC environmental protection requirements. Shaoguan PPD's power generation unit was closed down at the end of 2008. Accordingly, Shaoguan PPD has made impairment provision of HK$33,150,000 for the power unit for the year 2008. The loss before tax for the year was HK$132,297,000 (2007: HK$152,078,000).

GPIL entered into a 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 in January 2008. We have, however, adjusted the strategy of our electric power generation business in light of the changes in the conditions of the respective power plant projects. It is considered that the interest of the Company would be better served if we are to focus and concentrate our resources instead on the other power plant projects that are likely to yield better returns and more quickly.

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 generation units with a total installed capacity of 110 MW. Sales of electricity for the year amounted to 603 million kwh (2007: 749 million kwh), a decrease of 19.5%. Sales revenue for the year amounted to HK$321,573,000 (2007: HK$350,239,000), a decrease of 8.2%. The decrease in revenue was mainly due to the suspension of operation of one of the power generation units from June to November for repair and maintenance but compensated in part by a 4.5% increase in average electricity tariff. Because of the significant increase in coal price, the profit margin decreased from 21.8% as in 2007 to 3% in 2008. The loss before tax for the year was HK$52,532,000 (2007: profit before tax HK$22,131,000).

On 28 March 2007, a letter of intent was executed between the Company and 中山興中集團有限公司 (Zhongshan Xingzhong Group Co., Ltd) regarding a proposed project for the construction of two 300 MW power generation units utilising the existing land and auxiliary facilities of Zhongshan Power Plant. In order to facilitate the obtaining of all requisite PRC government approvals for this proposed project, the existing power generation units may be closed down in the future. Accordingly, Zhongshan Power Plant has made an impairment provision of HK$56,193,000 (2007: HK$62,892,000) in relation to the power generation units during the year.

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 a 25% interest in this project). Yue Jiang Power Plant has 2 power generation units with a total installed capacity of 600 MW. Sales of electricity for the year amounted to 2,836 million kwh (2007: 3,447 million kwh), a decrease of 17.7%. Due to the increase in both the tariff and the RMB exchange rate, sales revenue for the year reached HK$1,421,968,000 (2007: HK$1,405,802,000), an increase of 1.1%. Because of high coal prices, Yue Jiang Power Plant suffered a loss before tax of HK$253,437,000 for the year whereas a profit before tax of HK$25,072,000 was recorded in 2007. Considering the profitability of Yue Jiang Power Plant, impairment provision of HK$99,928,000 in relation to the power units has been made during the year.

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). Revenue for the year amounted to HK$1,091,654,000 (2007: HK$1,163,691,000), a decrease of 6.2%. Because of high coal prices, Meixian Power Plant suffered a loss before tax of HK$135,498,000 for the year whereas a profit before tax of HK$147,815,000 was recorded in 2007. During the year, GD Power Investment received dividend income of HK$20,540,000 (2007: HK$30,645,000) from this investment.

Toll Roads and Bridges

"1 Road and 2 Bridges"

In 2008, 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$299,830,000 in aggregate (2007: HK$99,774,000).

(i) Humen Bridge

During the year the JCE acquired further interest in this project and increased the profit sharing ratio from 19.5% to 23%. During the year, average daily traffic flow of this bridge increased by 1.5% to 62,825 vehicle trips (2007: 61,868 vehicle trips). Revenue for the year reached HK$1,116,205,000 (2007: HK$1,038,315,000), an increase of 7.5%. This was mainly because of the fact that the repair and maintenance works at the Guangshen Highway diverted traffic to the Humen Bridge. With the repayment of shareholders' loans, finance costs decreased by HK$61,591,000 as compared with that of 2007. Accordingly, the profit before tax for the year increased by 8.0% to HK$805,747,000 (2007: HK$745,956,000).

(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 8.1% to 13,258 vehicle trips (2007: 12,260 vehicle trips). Together with the increase in the RMB exchange rate, revenue increased by 11.0% to HK$183,095,000 (2007: HK$164,908,000). The profit before tax for the year increased by 12.2% to HK$137,835,000 (2007: HK$122,815,000).

(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 decreased by 13.4% to 15,105 vehicle trips (2007: 17,446 vehicle trips). Revenue for the year was HK$57,088,000 (2007: HK$64,696,000), a decrease of 11.8%. Profit before tax for the year was HK$5,661,000 (2007: HK$13,301,000) mainly due to the decrease in traffic flow.

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 20.2% to 3,572 vehicle trips (2007: 4,478 vehicle trips). Revenue decreased by 9.1% to HK$14,268,000 (2007: HK$15,688,000). The loss before tax for the year decreased by 99.9% to HK$4,000 (2007: HK$81,162,000) as there was no need for provision for diminution in value for the year (2007: HK$76,723,000).

Panyu Bridge

The Group's effective interest in this project is 20%. During the year, the average daily traffic flow of this bridge increased by 3.2% to 54,690 vehicle trips (2007: 53,010 vehicle trips). As a result, revenue for the year has increased by 15.3% to HK$145,364,000 (2007: HK$126,046,000). The profit before tax for the year was HK$71,550,000 (2007: HK$52,826,000), an increase of 35.4%.

Property Investment

Mainland China

Teem Plaza

At the balance sheet date, the Group holds an effective equity interest of 75.89% 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 Teem Plaza, comprising rental income from the shopping mall (including rentals from the department store run by the Group) and East Tower, during the year reached HK$744,468,000 (2007: HK$481,498,000), an increase of 55%. The profit before tax for the year decreased by 76% to HK$252,476,000 (2007: HK$1,061,264,000), which included the effect of the losses of HK$379,109,000 (2007: gain in revaluation HK$717,983,000) arising from the revaluation of Teem Plaza.

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 meters and 96,500 square meters respectively. The mall continued to enjoy high average occupancy rate of approximately 99% during the year (2007: 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 (粵海天河城大厦), is a 45-storey A-class office tower, with a total gross floor area and lettable area of approximately 102,000 square meters and 90,000 square meters respectively. Colliers International has been engaged to market and promote the leasing of all the East Tower units. With an occupancy rate of 80% as at the balance sheet date, the total rental income for the year was HK$106,027,000 (2007: HK$15,605,000), an increase of 579%. The profit before tax for the year increased to HK$98,878,000 (2007: HK$2,477,000).

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 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$289 million has been invested as at the balance sheet date.

Hong Kong

Guangdong Investment Tower

Average occupancy rate of the Guangdong Investment Tower for 2008 reached 100% (2007: 98.37%), 1.63% higher than 2007. The total rental income for the year was HK$33,068,000 (2007: HK$30,384,000), an increase of 8.8% which was a result of the increased occupancy rate and average rental.

Department Stores

At the balance sheet date, the Group holds an effective equity interest of 85.05% 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 37,500 square meters (2007: 38,800 square meters) 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$2,110,778,000 (2007: HK$1,573,377,000), an increase of 34.2%. The profit before tax for the year was HK$204,135,000 (2007: HK$134,846,000), an increase of 51.4%

廣東吉之島天貿百貨有限公司 (Guangdong Jusco Teem Stores Co., Ltd.), an 26.56% 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 2008, our hotel management team managed a total of 34 hotels (2007: 48 hotels), of which 2 were in Hong Kong, 1 in Macau and 31 in Mainland China. Of these 34 hotels, 9 were owned by the Group (2 in Hong Kong, 4 in Shenzhen, 1 in Zhuhai, 1 in Zhengzhou and 1 in Changzhou).

During the year under review, the average room rate of the 5 existing star-rated hotels of the Group in respectively Hong Kong, Shenzhen, Zhuhai, and Changzhou was HK$515, an increase of 6.2% as compared with that of 2007. For the hotel management business as a whole together with all the 5 hotels as aforesaid, the revenue for the year increased by 10.4% to HK$342,974,000 (2007: HK$310,608,000), and their profit before tax increased by 49.2% to HK$106,122,000 (2007: HK$71,115,000).

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$28,378,000 (2007: HK$24,774,000). But they suffered a loss before tax amounted to HK$3,619,000 (2007: profit before tax HK$3,016,000) because of the fierce competition from budget hotels that are targetting essentially the same clientele.

Liquidity, Gearing and Financial Resources

As at 31 December 2008, the cash and bank balances of the Group increased by HK$1,413 million to HK$4,100 million (2007: HK$2,687 million), of which 15% in Hong Kong dollars, 77% in Renminbi and 8% in US dollars.

During the year under review, the level of the Group's financial borrowing decreased by HK$1,441 million. The decrease was mainly due to the repayment of certain interest-bearing debts during the year.

As at 31 December 2008, the Group's financial borrowings amounted to HK$10,049 million (2007: HK$11,490 million), of which 9% in Renminbi and 91% in Hong Kong dollars, including the non-interest-bearing receipt in advance of HK$1,655 million. Of the Group's total financial borrowings, HK$429 million was repayable within one year while the remaining balance of HK$7,916 million and HK$1,704 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 2008 (2007: RMB50 million).

The gearing (i.e. net financial indebtedness/net asset value (excluded minority interests)) of the Group as at 31 December 2008 was 0.41 times (2007: 0.66 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 earnings before interest, tax, depreciation and amortisation ("EBITDA")/finance cost is 9.73 times (2007: 7.97 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 2008, 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 (2007: Nil).

Capital Expenditure

The Group's capital expenditure in 2008 amounted to HK$158 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 2008, total Renminbi borrowings amounted to HK$930 million (2007: HK$1,168 million).

As at 31 December 2008, the Group's total floating rate borrowings amounted to HK$8,394 million (2007: HK$9,717 million). For the purpose of interest rate risk management, the Group entered certain fixed interest rate swap agreements, amounting to HK$5,400 million (2007: HK$7,400 million), with an average remaining life of 4 years.

Employee and Remuneration Policy

As at 31 December 2008, the Group had a total of 4,267 employees, of which 837 were at the managerial level. Among the employees, 4,036 were employed by subsidiaries in Mainland China and 231 were employed by the head office and subsidiaries in Hong Kong. Total remuneration paid for the year was approximately HK$381,223,000 (2007: HK$305,645,000).

In 2008, even when facing the challenges of the severe external economic crisis, the Group has continued its efforts to build up and strengthen its human resources, to fully mobilize the productivity and creativity of its staff and to enhance the competitiveness of the enterprise as a whole. At the same time, the Group further improves the standard of its management and through them enhances both our efficiency and competitive advantages. All these measures have made it possible for the Group to successfully maintain its stable and healthy growth despite all the unfavourable external conditions in the year past. To ensure the Group will be able to sustain its growth and development in the long term, the Group has implemented in earnest the "Credibility, Integrity and Profitability" core value of our corporate culture and created an environment with its emphasis on fair competition and an impartial reward and discipline system that is most conducive to the grooming and nurturing of our human resources. 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 measure that links bonuses with the operating results of their companies and further taking into account of the individual performance of the staff concerned. During the year, the Group has adopted a new share option scheme to better 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 ongoing basis its various functional skilled-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 58, was appointed an Executive Director and the Managing Director of the Company on 14 March 2000. When he was appointed Chairman of the Company on 16 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 has acted as the Chairman of both Guangdong Holdings and GDH since April 2005. Mr. Li subsequently ceased to act as General Manager of both Guangdong Holdings and GDH in February 2009. Guangdong Holdings and GDH are the ultimate holding company and the immediate holding company of the Company, respectively. Mr. Li was appointed Chairman of Kingway Brewery Holdings Limited ("Kingway Brewery"), a subsidiary of GDH, in July 2008. 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; and thereafter, he acted as Deputy Secretary-General of the Guangdong Provincial Government from 1994 to 2000, 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 50, was appointed an Executive Director of the Company on 28 October 2002 and was subsequently appointed the 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. He was appointed a Director of GDH in December 2008.

TSANG Hon Nam, aged 39, was appointed an Executive Director and Chief Financial Officer of the Company on 17 April 2008. Mr. Tsang graduated from The Chinese University of Hong Kong and holds a Bachelor's degree in Science. He is an Associate of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Association of Chartered Certified Accountants. Mr. Tsang acted as an Executive Director and the Chief Financial Officer of Guangnan (Holdings) Limited ("Guangnan"), a subsidiary of GDH, during the period from February 2004 to April 2008. Before joining Guangnan, he had acted as Deputy General Manager of the Finance Department of GDH. He joined GDE in 1998.

CHENG Mo Chi, Moses, GBS, OBE, JP, aged 59, was appointed an Independent Non-Executive Director of the Company on 25 November 1999. Mr. Cheng was re-designated as a Non-Executive Director of the Company on 13 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 a number of listed companies in Hong Kong and overseas as independent non-executive director of ARA Asset Management Limited, China COSCO Holdings Company Limited, China Mobile Limited, China Resources Enterprise, Limited, Hong Kong Exchanges and Clearing Limited, Liu Chong Hing Investment Limited and Towngas China Company Limited and also as a non-executive director of City Telecom (H.K.) Limited, Galaxy Entertainment Group Limited, Kader Holdings Company Limited and Tian An China Investments Company Limited.

Mr. Cheng was previously an independent non-executive director of Beijing Capital International Airport Company Limited (1999 to 2008) and Shui On Construction and Materials Limited (2004 to 2008) respectively.

HUANG Xiaofeng, aged 50, was appointed a Non-Executive Director of the Company on 26 June 2008. Mr. Huang graduated from South China Normal University and holds a Bachelor's degree in History. From 1987 to 1999, he worked with the General Office of the Communist Party of China ("CPC") Guangdong Committee in a number of positions. Between 1999 and 2003, Mr. Huang was the Deputy Director General of the General Office of the CPC Guangzhou Committee and thereafter the Deputy Secretary General of the CPC Guangzhou Committee. Between 2003 and 2008, Mr. Huang was the Deputy Director General of the General Office of the Guangdong Provincial Government and then the Deputy Secretary General of the Guangdong Provincial Government. Mr. Huang was appointed as a Director and a Deputy General Manager of Guangdong Holdings in April 2008 and was subsequently appointed as an Executive Director and a Deputy General Manager of GDH. Mr. Huang was appointed General Manager of both Guangdong Holdings and GDH in February 2009. Mr. Huang was appointed a Non-Executive Director of Kingway Brewery in October 2008. Mr. Huang was also appointed a Non-Executive Director of Guangnan in October 2008.

ZHAI Zhiming, aged 60, was appointed a Non-Executive Director of the Company on 21 April 2006. He had been a Non-Executive Director of the Company for the period from 18 January 2002 to 16 September 2004. Mr. Zhai graduated from Xian Foreign Language University in 1976. After his graduation, Mr. Zhai worked with the Tianjin Bureau for Economic Relations with Foreign Countries until 1992 in a number of positions including Section Chief and Vice Director. 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 an Executive 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.

XU Wenfang, aged 54, was appointed a Non-Executive Director of the Company on 3 March 2005. She is a Senior Economist and holds a Master's degree in Business Administration. Ms. Xu was appointed a Director of GDH in December 2008 and was subsequently appointed a Deputy General Manager of Guangdong Holdings and an Executive Director of GDH in February 2009. She is also 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.

LI Wai Keung, aged 52, was appointed a Non-Executive Director of the Company on 30 May 2000. He acted as an Executive Director and the Chief Financial Officer of the Company from 19 July 2006 to 16 April 2008 and was thereafter re-designated as a Non-Executive Director of the Company. Mr. Li graduated from the Hong Kong Polytechnic and holds a Master's degree in Business Administration from the University of East Asia. He is a Fellow of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Li had worked for Sino Land Company Limited and Henderson Land Development Company Limited. Mr. Li has been an Executive Director and the Financial Controller of GDH since August 2000. He is also an Independent Non-Executive Director of Shenzhen Investment Limited and Hans Energy Company Limited. He was appointed a Director of Shenzhen City Airport (Group) Company Limited in September 2008. He was also appointed a member on the Council of the Hong Kong Chinese Orchestra Limited in October 2008.

SUN Yingming, aged 56, was appointed a Non-Executive Director of the Company on 15 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 52, was appointed a Non-Executive Director of the Company on 18 January 2002. Ms. Wang graduated from Guangzhou Non-Ferrous Metals Industry School and 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 Guangdong Provincial Government 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.

CHAN Cho Chak, John, GBS, JP, aged 66, was appointed an Independent Non-Executive Director of the Company on 25 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 to 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 70, was appointed an Independent Non-Executive Director of the Company on 25 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 Saint 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 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, Affin Holdings Berhad 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 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 55, was appointed an Independent Non-Executive Director of the Company on 3 January 2000.

Mr. Fung is Senior Counsel of the Hong Kong Bar. 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 as Chairman of the Broadcasting Authority (2002–2008) and on respectively the Basic Law Consultative Committee (1985–1990) and the Central Policy Unit of the Hong Kong Government (1993–1994) and was Distinguished Fulbright Scholar for Hong Kong in the Year 2000. Additionally, Mr. Fung currently serves as 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.

SENIOR MANAGEMENT

The senior management of the Group comprises the Executive Directors above, namely, Mr. Li Wenyue, Mr. Zhang Hui and Mr. Tsang Hon Nam.

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 2008.

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, Shenzhen and Dongguan, hotel ownership and operations, hotel management and department stores operation. Details of the principal activities of the principal subsidiaries, jointly-controlled entities and 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 2008 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 52 to 153.

An interim dividend of 4.0 HK cents (2007: 5.0 HK cents) per share was paid on 17 October 2008. The Directors recommend the payment of a final dividend of 6.0 HK cents (2007: 6.0 HK cents) per share for the year ended 31 December 2008. 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, 3 June 2009, is expected to be paid on Monday, 29 June 2009 to shareholders whose names appear on the register of members of the Company on Wednesday, 3 June 2009.

The register of members of the Company will be closed from Monday, 1 June 2009 to Wednesday, 3 June 2009 (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, 29 May 2009.

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				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**7,590,712**	6,689,132	6,056,331	5,249,158	5,109,127
PROFIT FROM OPERATING ACTIVITIES AFTER FINANCE COSTS	**2,296,953**	2,356,403	1,926,710	1,623,732	1,159,547
Share of profits of jointly-controlled entities	**134,084**	3,030	66,858	66,023	33,886
Share of profits less losses of associates	**6,188**	44,589	54,173	38,420	44,660
PROFIT BEFORE TAX	**2,437,225**	2,404,022	2,047,741	1,728,175	1,238,093
TAX	**(442,422)**	(406,120)	(268,724)	(218,163)	(159,235)
PROFIT BEFORE MINORITY INTERESTS	**1,994,803**	1,997,902	1,779,017	1,510,012	1,078,858
Minority interests	**(118,121)**	(300,868)	(272,114)	(206,517)	(183,082)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**1,876,682**	1,697,034	1,506,903	1,303,495	895,776

Summary of Financial Information (continued)

Assets, liabilities and minority interests

	As at 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
PROPERTY, PLANT AND EQUIPMENT	**2,271,930**	2,301,211	3,274,206	3,182,046	3,258,256
PROPERTIES UNDER DEVELOPMENT	**—**	—	—	15,342	4,631
INVESTMENT PROPERTIES	**4,032,698**	4,277,760	2,385,480	2,302,685	2,085,292
PREPAID LAND LEASE PAYMENTS	**838,589**	849,808	860,146	919,420	932,389
GOODWILL AND NEGATIVE GOODWILL, NET	**262,370**	256,119	216,127	139,346	(176,070)
INTERESTS IN JOINTLY-CONTROLLED ENTITIES	**994,757**	852,142	915,052	917,756	1,014,362
INTERESTS IN ASSOCIATES	**274,118**	354,424	484,156	483,415	452,679
CONTRACTUAL JOINT VENTURE	**—**	—	—	46,569	—
INTANGIBLE ASSETS	**17,454,798**	18,300,506	19,240,767	19,828,681	20,629,155
OTHER ASSETS	**5,099,070**	3,279,035	2,775,324	2,704,296	2,149,863
DEFERRED TAX ASSETS	**16,361**	21,618	22,604	9,563	4,562
TOTAL ASSETS	**31,244,691**	30,492,623	30,173,862	30,549,119	30,355,119
BONDS	**—**	—	—	—	(442,167)
OTHER LOANS AND LIABILITIES	**(13,045,789)**	(13,703,079)	(15,120,078)	(16,875,912)	(17,465,929)
DEFERRED TAX LIABILITIES	**(717,271)**	(758,058)	(641,794)	(592,217)	(527,113)
TOTAL LIABILITIES	**(13,763,060)**	(14,461,137)	(15,761,872)	(17,468,129)	(18,435,209)
MINORITY INTERESTS	**(2,086,109)**	(2,006,491)	(1,789,403)	(1,602,701)	(1,875,228)
NET ASSETS	**17,481,631**	16,031,486	14,411,990	13,080,990	11,919,910

Note: Due to the adoption of HK(IFRIC)-Int 12 during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Certain amounts for the prior years have been reclassified and restated to conform with the current year's presentation and accounting treatment accordingly.

Property, Plant and Equipment, Investment Properties and Intangible Assets

Details of movements in property, plant and equipment, investment properties and intangible assets of the Company and the Group during the year are set out in notes 14, 15 and 21 to the financial statements, respectively.

Share Capital

Details of movements in the Company's share capital during the year are set out in note 32 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 32 and 34 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2008, 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 34 to the financial statements amounted to HK$175,411,000.

Charitable Contributions

The Group made HK$3,589,000 charitable contributions during the year (2007: Nil).

Arrangement to Acquire Shares or Debentures

Save as disclosed in the sections headed "Directors' Interests and Short Positions in Securities" and "Share Options of the Company" of this report, and in note 33 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:

Executive Directors
LI Wenyue *(Chairman)*
ZHANG Hui *(Managing Director)*
TSANG Hon Nam *(Chief Financial Officer)* (appointed on 17 April 2008)

Non-Executive Directors
CHENG Mo Chi, Moses
HUANG Xiaofeng (appointed on 26 June 2008)
JIANG Jin (resigned on 12 September 2008)
ZHAI Zhiming
XU Wenfang
LI Wai Keung
SUN Yingming
WANG Xiaofeng

Independent Non-Executive Directors
CHAN Cho Chak, John
LI Kwok Po, David
FUNG Daniel Richard

Messrs. Li Wenyue, Cheng Mo Chi, Moses, Zhai Zhiming and Sun Yingming will retire by rotation in accordance with Articles 77 to 79 of the Articles of Association of the Company at the forthcoming annual general meeting. Being eligible, Messrs. Li Wenyue, Cheng Mo Chi, Moses, Zhai Zhiming and Sun Yingming will offer themselves for re-election.

Messrs. Cheng Mo Chi, Moses, Zhai Zhiming and Sun Yingming, 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 2012 and (ii) 30 June 2012, 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 23 to 26 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 2008.

Directors' Interests in Competing Business

As at 31 December 2008, Messrs. Li Wenyue, Huang Xiaofeng 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. Zhang Hui, Li Wai Keung and Sun Yingming and Ms. Xu Wenfang, 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, public utility and infrastructure investments. 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 exists 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 2008, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive are taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), were as follows:

Interests and short positions in the Company

(i) Interests in ordinary shares

Name of Director	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held (Note)
Li Wenyue	Personal	25,820,000	Long position	0.419%
Cheng Mo Chi, Moses	Personal	600,000	Long position	0.010%
Chan Cho Chak, John	Personal	5,450,000	Long position	0.088%
Li Kwok Po, David	Personal	4,000,000	Long position	0.065%

Note: The approximate percentage of interests held was calculated on the basis of 6,161,388,071 ordinary shares of the Company in issue as at 31 December 2008.

Directors' Interests and Short Positions in Securities (continued)

Interests and short positions in the Company (continued)

(ii) Interests in options relating to ordinary shares (Long positions)

(1) Share Option Scheme adopted on 31 May 2002 ("2002 Scheme")

Name of Director	Number of share options: At 1 January 2008	Number of share options: Granted during the year	Number of share options: Exercised during the year	Number of share options: Cancelled/ Lapsed during the year	Number of share options: At 31 December 2008	Date of grant of share options* (dd.mm.yyyy)	Total consideration paid for share options HK$	Exercise period of share options (both days inclusive)# (dd.mm.yyyy)	Exercise price of share options** HK$/ per share	Price of ordinary share*** at date immediately before date of grant HK$/ per share	Price of ordinary share*** immediately before the exercise date HK$/ per share
Li Wenyue	6,000,000	—	(6,000,000)	—	—	04.12.2002	1	05.03.2003 to 04.03.2008	0.96	0.89	3.74
	3,000,000	—	(3,000,000)	—	—	07.05.2003	1	08.08.2003 to 07.08.2008	1.22	1.22	
	3,000,000	—	—	—	3,000,000	06.02.2004	1	07.05.2004 to 06.05.2009	1.59	1.57	—
	2,500,000	—	—	—	2,500,000	24.05.2004	1	25.08.2004 to 24.08.2009	1.25	1.25	—
Zhang Hui	5,000,000	—	(5,000,000)	—	—	04.12.2002	1	05.03.2003 to 04.03.2008	0.96	0.89	3.71
	3,000,000	—	(3,000,000)	—	—	07.05.2003	1	08.08.2003 to 07.08.2008	1.22	1.22	
	3,000,000	—	—	—	3,000,000	06.02.2004	1	07.05.2004 to 06.05.2009	1.59	1.57	—
	2,500,000	—	—	—	2,500,000	24.05.2004	1	25.08.2004 to 24.08.2009	1.25	1.25	—
Cheng Mo Chi, Moses	1,000,000	—	(1,000,000)	—	—	04.12.2002	1	05.03.2003 to 04.03.2008	0.96	0.89	3.64
	1,000,000	—	—	(1,000,000)	—	07.05.2003	1	08.08.2003 to 07.08.2008	1.22	1.22	—
	1,000,000	—	—	—	1,000,000	06.02.2004	1	07.05.2004 to 06.05.2009	1.59	1.57	—
	450,000	—	—	—	450,000	24.05.2004	1	25.08.2004 to 24.08.2009	1.25	1.25	—
Wang Xiaofeng	1,000,000	—	(1,000,000)	—	—	04.12.2002	1	05.03.2003 to 04.03.2008	0.96	0.89	3.59
	1,000,000	—	(1,000,000)	—	—	07.05.2003	1	08.08.2003 to 07.08.2008	1.22	1.22	
	1,000,000	—	—	—	1,000,000	06.02.2004	1	07.05.2004 to 06.05.2009	1.59	1.57	—
	650,000	—	—	—	650,000	24.05.2004	1	25.08.2004 to 24.08.2009	1.25	1.25	—
Chan Cho Chak, John	1,000,000	—	(1,000,000)	—	—	06.02.2004	1	07.05.2004 to 06.05.2009	1.59	1.57	3.56
	450,000	—	(450,000)	—	—	24.05.2004	1	25.08.2004 to 24.08.2009	1.25	1.25	
Li Kwok Po, David	1,000,000	—	—	—	1,000,000	06.02.2004	1	07.05.2004 to 06.05.2009	1.59	1.57	—
	450,000	—	—	—	450,000	24.05.2004	1	25.08.2004 to 24.08.2009	1.25	1.25	—
Fung Daniel R.	1,000,000	—	(1,000,000)	—	—	06.02.2004	1	07.05.2004 to 06.05.2009	1.59	1.57	3.27

Directors' Interests and Short Positions in Securities (continued)

Interests and short positions in the Company (continued)

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

(2) Share Option Scheme adopted on 24 October 2008 ("2008 Scheme")

	Number of share options									
Name of Director	At 1 January 2008	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	At 31 December 2008	Date of grant of share options* (dd.mm.yyyy)	Total consideration paid for share options HK$	Exercise price of share options** HK$/ per share	Price of ordinary share*** at date immediately before date of grant HK$/ per share	Price of ordinary share*** immediately before the exercise date HK$/ per share
Li Wenyue	—	9,500,000	—	—	9,500,000	24.10.2008	—	1.88	1.73	—
Zhang Hui	—	4,400,000	—	—	4,400,000	24.10.2008	—	1.88	1.73	—
Tsang Hon Nam	—	2,950,000	—	—	2,950,000	24.10.2008	—	1.88	1.73	—
Cheng Mo Chi, Moses	—	2,500,000	—	—	2,500,000	24.10.2008	—	1.88	1.73	—
Huang Xiaofeng	—	5,700,000	—	—	5,700,000	24.10.2008	—	1.88	1.73	—
Zhai Zhiming	—	3,900,000	—	—	3,900,000	24.10.2008	—	1.88	1.73	—
Xu Wenfang	—	3,300,000	—	—	3,300,000	24.10.2008	—	1.88	1.73	—
Li Wai Keung	—	3,350,000	—	—	3,350,000	24.10.2008	—	1.88	1.73	—
Sun Yingming	—	3,500,000	—	—	3,500,000	24.10.2008	—	1.88	1.73	—
Wang Xiaofeng	—	3,200,000	—	—	3,200,000	24.10.2008	—	1.88	1.73	—

Notes to 2008 Scheme

(a) The option period of all the share options under the 2008 Scheme granted during the year is 5.5 years from the date of grant.

(b) Any share option under the 2008 Scheme granted during the year is only exercisable during the option period after it has become vested.

(c) The normal vesting scale of the share options under the 2008 Scheme granted during the year is as follows:

Date	**Percentage Vesting**
The date two years after the date of grant	40%
The date three years after the date of grant	30%
The date four years after the date of grant	10%
The date five years after the date of grant	20%

(d) The vesting of the share options under the 2008 Scheme granted during the year is further subject to the achievement of such performance targets as determined by the board of Directors upon grant and stated in the offer of grant.

Directors' Interests and Short Positions in Securities (continued)

Interests and short positions in the Company (continued)

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

(2) Share Option Scheme adopted on 24 October 2008 ("2008 Scheme") (continued)

(e) The leaver vesting scale of the share options under 2008 Scheme granted during the year that would apply in the event of the grantee ceasing to be an eligible person under certain special circumstances (less the percentage which has already vested under the normal vesting scale or lapsed) is as follows:

Date on which event occurs	Percentage Vesting
On or before the date which is four months after the date of grant	0%
After the date which is four months after but on or before the date which is one year after the date of grant	10%
On or after the date which is one year after but before the date which is two years after the date of grant	25%
On or after the date which is two years after but before the date which is three years after the date of grant	40%
On or after the date which is three years after but before the date which is four years after the date of grant	70%
On or after the date which is four years after the date of grant	80% The remaining 20% also vests upon passing the overall performance appraisal for those four years

(3) Notes to the reconciliation of share options outstanding during the year

* The vesting period of the share options granted under 2002 Scheme is from the date of the grant until the commencement of the exercise period. Details of the vesting periods of the share options granted under 2008 Scheme are set out in the "Share Option Scheme adopted on 24 October 2008" section of this report.

** 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 share disclosed as "At date immediately before date of grant" of the share options is the closing price on the Hong Kong Stock Exchange on the business day prior to which the options were granted.

The price of the Company's ordinary share disclosed as "Immediately before the exercise date" of the share options is the weighted average of the Hong Kong Stock Exchange closing prices immediately before the dates on which the options were exercised by each of the directors or all other participants as an aggregate whole.

\# Under 2002 Scheme, the option period of any share option is the period expiring at 5:01 p.m. on the business day immediately preceding the fifth anniversary of the commencement date of the option period for the share option in question.

Directors' Interests and Short Positions in Securities (continued)

Interests and short positions in Kingway Brewery Holdings Limited

Interests in ordinary shares

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

Note: The approximate percentage of interests held was calculated on the basis of 1,711,536,850 ordinary shares of Kingway Brewery Holdings Limited in issue as at 31 December 2008.

Interests and short positions in Guangnan (Holdings) Limited

(i) Interests in ordinary shares

Name of Director	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held (Note)
Li Wenyue	Personal	800,000	Long position	0.088%
Tsang Hon Nam	Personal	300,000	Long position	0.033%
Wang Xiaofeng	Personal	120,000	Long position	0.013%
Li Kwok Po, David	Personal	15,000	Long position	0.002%

Note: The approximate percentage of interests held was calculated on the basis of 905,603,285 ordinary shares of Guangnan (Holdings) Limited in issue as at 31 December 2008.

(ii) Interests in options relating to ordinary shares (Long positions)

	Number of share options										
Name of Director	At 1 January 2008	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	At 31 December 2008	Date of grant of share options* (dd.mm.yyyy)	Total consideration paid for share options HK$	Exercise period of share options (both days inclusive)** (dd.mm.yyyy)	Exercise price of share options HK$/ per share	Price of ordinary share*** at date immediately before date of grant HK$/ per share	Price of ordinary share*** immediately before the exercise date HK$/ per share
Tsang Hon Nam	300,000	—	—	—	300,000	09.03.2006	1	09.06.2006 to 08.03.2016	1.66	1.61	—

Notes to share option scheme of Guangnan (Holdings) Limited adopted on 11 June 2004:

* The vesting period of the share options is from the date of grant until the commencement of the exercisable period or the grantee's completion of half year's full time service with the company or its subsidiaries, whichever is the later.

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

*** The price of the company's ordinary shares disclosed as "immediately before date of grant" of the share options is the closing price on the Hong Kong Stock Exchange on the business day prior to which the options were granted.

The price of the company's ordinary shares disclosed as "immediately before the exercise date" of the share options is the weighted average of the Hong Kong Stock Exchange closing prices immediately before the dates on which the options were exercised by each of the directors or all other participants as an aggregate whole.

Directors' Interests and Short Positions in Securities (continued)

Interests and short positions in Guangdong Tannery Limited

Interests in ordinary shares

Name of Director	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held (Note)
Li Wenyue	Personal	194,000	Long position	0.036%
Wang Xiaofeng	Personal	20,000	Long position	0.004%

Note: The approximate percentage of interests held was calculated on the basis of 537,504,000 ordinary shares of Guangdong Tannery Limited in issue as at 31 December 2008.

Save as disclosed above, as at 31 December 2008, 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 2008, so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interest or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are recorded in the register kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests 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	61.12%
GDH Limited (Note 3)	Beneficial owner/Interest of controlled corporation	3,765,770,781	Long position	61.12%
Guangdong Trust Ltd.	Beneficial owner/Interest of controlled corporation	576,404,918	Long position	9.36%

Substantial Shareholders' Interests (continued)

Notes:

1. The approximate percentage of interests held was calculated on the basis of 6,161,388,071 ordinary shares of the Company in issue as at 31 December 2008.

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

Save as disclosed above, as at 31 December 2008, so far as is known to any Director or chief executive of the Company, no other person (other than a Director or chief executive of the Company) had, or were deemed or taken to have interest or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are recorded in the register kept by the Company pursuant to Section 336 of the SFO.

Share Options of the Company

As at 31 December 2008, save as disclosed in the section of "Directors' Interests and Short Positions in Securities", certain eligible persons (other than Directors of the Company) had the following interests in rights to subscribe for shares of the Company granted under the 2002 Scheme and 2008 Scheme. Each option gives the holder the right to subscribe for one share of par value HK$0.5 each of the Company. Further details are set out in note 33 to the financial statements.

(1) 2002 Scheme

	Number of share options										
Category of participants	At 1 January 2008	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	At 31 December 2008	Date of grant of share options* (dd.mm.yyyy)	Total consideration paid for share options HK$	Exercise period of share options (both days inclusive)# (dd.mm.yyyy)	Exercise price of share options** HK$/ per share	Price of ordinary share*** at date immediately before date of grant HK$/ per share	Price of ordinary share*** immediately before the exercise date HK$/ per share
Employees	42,000,000	—	(14,000,000)	(28,000,000)	—	04.12.2002	1	05.03.2003 to 04.03.2008	0.96	0.89	3.52
	19,500,000	—	(9,000,000)	(10,500,000)	—	07.05.2003	1	08.08.2003 to 07.08.2008	1.22	1.22	
	28,000,000	—	—	(12,500,000)	15,500,000	06.02.2004	1	07.05.2004 to 06.05.2009	1.59	1.57	—
	38,500,000	—	—	(17,500,000)	21,000,000	24.05.2004	1	25.08.2004 to 24.08.2009	1.25	1.25	—
	1,500,000	—	—	—	1,500,000	10.03.2006	1	11.06.2006 to 10.06.2011	3.405	3.30	—
Other participants	6,000,000	—	(6,000,000)	—	—	04.12.2002	1	05.03.2003 to 04.03.2008	0.96	0.89	
	3,000,000	—	(3,000,000)	—	—	07.05.2003	1	08.08.2003 to 07.08.2008	1.22	1.22	3.59
	3,000,000	—	(3,000,000)	—	—	06.02.2004	1	07.05.2004 to 06.05.2009	1.59	1.57	

Share Options of the Company (continued)

(2) 2008 Scheme

Category of participants	Number of share options: At 1 January 2008	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	At 31 December 2008	Date of grant of share options* (dd.mm.yyyy)	Total consideration paid for share options HK$	Exercise price of share options** HK$/per share	Price of ordinary share*** at date immediately before date of grant HK$/per share	Price of ordinary shares*** immediately before the exercise date HK$/per share
Employees	—	18,500,000	—	—	18,500,000	24.10.2008	—	1.88	1.73	—

Additional information regarding the above share options granted during the year is set out in the "Notes to 2008 Scheme" in the "Directors' Interests and Short Positions in Securities" section of this report on pages 34 to 35.

(3) Details regarding the reconciliation of share options outstanding during the year are set out in the "Notes to the reconciliation of share options outstanding during the year" in the "Director's Interests and Short Positions in Securities" section of this report on page 35.

(4) In assessing the theoretical aggregate value of the share options granted during the year, the binomial lattice model has been used.

Share options granted to all directors and eligible persons during the year ended 31 December 2008:

Date of Grant : 24.10.2008
Exercise Price : HK$1.88 per share

Vesting period (dd.mm.yyyy)	Exercise period (dd.mm.yyyy)	Number of options at 24/10/2008 ('000)	Options value at 24/10/2008 (Note (b)) (HK$'000)
24.10.2008–23.10.2010	24.10.2010–23.04.2014	24,320	10,297
24.10.2008–23.10.2011	24.10.2011–23.04.2014	18,240	8,358
24.10.2008–23.10.2012	24.10.2012–23.04.2014	6,080	2,921
24.10.2008–23.10.2013	24.10.2013–23.04.2014	12,160	6,015

Notes:

(a) The closing price of the ordinary shares of the Company immediately before the date on which the options were granted was HK$1.73.

Share Options of the Company (continued)

(4) (continued)

Notes: (continued)

(b) According to the binomial lattice model△, the theoretical aggregate value of the options was estimated at HK$27,591,000 as at 24 October 2008 (when the options were granted) with the following variables and assumptions:

Risk Free Rate :	2.06%, being the approximate yield of the 5-year exchange fund note traded on 24.10.2008
Expected Volatility :	41.05%, being the annualised volatility of the closing price of the ordinary shares of the Company from 28.04.2003 to 24.10.2008
Expected Dividend Yield :	5.85%, being the approximate yield of the shares of the Company over the period from 01.01.2007 to 31.12.2007
Expected Life of the Options :	5.5 years
Assumptions :	There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the ordinary shares of the Company over the period from 28.04.2003 to 24.10.2008

(c) Information regarding the treatment of options that do not ultimately vest and cancelled prior to expiry is set out in note 2.4 to the financial statements.

△ The binomial lattice model (the "Model") is one of the option pricing models to estimate the fair value of an option. It should be noted that the Model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the fair value of the share options derived from the Model should not be interpreted as the market or actual value of option.

Significant Contracts with Controlling Shareholder

The Company and the controlling shareholders of the Company had not entered into any contracts of significance during the year.

Connected Transactions

Details of the continuing connected transactions are disclosed in note 39 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 during the year pursuant to the Company's 2002 Scheme:

	No. of new ordinary shares issued	Exercise price per ordinary share HK$	Cash consideration HK$
	33,000,000	0.96	31,680,000
	19,000,000	1.22	23,180,000
	450,000	1.25	562,500
	5,000,000	1.59	7,950,000
Total	57,450,000		63,372,500

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 51% of the total sales for the year and sales to the Group's largest customer included therein amounted to 33%. Purchases from the Group's five largest suppliers accounted for 29% of the total purchases for the year and purchases from the Group's largest supplier included therein amounted to 12%.

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.

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, 15 April 2009

The Group recognizes the importance of achieving 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. Tsang Hon Nam, seven Non-Executive Directors, being Mr. Cheng Mo Chi, Moses, Mr. Huang Xiaofeng, Mr. Zhai Zhiming, Ms. Xu Wenfang, Mr. Li Wai Keung, Mr. Sun Yingming and Ms. Wang Xiaofeng, 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.

Board of Directors (continued)

During the financial year ended 31 December 2008, the Board had five scheduled meetings. The attendances of the Directors at the Board meetings are as follows:

Directors	Number of Attendance
Li Wenyue	5/5
Zhang Hui	4/5
Tsang Hon Nam (appointed on 17 April 2008)	4/4
Cheng Mo Chi, Moses	5/5
Huang Xiaofeng (appointed on 26 June 2008)	3/4
Jiang Jin (resigned on 12 September 2008)	2/2
Zhai Zhiming	3/5
Xu Wenfang	3/5
Li Wai Keung	5/5
Sun Yingming	4/5
Wang Xiaofeng	5/5
Chan Cho Chak, John	5/5
Li Kwok Po, David	4/5
Fung Daniel R.	4/5

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 R., 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 23 to 26 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 authorized by the Board to investigate any 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 Remuneration Committee.

2. The Remuneration 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 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.

Remuneration of Directors (continued)

Duties (continued)

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 of 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 R. and one Non-Executive Director, being Mr. Cheng Mo Chi, Moses. Mr. Chan Cho Chak, John is the Chairman of the Remuneration Committee.

During the financial year ended 31 December 2008, the Remuneration Committee held three meetings to approve the annual remuneration package, including subsequent review, and performance bonuses for the Executive Directors of the Company that came up for determination. Remuneration for Non-Executive Directors and members of the Audit Committee that need to be determined by the Board were also reviewed by the Remuneration Committee before the matter together with the Remuneration Committee's recommendations were presented to the Board for decision. The attendance of each member of the Remuneration Committee is set out as follows:

Directors	**Number of Attendance**
Chan Cho Chak, John	3/3
Li Kwok Po, David	2/3
Fung Daniel R.	3/3
Cheng Mo Chi, Moses	3/3

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.

During the financial year ended 31 December 2008, the nominations of respectively Messrs. Tsang Hon Nam and Huang Xiaofeng as Directors of the Company were fully deliberated by the Board at two of its meetings. The attendance of each of the Directors at the said Board meetings is as follows:

Directors	**Number of Attendance**
Li Wenyue	2/2
Zhang Hui	2/2
Tsang Hon Nam (appointed on 17 April 2008)	1/1
Cheng Mo Chi, Moses	2/2
Huang Xiaofeng (appointed on 26 June 2008)	1/1
Jiang Jin (resigned on 12 September 2008)	2/2
Zhai Zhiming	2/2
Xu Wenfang	1/2
Li Wai Keung	2/2
Sun Yingming	2/2
Wang Xiaofeng	2/2
Chan Cho Chak, John	2/2
Li Kwok Po, David	1/2
Fung Daniel R.	2/2

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	6,620
Review of interim results	1,150
Taxation services	209
Due diligent services	1,410
	9,389

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 any 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 Audit 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 Audit 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 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 and senior management and the Audit Committee must meet, at least once a year, with the Company's auditor; 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 staff responsible for the accounting and financial reporting function, compliance officer or auditor.

6. To review the Company's financial controls, internal control 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 including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their programmes and budget.

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 control 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 report to the Board on the matters set out in the code provisions in relation to Audit Committee under Appendix 14 of the Listing Rules.

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

The Audit Committee comprises three Independent Non-Executive Directors, being Dr. Li Kwok Po, David, Mr. Chan Cho Chak, John and Mr. Fung Daniel R. and one Non-Executive Director, being Mr. Cheng Mo Chi, Moses. Dr. Li Kwok Po, David is the Chairman of the Audit Committee.

Audit Committee (continued)

Duties (continued)

During the financial year ended 31 December 2008, the Audit Committee held two meetings. It reviewed the 2007 annual results and the 2008 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 work and approving their fees. In addition to its two 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	2/2
Chan Cho Chak, John	2/2
Fung Daniel R.	1/2
Cheng Mo Chi, Moses	2/2

Accountability and Audit

The Board is responsible for overseeing the preparation of financial statements for the year ended 31 December 2008, 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 2008, 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 judgements 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.

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 theses 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.

In order to assist the Board in its review, external professional consultants were engaged to carry out an evaluation of the various aspects of the internal control and risk management regime of the Group.

Following its review, the Board is satisfied that the internal control system in place covering all material controls including financial, operational and compliance controls and risk management functions for the year under review and up to the date of issuance of the annual report and accounts is reasonably effective and adequate.

By order of the Board
LI Wenyue
Chairman

Hong Kong, 15 April 2009

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永

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 ("the Company") set out on pages 52 to 153, which comprise the consolidated and Company balance sheets as at 31 December 2008, 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 polices 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 2008 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
15 April 2009

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
REVENUE	5	**7,590,712**	6,689,132
Cost of sales		**(4,377,406)**	(3,615,460)
Gross profit		**3,213,306**	3,073,672
Other income and gain	5	**852,436**	123,570
Selling and distribution costs		**(99,698)**	(72,631)
Administrative expenses		**(574,863)**	(498,097)
Other operating income/(expenses), net		**(713,950)**	220,658
Finance costs	7	**(380,278)**	(490,769)
Share of profits of jointly-controlled entities		**134,084**	3,030
Share of profits less losses of associates		**6,188**	44,589
PROFIT BEFORE TAX	6	**2,437,225**	2,404,022
Tax	10	**(442,422)**	(406,120)
PROFIT FOR THE YEAR		**1,994,803**	1,997,902
Attributable to:			
Equity holders of the Company	11	**1,876,682**	1,697,034
Minority interests		**118,121**	300,868
		1,994,803	1,997,902
DIVIDENDS	12		
Interim		**246,456**	305,197
Proposed final		**369,683**	366,236
		616,139	671,433
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic		**30.54 HK cents**	27.83 HK cents
Diluted		**30.12 HK cents**	27.23 HK cents

CONSOLIDATED BALANCE SHEET

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	**2,271,930**	2,301,211
Investment properties	15	**4,032,698**	4,277,760
Prepaid land lease payments	16	**838,589**	849,808
Goodwill	17	**262,370**	256,119
Interests in jointly-controlled entities	19	**994,757**	852,142
Interests in associates	20	**274,118**	354,424
Intangible assets	21	**17,454,798**	18,300,506
Deferred tax assets	31	**16,361**	21,618
Other long term assets		**6**	18
Total non-current assets		**26,145,627**	27,213,606
CURRENT ASSETS			
Available-for-sale investments	22	**56,718**	42,045
Tax recoverable		**174**	33,437
Inventories	23	**50,190**	57,819
Receivables, prepayments and deposits	24	**722,807**	379,843
Derivative financial instruments	27	**169,367**	78,516
Restricted cash and bank balances	25	**2,831**	2,824
Cash and cash equivalents	25	**4,096,977**	2,684,533
Total current assets		**5,099,064**	3,279,017
CURRENT LIABILITIES			
Payables, accruals and other liabilities	26	**(1,512,351)**	(1,416,203)
Tax payable		**(268,282)**	(81,249)
Derivative financial instruments	27	**(708,242)**	(277,647)
Due to minority shareholders of subsidiaries	28	**(346,825)**	(415,349)
Interest-bearing bank borrowings	29	**(310,409)**	(292,343)
Other liabilities — current portion	30	**(118,200)**	(118,200)
Total current liabilities		**(3,264,309)**	(2,600,991)
NET CURRENT ASSETS		**1,834,755**	678,026
TOTAL ASSETS LESS CURRENT LIABILITIES — page 54		**27,980,382**	27,891,632

CONSOLIDATED BALANCE SHEET (CONTINUED)

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES — page 53		**27,980,382**	27,891,632
NON-CURRENT LIABILITIES			
Due to minority shareholders of subsidiaries	*28*	**(18,007)**	(22,594)
Interest-bearing bank borrowings	*29*	**(8,083,401)**	(9,424,694)
Other liabilities	*30*	**(1,680,072)**	(1,654,800)
Deferred tax liabilities	*31*	**(717,271)**	(758,058)
Total non-current liabilities		**(10,498,751)**	(11,860,146)
Net assets		**17,481,631**	16,031,486
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	*32*	**3,080,694**	3,051,969
Reserves	*34(a)*	**11,945,145**	10,606,790
Proposed final dividend	*12*	**369,683**	366,236
		15,395,522	14,024,995
Minority interests		**2,086,109**	2,006,491
Total equity		**17,481,631**	16,031,486

Li Wenyue
Director

Tsang Hon Nam
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	Notes	Attributable to equity holders of the Company													
		Issued capital	Ordinary share premium account	Share option reserve	Asset revaluation reserve	Capital reserve	Hedging reserve	Expansion fund reserve	Exchange fluctuation reserve	Special reserve	Retained profits	Proposed final dividend	Total	Minority interests	Total equity
	Notes	HK$'000	HK$'000	HK$'000 *(note 34(a)(ii))*	HK$'000	HK$'000	HK$'000 *(note 34(a)(iii))*	HK$'000 *(note 34(a)(iv))*	HK$'000	HK$'000 *(note 34(a)(i))*	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2007		3,045,474	2,321,184	4,626	—	1,430,009	(96,168)	373,018	165,913	—	5,073,934	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	*32(i)*	6,495	15,219	—	—	—	—	—	—	—	—	—	21,714	—	21,714
Acquisition of minority interests		—	—	—	—	—	—	—	—	—	—	—	—	(43,157)	(43,157)
Equity-settled share option arrangements	*32(ii)*	—	3,141	(3,141)	—	—	—	—	—	—	—	—	—	—	—
Transfer from retained profits		—	—	—	—	—	—	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		—	—	—	—	—	—	—	—	—	(125)	(304,597)	(304,722)	—	(304,722)
Transfer from retained profits during the year in accordance with the Undertaking	*34(a)(i)*	—	—	—	—	—	—	—	—	134,583	(134,583)	—	—	—	—
Transfer to retained profits upon issue of new Ordinary Shares	*34(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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Year ended 31 December 2008

		Attributable to equity holders of the Company													
	Notes	Issued capital HK$'000	Ordinary share premium account* HK$'000	Share option reserve* HK$'000 *(note 34(a)(ii))*	Asset revaluation reserve* HK$'000	Capital reserve* HK$'000	Hedging reserve* HK$'000 *(note 34(a)(iii))*	Expansion fund reserve* HK$'000 *(note 34(a)(iv))*	Exchange fluctuation reserve* HK$'000	Special reserve* HK$'000 *(note 34(a)(i))*	Retained profits* HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2008		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
Fair value gains on property, plant and equipment	*14*	—	—	—	4,541	—	—	—	—	—	—	—	4,541	1,437	5,978
Net losses on cash flow hedges	*27*	—	—	—	—	—	(286,447)	—	—	—	—	—	(286,447)	(37,126)	(323,573)
Exchange realignment		—	—	—	—	—	—	—	325,307	—	—	—	325,307	74,301	399,608
Total income and expense recognised directly in equity		—	—	—	4,541	—	(286,447)	—	325,307	—	—	—	43,401	38,612	82,013
Profit for the year		—	—	—	—	—	—	—	—	—	1,876,682	—	1,876,682	118,121	1,994,803
Total income and expense for the year		—	—	—	4,541	—	(286,447)	—	325,307	—	1,876,682	—	1,920,083	156,733	2,076,816
Share options exercised, net of share issue expenses	*32(i)*	28,725	34,613	—	—	—	—	—	—	—	—	—	63,338	—	63,338
Acquisition of minority interests		—	—	—	—	—	—	—	—	—	—	—	—	(23,517)	(23,517)
Equity-settled share option arrangements	*33*	—	—	1,865	—	—	—	—	—	—	—	—	1,865	—	1,865
Transfer from retained profits		—	—	—	—	—	—	149,751	—	—	(149,751)	—	—	—	—
Dividends paid to minority interests		—	—	—	—	—	—	—	—	—	—	—	—	(53,598)	(53,598)
Interim 2008 dividend paid	*12*	—	—	—	—	—	—	—	—	—	(246,456)	—	(246,456)	—	(246,456)
Proposed final 2008 dividend	*12*	—	—	—	—	—	—	—	—	—	(369,683)	369,683	—	—	—
Final 2007 dividend paid	*12*	—	—	—	—	—	—	—	—	—	(2,067)	(366,236)	(368,303)	—	(368,303)
Transfer to retained profits upon issue of new Ordinary Shares	*34(a)(i)*	—	—	—	—	—	—	—	—	(63,372)	63,372	—	—	—	—
At 31 December 2008		3,080,694	2,374,157	3,350	12,947	1,430,009	(437,264)	651,610	831,042	10,677	7,068,617	369,683	15,395,522	2,086,109	17,481,631

* *These reserve accounts comprise the consolidated reserves of HK$11,945,145,000 (2007: HK$10,606,790,000) in the consolidated balance sheet.*

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**2,437,225**	2,404,022
Adjustments for:			
Finance costs	7	**380,278**	490,769
Share of profits of jointly-controlled entities		**(134,084)**	(3,030)
Share of profits less losses of associates		**(6,188)**	(44,589)
Bank interest income	5	**(88,552)**	(72,439)
Dividend income from available-for-sale investments	5	**—**	(1,684)
Changes in fair value of derivative financial instruments not qualified as hedges, net	5	**25,310**	(7,135)
Excess over the cost of business combinations	5	**(492)**	(2,141)
Depreciation	6	**190,191**	215,150
Recognition of prepaid land lease payments	6	**16,485**	16,241
Amortisation of intangible assets	6	**816,722**	832,054
Changes in fair value of investment properties	6	**494,199**	(780,921)
Impairment of items of property, plant and equipment	6	**33,150**	254,667
Impairment of intangible assets	6	**56,193**	139,615
Impairment of interests in an associate	6	**99,928**	151,813
Write-off of construction in progress	6	**937**	5,115
Loss on disposal of items of property, plant and equipment, net	6	**12,557**	3,945
Loss on disposal of items of intangible assets, net	6	**—**	1,094
Write-back of provision for inventories, net	6	**(42)**	(197)
Impairment of trade receivables	6	**1,231**	8
Equity-settled share option expense	6	**1,865**	—
Amortisation of other long term assets		**12**	43
Operating profit before working capital changes — page 58		**4,336,925**	3,602,400

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
Operating profit before working capital changes — page 57		**4,336,925**	3,602,400
Increase in amounts due from jointly-controlled entities		**—**	(744)
Decrease/(increase) in amounts due from associates		**(7,280)**	3,238
Increase in an amount due from the immediate holding company		**(1,385)**	(286)
Decrease in an amount due from the ultimate holding company		**—**	51
Decrease/(increase) in amounts due from fellow subsidiaries		**458**	(301)
Decrease in inventories		**7,671**	1,694
Increase in receivables, prepayments and deposits		**(491,385)**	(147,176)
Increase in payables, accruals and other liabilities		**249,722**	227,853
Increase/(decrease) in an amount due to the immediate holding company		**(4,546)**	5,522
Increase/(decrease) in amounts due to fellow subsidiaries		**(5,556)**	7,110
Increase/(decrease) in amounts due to minority shareholders of subsidiaries		**(73,111)**	31,632
Cash generated from operations		**4,011,513**	3,730,993
Interest received		**88,552**	72,439
Dividends from jointly-controlled entities		**49,352**	119,340
Dividends from associates		**9,745**	47,928
Hong Kong profits tax paid		**(8,913)**	(5,452)
Mainland China tax paid		**(290,797)**	(299,241)
Net cash inflow from operating activities		**3,859,452**	3,666,007
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received from available-for-sale investments		**—**	1,684
Purchases of available-for-sale investments		**(746,978)**	(213,541)
Proceeds from disposal of available-for-sale investments		**735,053**	213,647
Purchases of items of property, plant and equipment		**(138,243)**	(151,573)
Purchases of items of intangible assets		**(20,148)**	(9,539)
Additions to investment properties		**(414)**	—
Acquisition of minority interests		**(29,276)**	(81,008)
Proceeds from disposal of items of property, plant and equipment		**3,355**	3,527
Proceeds from disposal of items of intangible assets		**2,972**	623
Increase in restricted cash and bank balances		**(7)**	(68)
Increase in non-pledged time deposits with original maturity of more than three months when acquired		**(8,587)**	(447,279)
Net cash outflow from investing activities — page 59		**(202,273)**	(683,527)

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
Net cash outflow from investing activities — page 58		**(202,273)**	(683,527)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of new ordinary shares	32	**63,338**	21,714
New bank loans		**—**	1,168,037
Repayment of bank loans		**(1,395,409)**	(3,123,971)
Other finance costs	7	**(1,670)**	(1,967)
Interest paid	7	**(270,964)**	(477,280)
Finance charges paid on cash flow hedges, net	7	**(107,644)**	(11,522)
Finance charges paid on derivative financial instruments not qualified as hedges		**(9,139)**	(26,355)
Dividends paid to minority shareholders		**(53,598)**	(56,615)
Dividends paid to shareholders		**(614,759)**	(609,919)
Net cash outflow from financing activities		**(2,389,845)**	(3,117,878)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,267,334**	(135,398)
Cash and cash equivalents at beginning of year		**1,812,337**	1,826,742
Effect of foreign exchange rate changes, net		**136,523**	120,993
CASH AND CASH EQUIVALENTS AT END OF YEAR		**3,216,194**	1,812,337
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	35(b)		
Cash and bank balances		**1,269,832**	813,411
Non-pledged time deposits with original maturity of less than three months when acquired		**1,946,362**	998,926
		3,216,194	1,812,337

BALANCE SHEET

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**424**	578
Interests in subsidiaries	*18*	**6,971,211**	7,373,756
Interests in associates	*20*	**—**	—
Total non-current assets		**6,971,635**	7,374,334
CURRENT ASSETS			
Receivables, prepayments and deposits	*24*	**38,388**	6,131
Cash and cash equivalents	*25*	**732,665**	487,367
Total current assets		**771,053**	493,498
CURRENT LIABILITIES			
Payables, accruals and other liabilities	*26*	**(9,818)**	(14,403)
NET CURRENT ASSETS		**761,235**	479,095
Net assets		**7,732,870**	7,853,429
EQUITY			
Issued capital	*32*	**3,080,694**	3,051,969
Reserves	*34(b)*	**4,282,493**	4,435,224
Proposed final dividend	*12*	**369,683**	366,236
Total equity		**7,732,870**	7,853,429

Li Wenyue
Director

Tsang Hon Nam
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, 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), a company established in the mainland of the People's Republic of China (the "PRC" or "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 certain 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 2008. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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 interpretations and amendments to 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 interpretations and amendments has had no significant effect on these financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 Financial Instrument: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures — Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 — The Limited on a Defined Benefit Asset, Minimum Funding Requirements and their interaction

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures — Reclassification of Financial Assets

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing it in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards (continued)

(b) HK(IFRIC)-Int 11 HKFRS 2 — Group and Treasury Share Transactions

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 buys 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. The adoption of the interpretation has had no impact on the financial position or results of operations of the Group.

(c) HK(IFRIC)-Int 12 Service Concession Arrangements

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.

The Group is engaged in water distribution, electric power generation and toll road operations. Prior to the adoption of HK(IFRIC)-Int 12, the Group's infrastructure, including tunnels, dams, water reservoirs, power generators and a toll road (collectively referred to as the "Infrastructure") was recognised as property, plant and equipment and prepaid land lease payments. Except for the toll road which was depreciated on a unit-of-usage basis, all the Infrastructure was depreciated on a straight-line basis. Upon the adoption of HK(IFRIC)-Int 12, the Infrastructure under the service concession arrangements are reclassified as intangible assets and amortised over the useful economic life. HK(IFRIC)-Int 12 has been applied by the Group retrospectively and comparative amounts have been restated. The effect of the above changes is summarised below:

Effect of new policy (Increase/(decrease))

Consolidated balance sheet at 1 January

	2008 **HK$'000**	2007 HK$'000
Assets		
Property, plant and equipment	**(3,964,293)**	(4,270,581)
Prepaid land lease payments	**(3,174,412)**	(3,315,098)
Intangible assets	**7,138,705**	7,585,679
	—	—

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards (continued)

(c) HK(IFRIC)-Int 12 Service Concession Arrangements (continued)

Effect of new policy (Increase/(decrease)) (continued)

Consolidated balance sheet at 31 December

	2008 HK$'000	2007 HK$'000
Assets		
Property, plant and equipment	(3,752,802)	(3,964,293)
Prepaid land lease payments	(3,033,482)	(3,174,412)
Intangible assets	6,786,284	7,138,705
	—	—

Consolidated equity at 31 December 2008 and 2007

The adoption of this interpretation has had no impact on the equity as at 31 December 2008 and 2007.

Consolidated income statement for the years ended 31 December 2008 and 2007

The adoption of the Interpretation has had no impact on the consolidated income statement and the basic/diluted earnings per share for the years ended 31 December 2008 and 2007.

(d) HK(IFRIC)-Int 14 HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

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 1 and HKAS 27 Amendments	Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [1]
HKFRS 1 (Revised)	First-time Adoption of HKFRSs [2]
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment — Vesting Conditions and Cancellations [1]
HKFRS 3 (Revised)	Business Combinations [2]
HKFRS 7 Amendments	Amendment to HKFRS 7 Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments [1]
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]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation [1]
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement — Eligible Hedged Items [2]
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurement [5]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[3]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate [1]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation [4]
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners[2]
HK(IFRIC)-Int 18	Transfers of Assets from Customers [2]

Apart from the above, the HKICPA has issued Improvements to HKFRSs* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods on or after 1 July 2009, the amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

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 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
5 Effective for annual periods ending on or after 30 June 2009

* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

2.3 Impact of Issued but not yet Effective Hong Kong Financial Reporting Standards (continued)

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 7 Amendments, HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKAS 27 Amendments, HKFRS 3 (Revised), HKAS 27 (Revised) and HK(IFRIC)-Int 13 may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's 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 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 the 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;

2.4 Summary of Significant Accounting Policies (continued)

Joint ventures (continued)

(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.

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. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests 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 interests 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.

2.4 Summary of Significant Accounting Policies (continued)

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.

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.

2.4 Summary of Significant Accounting Policies (continued)

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.

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 an 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 an 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);

2.4 Summary of Significant Accounting Policies (continued)

Related parties (continued)

(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.

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 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%
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 least 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.

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation (continued)

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.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Amortisation is calculated on the straight-line basis to write off the cost of each item of intangible asset other than for a toll road. Amortisation of the toll road is calculated to write off the carrying amount 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 useful economic life. The method is more commonly referred to as the "unit of usage" method. This amortisation method has been adopted to better reflect the consumption pattern of the expected economic benefits over the remaining concession period of the toll road. The amortisation period and the amortisation method for an intangible asset with finite useful life is reviewed at least at each balance sheet date.

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.

2.4 Summary of Significant Accounting Policies (continued)

Investment properties (continued)

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 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 or intangible assets.

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 derivative 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.

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

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 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.

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.

2.4 Summary of Significant Accounting Policies (continued)

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 an available-for-sale equity investment 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, derivative financial instruments, amounts due to minority shareholders of subsidiaries and interest-bearing bank 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.

2.4 Summary of Significant Accounting Policies (continued)

Derivative financial instruments and hedging (continued)

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.

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.

2.4 Summary of Significant Accounting Policies (continued)

Income tax (continued)

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.

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.

2.4 Summary of Significant Accounting Policies (continued)

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

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 dates 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.

2.4 Summary of Significant Accounting Policies (continued)

Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

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").

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 a binomial lattice 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.

2.4 Summary of Significant Accounting Policies (continued)

Employee benefits (continued)

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.

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 governments. 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 the 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;

2.4 Summary of Significant Accounting Policies (continued)

Revenue recognition (continued)

(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, based on an evaluation of the terms and conditions of the arrangements, 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.

3. Significant Accounting Judgements and Estimates (continued)

Judgements (continued)

(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.

(iv) *Classification between intangible assets and property, plant and equipment*

The Group determines whether an asset is classified as an intangible asset under HK(IFRIC)-Int 12, and has developed criteria in making that judgement. The operator shall recognise an intangible asset to the extent that it receives a right to charge users of the public service. Therefore, the Group has to exercise judgement in determining whether an asset (1) is used to provide the public service and classified as an intangible asset under HK(IFRIC)-Int 12; or (2) is held for use in the production or supply of goods or services, or for administrative purposes and classified as property, plant and equipment.

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.

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

(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.

(v) *Impairment of non-financial assets (other than goodwill)*

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 in 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 2008, the impairment losses recognised for available-for-sale assets was HK$72,134,000 (2007: HK$72,134,000). The carrying amount of available-for-sale assets was HK$56,718,000 (2007: HK$42,045,000). Further details are included in note 22 to the financial statements.

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

(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 2008 was HK$16 million (2007: HK$21 million). The amount of unrecognised tax losses at 31 December 2008 was HK$424 million (2007: HK$387 million). Further details are contained in note 31 to the financial statements.

(viii) *Deferred tax liabilities of withholding taxes*

Deferred tax liabilities are recognised in respect of the unremitted earnings of the PRC subsidiaries, associates and jointly-controlled entities generated subsequent to 1 January 2008, except to the extent that the parent, investor or venturer is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Significant management judgement is required to determine the amount of deferred tax liabilities that can be recognised, which is based upon the estimated timing of dividend distribution.

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;

4. Segment Information (continued)

(v) The hotel operations and management segment operates the Group's hotels in Hong Kong and Mainland China;

(vi) The department stores segment operates department stores in Mainland China; and

(vii) The "others" segment provides credit facilities in Hong Kong and engages in 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 the 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 2008 and 2007.

Group

	Property Investment and Development		Toll Roads and Bridges		Water Distribution	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to external customers	**722,856**	457,342	**14,268**	15,688	**3,443,842**	3,364,767
Intersegment sales	**91,614**	85,161	**—**	—	**—**	—
Other revenue from external sources *(note)*	**14,715**	7,263	**1,169**	1,370	**732,885**	3,070
Other revenue from intersegment *(note)*	**—**	—	**—**	—	**—**	—
Exchange gains/(losses), net	**738**	373	**950**	377	**(47,341)**	(72,112)
Total	**829,923**	550,139	**16,387**	17,435	**4,129,386**	3,295,725
Segment results	**135,723**	1,182,290	**912**	(80,078)	**2,511,234**	1,772,350
Interest income						
Other unallocated gains, net						
Finance costs						
Share of profits less losses of:						
Jointly-controlled entities	**—**	—	**134,084**	3,030	**—**	—
Associates	**—**	—	**11,688**	9,566	**—**	—
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	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to external customers	**927,616**	942,576	**371,352**	335,382	**2,110,778**	1,573,377
Intersegment sales	**—**	—	**—**	—	**—**	—
Other revenue from external sources *(note)*	**11,835**	10,646	**516**	843	**17,863**	10,799
Other revenue from intersegment *(note)*	**—**	—	**—**	—	**—**	—
Exchange gains/(losses), net	**1,648**	1,221	**4,069**	1,332	**2,882**	2,768
Total	**941,099**	954,443	**375,937**	337,557	**2,131,523**	1,586,944
Segment results	**(281,404)**	(288,542)	**97,976**	96,462	**170,555**	104,118
Interest income						
Other unallocated gains, net						
Finance costs						
Share of profits less losses of:						
Jointly-controlled entities	**—**	—	**—**	—	**—**	—
Associates	**(35,254)**	16,046	**—**	—	**29,754**	18,977
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	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to external customers	**—**	—	**—**	—	**7,590,712**	6,689,132
Intersegment sales	**—**	—	**(91,614)**	(85,161)	**—**	—
Other revenue from external sources *(note)*	**2,459**	1,333	**—**	—	**781,442**	35,324
Other revenue from intersegment *(note)*	**3,595**	2,805	**(3,595)**	(2,805)	**—**	—
Exchange gains/(losses), net	**2,760**	(204)	**—**	—	**(34,294)**	(66,245)
Total	**8,814**	3,934	**(95,209)**	(87,966)	**8,337,860**	6,658,211
Segment results	**(28,759)**	(27,674)	**—**	—	**2,606,237**	2,758,926
Interest income					**88,552**	72,439
Other unallocated gains, net					**(17,558)**	15,807
Finance costs					**(380,278)**	(490,769)
Share of profits less losses of:						
Jointly-controlled entities	**—**	—	**—**	—	**134,084**	3,030
Associates	**—**	—	**—**	—	**6,188**	44,589
Profit before tax					**2,437,225**	2,404,022
Tax					**(442,422)**	(406,120)
Profit for the year					**1,994,803**	1,997,902

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	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**4,978,552**	5,066,741	**113,357**	96,757	**18,595,321**	19,209,653
Interests in associates	**—**	—	**73,114**	61,426	**—**	—
Interests in jointly-controlled entities	**—**	—	**994,757**	852,142	**—**	—
Unallocated assets						
Total assets						
Segment liabilities	**560,543**	588,150	**71,064**	58,891	**1,872,197**	2,018,448
Unallocated liabilities						
Total liabilities						
Other segment information:						
Depreciation and amortisation	**28,971**	34,530	**4,233**	6,923	**894,237**	898,370
Changes in fair value of derivative financial instruments not qualified as hedges, net	**—**	—	**—**	—	**25,310**	(7,135)
Impairment losses recognised in the income statement	**—**	—	**—**	76,723	**—**	—
Other non-cash expenses/(income), net	**494,199**	(780,922)	**—**	—	**(28)**	(109)
Capital expenditure	**96,518**	212,914	**18,045**	79	**6,881**	23,254

4. Segment Information (continued)

(a) Business segments (continued)

Group

	Electric Power Generation		Hotel Operations and Management		Department Stores	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**168,383**	310,336	**1,656,576**	1,666,344	**69,301**	65,904
Interests in associates	**103,484**	223,385	**—**	—	**97,520**	69,613
Interests in jointly-controlled entities	**—**	—	**—**	—	**—**	—
Unallocated assets						
Total assets						
Segment liabilities	**408,533**	337,451	**56,192**	54,993	**678,983**	530,331
Unallocated liabilities						
Total liabilities						
Other segment information:						
Depreciation and amortisation	**20,588**	52,081	**70,412**	66,438	**4,724**	4,950
Changes in fair value of derivative financial instruments not qualified as hedges, net	**—**	—	**—**	—	**—**	—
Impairment losses recognised in the income statement	**189,271**	469,372	**1,231**	8	**—**	—
Other non-cash expenses/ (income), net	**—**	—	**(14)**	(87)	**—**	—
Capital expenditure	**9,803**	21,133	**20,602**	21,083	**6,866**	8,172

4. Segment Information (continued)

(a) Business segments (continued)

Group

	Others		Eliminations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**42,755**	5,417	**—**	—	**25,624,245**	26,421,152
Interests in associates	**—**	—	**—**	—	**274,118**	354,424
Interests in jointly-controlled entities	**—**	—	**—**	—	**994,757**	852,142
Unallocated assets					**4,351,571**	2,864,905
Total assets					**31,244,691**	30,492,623
Segment liabilities	**14,858**	20,443	**—**	—	**3,662,370**	3,608,707
Unallocated liabilities					**10,100,690**	10,852,430
Total liabilities					**13,763,060**	14,461,137
Other segment information:						
Depreciation and amortisation	**245**	196	**—**	—	**1,023,410**	1,063,488
Changes in fair value of derivative financial instruments not qualified as hedges, net	**—**	—	**—**	—	**25,310**	(7,135)
Impairment losses recognised in the income statement	**—**	—	**—**	—	**190,502**	546,103
Other non-cash expenses/(income), net	**—**	—	**—**	—	**494,157**	(781,118)
Capital expenditure	**90**	313	**—**	—	**158,805**	286,948

(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 2008 and 2007.

Group

	Hong Kong		Mainland China		Others		Eliminations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:										
Sales to external customers	**222,483**	205,871	**7,368,229**	6,483,261	**—**	—	**—**	—	**7,590,712**	6,689,132
Other segment information:										
Segment assets	**1,791,316**	1,874,928	**23,832,929**	24,546,224	**—**	—	**—**	—	**25,624,245**	26,421,152
Capital expenditure	**6,627**	13,070	**152,178**	273,878	**—**	—	**—**	—	**158,805**	286,948

5. Revenue, Other Income and Gain

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 gain is as follows:

	2008 **HK$'000**	2007 HK$'000
Revenue		
Sale of water and electricity	**4,371,458**	4,307,343
Sale of goods	**2,110,778**	1,573,377
Hotel and rental income	**1,094,208**	792,724
Toll revenue	**14,268**	15,688
	7,590,712	6,689,132
Other income		
Government subsidy*	**730,205**	—
Bank interest income	**88,552**	72,439
Excess over the cost of business combinations	**492**	2,141
Dividend income from available-for-sale investments	**—**	1,684
Others	**58,497**	40,171
	877,746	116,435
Other gain/(loss)		
Changes in fair value of derivative financial instruments not qualified as hedges, net *(note 27)*	**(25,310)**	7,135
	852,436	123,570

* *The amount represents government grants in relation to subsidy for revenue from the sale of water to the HKSAR from 2005 to 2008, which was determined and finalised during the year. There are no unfulfilled conditions or contingencies relating to these grants. During the year, HK$434,257,000 was received and the remaining outstanding balance of HK$295,948,000 has been included in other receivables as at 31 December 2008.*

6. Profit Before Tax

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

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
Cost of inventories sold*		2,585,295	1,874,053
Depreciation	14	190,191	215,150
Recognition of prepaid land lease payments		16,485	16,241
Amortisation of intangible assets*	21	816,722	832,054
Minimum lease payments under operating leases in respect of land and buildings		15,815	9,998
Auditors' remuneration		6,620	5,755
Employee benefits expense (excluding directors' remuneration — note 8)			
Wages and salaries		381,223	305,645
Equity-settled share option expense	33	1,865	—
Pension scheme contributions		34,568	26,159
Less: Forfeited contributions		(76)	(213)
Net pension scheme contributions#		34,492	25,946
		417,580	331,591
Gross rental income from investment properties		(618,788)	(326,833)
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		19,707	1,959
Net rental income from investment properties		(599,081)	(324,874)
Foreign exchange differences, net		34,294	66,245
Changes in fair value of investment properties^	15	494,199	(780,921)
Impairment of items of property, plant and equipment^	14	33,150	254,667
Impairment of intangible assets^	21	56,193	139,615
Impairment of interests in an associate^		99,928	151,813
Write-off of construction in progress^	14	937	5,115
Loss on disposal of items of property, plant and equipment, net^		12,557	3,945
Loss on disposal of items of intangible assets, net^		—	1,094
Write-back of provision for inventories, net^		(42)	(197)
Impairment of trade receivables^	24	1,231	8

6. Profit Before Tax (continued)

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

As at 31 December 2008 and 2007, the Group had no material forfeited pension scheme contributions available to reduce its contributions to the pension schemes in future years.

^ *Included in "Other operating income/(expenses), net" on the face of the consolidated income statement.*

7. Finance Costs

	Group	
	2008	2007
	HK$'000	HK$'000
Interest on bank borrowings wholly repayable [1]:		
Within five years	**250,372**	438,110
Over five years	**20,592**	39,170
Total interest expense on financial liabilities not at fair value through profit or loss	**270,964**	477,280
Finance charges on cash flow hedges, net *(note 27)*	**107,644**	11,522
Other finance costs	**1,670**	1,967
Total finance costs for the year	**380,278**	490,769

[1] *Net of government grants of HK$49,811,000 (2007: HK$52,595,000) in respect of subsidies for interest expense arising from bank loans borrowed by the Group for the purpose of the Dongshen Water Supply Phase IV Renovation Project (the "Phase IV Renovation Project"). 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	
	2008	2007
	HK$'000	HK$'000
Fees:		
Executive directors	**—**	—
Independent non-executive directors	**1,114**	902
Non-executive director	**342**	275
	1,456	1,177
Other emoluments:		
Salaries, allowances and benefits in kind	**1,342**	404
Performance related bonuses	**1,125**	880
Equity-settled share option expense	**1,298**	—
Pension scheme contributions	**324**	261
Less: Forfeited contributions	**—**	—
Net pension scheme contributions	**324**	261
Total directors' remuneration	**5,545**	2,722

(a) Independent non-executive directors

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

	2008	2007
	HK$'000	HK$'000
Chan Cho Chak, John	**375**	302
Li Kwok Po, David	**397**	325
Fung Daniel R.	**342**	275
	1,114	902

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

8. Directors' Remuneration (continued)

(b) Executive directors and other non-executive directors

	Fees HK$'000	Salaries, allowances, and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled share option expense HK$'000	Net pension scheme contributions HK$'000	Total remuneration HK$'000
2008						
Executive directors:						
Li Wenyue	—	—	—	291	—	291
Zhang Hui	—	444	1,005	135	286	1,870
Tsang Hon Nam	—	898	120	91	38	1,147
	—	1,342	1,125	517	324	3,308
Non-executive directors:						
Cheng Mo Chi, Moses	342	—	—	77	—	419
Huang Xiaofeng	—	—	—	175	—	175
Jiang Jin	—	—	—	—	—	—
Zhai Zhiming	—	—	—	120	—	120
Xu Wenfang	—	—	—	101	—	101
Li Wai Keung	—	—	—	103	—	103
Sun Yingming	—	—	—	107	—	107
Wang Xiaofeng	—	—	—	98	—	98
	342	1,342	1,125	1,298	324	4,431
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	—	—	—	—	—	—
Xu Wenfang	—	—	—	—	—	—
Wang Xiaofeng	—	—	—	—	—	—
	275	404	880	—	261	1,820

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

During the year, share options were granted to certain directors in respect of their services to the Company, further details of which are included in the disclosures in note 33 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 current year is included in the above directors' remuneration disclosures.

9. Five Highest Paid Employees

The five highest paid employees during the year included one (2007: one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the other four (2007: four) non-director, highest paid employees for the year are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**3,552**	3,312
Performance related bonuses	**2,832**	2,809
Equity-settled share option expense	**368**	—
Pension scheme contributions	**330**	314
	7,082	6,435

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

	Number of employees	
	2008	2007
HK$1,000,001–HK$1,500,000	**—**	3
HK$1,500,001–HK$2,000,000	**3**	—
HK$2,000,001–HK$2,500,000	**1**	1
HK$2,500,001–HK$3,000,000	**—**	—
	4	4

During the year, share options were granted to a non-director, highest paid employee in respect of her services to the Company, further details of which are included in the disclosures in note 33 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 current year is included in the above non-director, highest paid employees' remuneration disclosures.

10. Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. The lower Hong Kong profits tax rate is effective from the year of assessment 2008/2009, and so is applicable to the assessable profits arising in Hong Kong for the whole year ended 31 December 2008. 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.

On 25 April 2008, the HKSAR approved the Hong Kong profits tax rate to be reduced from 17.5% to 16.5% from the year of assessment 2008/2009 onwards. The change in the Hong Kong profits tax rate will directly affect the Group's effective tax rate prospectively from 2008. According to HKAS 12 Income taxes, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, and the Group's deferred tax has been adjusted accordingly.

Under the PRC Corporate Income Tax Law (the "New CIT Tax Law"), which became effective from 1 January 2008, enterprises are subject to corporate income tax ("CIT") at a rate of 25% (2007: 33%). According to the "Notice by the PRC State Council on the Implementation of the Grandfathering Preferential Policies under the PRC Income Tax Law", the applicable tax rates in the coming years for enterprises which previously enjoyed a lower CIT rate of 15% will be 18% in 2008; 20% in 2009; 22% in 2010; 24% in 2011; and 25% in 2012 and thereafter. In addition, certain of the Group's PRC subsidiaries, which are currently 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, will continue to enjoy the preferential tax treatment in accordance with the original tax law, administrative regulations and the relevant stipulated preferential treatment until the term expires.

The effect of the changes of the tax rate in Hong Kong and CIT is not material to the Group for the year ended 31 December 2008.

	2008 **HK$'000**	2007 HK$'000
Group:		
Current — Hong Kong		
Charge for the year	**9,052**	6,009
Overprovision in prior years	**(139)**	(5)
Current — Mainland China		
Charge for the year	**506,909**	320,783
Underprovision in prior years	**4,184**	7,388
Deferred *(note 31)*	**(77,584)**	71,945
Total tax charge for the year	**442,422**	406,120

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:

	2008					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	185,390		2,251,835		2,437,225	
Tax at the statutory tax rates	30,589	16.5	562,959	25.0	593,548	24.4
Lower tax rates for specific provinces or enacted by local authority and as a result of tax holidays	—	—	(131,060)	(5.8)	(131,060)	(5.4)
Effect on opening deferred tax of change in rates	(3,371)	(1.8)	—	—	(3,371)	(0.1)
Adjustments in respect of current tax of previous periods	(139)	—	4,184	0.2	4,045	0.2
Profits attributable to jointly-controlled entities and associates	(25,677)	(14.0)	679	—	(24,998)	(1.0)
Income not subject to tax	(9,665)	(5.2)	(160,907)	(7.1)	(170,572)	(7.0)
Expenses not deductible for tax	10,787	5.8	49,400	2.2	60,187	2.5
Effect of withholding tax at 5% on the distributable profits on the Group's PRC subsidiaries	—	—	1,080	—	1,080	—
Tax losses utilised from previous periods	(6,391)	(3.4)	(2,580)	(0.1)	(8,971)	(0.4)
Tax losses not recognised	15	—	16,470	0.7	16,485	0.7
Others	739	0.4	105,310	4.7	106,049	4.3
Tax charge/(credit) at the Group's effective rate	(3,113)	(1.7)	445,535	19.8	442,422	18.2

10. Tax (continued)

	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 enacted by local authority and as a result of tax holidays	—	—	(356,773)	(15.2)	(356,773)	(14.8)
Effect on opening deferred tax of change 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

The share of tax charge attributable to jointly-controlled entities amounting to HK$18,829,000 (2007: HK$47,854,000) (note 19) and the share of tax credit attributable to associates amounting to HK$8,875,000 (2007: tax charge of HK$13,895,000) are included in "Share of profits of jointly-controlled entities" and "Share of profits less losses of associates" on the face of the consolidated income statement, respectively.

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 2008 includes a profit of HK$428,997,000 (2007: HK$280,058,000) which has been dealt with in the financial statements of the Company (note 34(b)).

12. Dividends

	2008	2007
	HK$'000	HK$'000
Interim — 4.0 HK cents (2007: 5.0 HK cents) per Ordinary Share	**246,456**	305,197
Proposed final — 6.0 HK cents (2007: 6.0 HK cents) per Ordinary Share	**369,683**	366,236
	616,139	671,433

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

12. Dividends (continued)

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 calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	2008	2007
	HK$'000	HK$'000
Earnings:		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation	**1,876,682**	1,697,034

	Number of shares	
	2008	2007
Shares:		
Weighted average number of Ordinary Shares in issue during the year used in the basic earnings per share calculation	**6,144,064,027**	6,097,594,400
Effect of dilution — weighted average number of Ordinary Shares that assumed to have been issued:		
Share options	**87,150,623**	134,482,779
For the purpose of diluted earnings per share calculation	**6,231,214,650**	6,232,077,179

14. Property, Plant and Equipment

Group — 2008

	Hotel properties HK$'000	Land and buildings HK$'000 (Restated)	Tunnels, dams, water mains and reservoirs HK$'000 (Restated)	Plant and machinery HK$'000 (Restated)	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Toll road HK$'000 (Restated)	Construction in progress HK$'000 (Restated)	Total HK$'000 (Restated)
At 1 January 2008:										
Cost	996,898	1,076,477	—	1,671,484	223,225	144,685	21,803	—	174,937	4,309,509
Accumulated depreciation and impairment	(298,007)	(450,255)	—	(972,061)	(186,753)	(85,469)	(15,753)	—	—	(2,008,298)
Net carrying value, as restated	698,891	626,222	—	699,423	36,472	59,216	6,050	—	174,937	2,301,211
At 1 January 2008, net of accumulated depreciation and impairment:										
As previously reported	698,891	671,209	3,795,835	733,397	36,472	59,216	6,050	84,751	179,683	6,265,504
Prior year adjustment *(note 2.2(c))*	—	(44,987)	(3,795,835)	(33,974)	—	—	—	(84,751)	(4,746)	(3,964,293)
As restated	698,891	626,222	—	699,423	36,472	59,216	6,050	—	174,937	2,301,211
Additions	93	2,468	—	11,009	8,096	20,453	688	—	95,436	138,243
Disposals and write-offs	(28)	(8,241)	—	(5,625)	(1,658)	(65)	(295)	—	(937)	(16,849)
Surplus on revaluation on transfer to investment properties	—	5,978	—	—	—	—	—	—	—	5,978
Impairment *(note 6)*#	—	(11,471)	—	(18,916)	(1,869)	—	(894)	—	—	(33,150)
Depreciation provided during the year *(note 6)*	(26,374)	(36,080)	—	(94,216)	(11,697)	(20,601)	(1,223)	—	—	(190,191)
Reclassification	—	—	—	4,506	—	—	—	—	(4,506)	—
Transfer to investment properties *(note 15)*	—	(19,745)	—	—	—	—	—	—	—	(19,745)
Exchange realignment	37,116	31,773	—	592	1,373	2,625	334	—	12,620	86,433
At 31 December 2008, net of accumulated depreciation and impairment	709,698	590,904	—	596,773	30,717	61,628	4,660	—	277,550	2,271,930
At 31 December 2008										
Cost	1,041,360	1,088,570	—	1,678,234	225,130	160,631	21,283	—	277,550	4,492,758
Accumulated depreciation and impairment	(331,662)	(497,666)	—	(1,081,461)	(194,413)	(99,003)	(16,623)	—	—	(2,220,828)
Net carrying value	709,698	590,904	—	596,773	30,717	61,628	4,660	—	277,550	2,271,930

14. Property, Plant and Equipment (continued)

Group — 2007

	Hotel properties HK$'000	Land and buildings HK$'000 (Restated)	Tunnels, dams, water mains and reservoirs HK$'000 (Restated)	Plant and machinery HK$'000 (Restated)	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Toll road HK$'000 (Restated)	Construction in progress HK$'000 (Restated)	Total HK$'000 (Restated)
At 1 January 2007:										
Cost	948,860	1,017,985	—	1,618,974	223,301	136,964	20,058	—	810,684	4,776,826
Accumulated depreciation and impairment	(266,447)	(220,638)	—	(745,077)	(190,185)	(66,054)	(14,219)	—	—	(1,502,620)
Net carrying value, as restated	682,413	797,347	—	873,897	33,116	70,910	5,839	—	810,684	3,274,206
At 1 January 2007, net of accumulated depreciation and impairment:										
As previously reported	682,413	846,572	3,960,129	962,134	33,116	70,910	5,839	155,563	828,111	7,544,787
Effect of adopting HK(IFRIC)-Int 12 *(note 2.2(c))*	—	(49,225)	(3,960,129)	(88,237)	—	—	—	(155,563)	(17,427)	(4,270,581)
As restated	682,413	797,347	—	873,897	33,116	70,910	5,839	—	810,684	3,274,206
Additions	590	2,885	—	23,529	14,127	7,160	1,539	—	227,579	277,409
Disposals and write-offs	(164)	(295)	—	(1,085)	(422)	(5,418)	(88)	—	(5,115)	(12,587)
Surplus on revaluation on transfer to investment properties	—	11,082	—	—	—	—	—	—	—	11,082
Impairment *(note 6)*#	—	(163,635)	—	(91,032)	—	—	—	—	—	(254,667)
Depreciation provided during the year *(note 6)*	(25,262)	(46,507)	—	(113,242)	(11,863)	(16,638)	(1,638)	—	—	(215,150)
Transfer to investment properties *(note 15)*	—	(20,748)	—	—	—	—	—	—	(923,469)	(944,217)
Reclassification	—	—	—	3,608	—	—	—	—	(3,608)	—
Exchange realignment	41,314	46,093	—	3,748	1,514	3,202	398	—	68,866	165,135
At 31 December 2007, net of accumulated depreciation and impairment, as restated	698,891	626,222	—	699,423	36,472	59,216	6,050	—	174,937	2,301,211
At 31 December 2007										
Cost	996,898	1,076,477	—	1,671,484	223,225	144,685	21,803	—	174,937	4,309,509
Accumulated depreciation and impairment	(298,007)	(450,255)	—	(972,061)	(186,753)	(85,469)	(15,753)	—	—	(2,008,298)
Net carrying value, as restated	698,891	626,222	—	699,423	36,472	59,216	6,050	—	174,937	2,301,211

During the year, certain items of property, plant and equipment 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 property, plant and equipment 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 closure of the power generator of Shaoguan PPD in December 2008, an impairment of HK$33,150,000 (2007 (restated): HK$254,667,000) was charged to the income statement during the year.

14. Property, Plant and Equipment (continued)

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	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000 (Restated)
Long term leases in Hong Kong	**123,955**	128,304	**99,141**	99,222
Medium term leases in Hong Kong	**83,702**	88,486	**50,650**	50,872
Medium term leases in Mainland China	**502,041**	482,101	**441,113**	453,310
Short term leases in Mainland China	**—**	—	**—**	22,818
	709,698	698,891	**590,904**	626,222

Company — 2008

	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2008, net of accumulated depreciation	408	164	6	578
Additions	91	—	—	91
Depreciation provided during the year	(181)	(61)	(3)	(245)
At 31 December 2008, net of accumulated depreciation	318	103	3	424
At 31 December 2008:				
Cost	7,181	8,769	621	16,571
Accumulated depreciation	(6,863)	(8,666)	(618)	(16,147)
Net carrying amount	318	103	3	424

14. Property, Plant and Equipment (continued)

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

15. Investment Properties

	Group	
	2008	2007
	HK$'000	HK$'000
Carrying amount at 1 January	**4,277,760**	2,385,480
Addition	**414**	—
Net profit/(loss) from fair value adjustments *(note 6)*	**(494,199)**	780,921
Transfer from property, plant and equipment, net *(note 14)*	**19,745**	944,217
Exchange realignment	**228,978**	167,142
Carrying amount at 31 December	**4,032,698**	4,277,760

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

	2008 HK$'000	2007 HK$'000
Long term leases in Hong Kong	**467,180**	557,850
Medium term leases in Mainland China	**3,565,518**	3,719,910
	4,032,698	4,277,760

15. Investment Properties (continued)

The Group's investment properties were revalued on 31 December 2008 by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, at an aggregate amount of HK$4,032,698,000 on an open market, existing use basis. The investment properties are leased to third parties and GDH Limited and fellow subsidiaries under operating leases, further summary details of which are included in note 36(a) to the financial statements.

Further particulars of the Group's investment properties are included on page 155.

16. Prepaid Land Lease Payments

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

	2008	2007
	HK$'000	HK$'000
		(Restated)
Long term leases in Hong Kong	**488,449**	492,570
Medium term leases in Hong Kong	**242,237**	250,180
Medium term leases in Mainland China	**107,903**	107,058
	838,589	849,808

17. Goodwill

	Group	
	2008	2007
	HK$'000	HK$'000
Cost and net carrying amount at 1 January	**256,119**	216,127
Acquisition of minority interests	**6,251**	39,992
Cost and net carrying amount at 31 December	**262,370**	256,119

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 2007 and 2008. 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

Goodwill acquired through business combinations, 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% (2007: 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 2008. 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 aggregate carrying amount of goodwill to exceed its recoverable amount.

The carrying amount of goodwill allocated to the water supply cash-generating unit was HK$262,012,000 (2007: HK$255,761,000) as at 31 December 2008.

18. Interests in Subsidiaries

	Company	
	2008	2007
	HK$'000	HK$'000
Unlisted investments, at cost	**4,777,792**	4,698,516
Due from subsidiaries	**3,848,806**	4,295,512
Due to subsidiaries	**(55,467)**	(35,470)
	8,571,131	8,958,558
Less: Impairments	**(1,599,920)**	(1,584,802)
	6,971,211	7,373,756

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 8% to 10% (2007: 7% to 10%). As the recoverable amounts of certain of the interests in subsidiaries are lower than their respective carrying amounts, impairments have been made accordingly.

18. Interests in Subsidiaries (continued)

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.

Included in the amounts due from subsidiaries are: (i) unsecured loans in an aggregate amount of HK$260,498,000 (2007: HK$289,482,000), which bear interest at the Hong Kong Dollar Prime Rate (the "Prime Rate") plus 1% or fixed rates of 8% (2007: Prime Rate plus 1% or fixed rates of 8%) per annum and are repayable within five years from 1 October 2008 (2007: within five years from 1 October 2003); (ii) an unsecured loan of HK$81,479,000 (2007: HK$81,479,000) which bears interest at fixed rate of 9% (2007: fixed rate of 9%) per annum and is repayable on demand; (iii) an unsecured loan of HK$395,780,000 (2007: HK$400,000,000) which bears interest at the Prime Rate minus 1.5% (2007: Prime Rate minus 1.5%) per annum and has no specific terms of repayment; and (iv) an unsecured loan of HK$12,000,000 (2007: HK$15,000,000) which bears interest at the Hong Kong Inter Bank Offered Rates (the "HIBOR") plus 0.6% (2007: HIBOR plus 0.6%) per annum and is repayable over five years from 24 April 2006.

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		Principal activities
			Direct	Indirect	
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/ Hong Kong	HK$1,000,000 ordinary HK$100 Class A special shares HK$10 Class B special shares	88.45%	—	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%	75.89%	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 ("GIHM")	Hong Kong	HK$10,000,000	100%	—	Hotel management

18. Interests in Subsidiaries (continued)

Particulars of the principal subsidiaries are as follows: (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
Guangdong Nan Fang (Holdings) Co. Ltd. ("Nan Fang Holdings")*	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	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	—	85.05%	Department stores operations
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	—	87.57%	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
韶關發電D廠有限公司 (Shaoguan Power Plant (D) Ltd.) ("Shaoguan PPD")(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
Zhongshan Power (Hong Kong) Limited ("ZPHK")	Hong Kong	HK$100	95%	—	Investment holding

18. Interests in Subsidiaries (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
中山火力發電有限公司 (Zhongshan Power Plant Co. Ltd.) ("ZPP")(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	—	85.05%	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.*

** *Shaoguan PPD is a subsidiary of a non wholly-owned subsidiary of the Company and, accordingly, is accounted for as a subsidiary by virtue of the Company's control over it.*

During the years ended 31 December 2008 and 2007, the Group acquired additional interests in GH Holdings and GD Teem from minority interests.

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 2008 HK$'000	2007 HK$'000
Share of net assets	**994,757**	852,142

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:

	2008 HK$'000	2007 HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Non-current assets	**981,173**	784,147
Current assets	**14,763**	70,216
Current liabilities	**(1,179)**	(2,221)
Net assets	**994,757**	852,142
Share of the jointly-controlled entities' results:		
Revenue	**—**	—
Share of profits of jointly-controlled entities	**169,832**	58,422
	169,832	58,422
Total expenses	**(16,919)**	(7,538)
Tax *(note 10)*	**(18,829)**	(47,854)
Profit after tax	**134,084**	3,030

20. Interests in Associates

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted investments, at cost	**—**	—	**115,062**	115,062
Share of net assets	**518,579**	506,237	**—**	—
Due from an associate *(note 38(b))*	**7,280**	—	**—**	—
	525,859	506,237	**115,062**	115,062
Less: Impairments	**(251,741)**	(151,813)	**(115,062)**	(115,062)
	274,118	354,424	**—**	—

The recoverable amount of the interests in associates was estimated based on the present value of discounted cash flows of power operation at the discount rate of 8% (2007: 8%). Due to the change in market environment of power generation business in Mainland China, an 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 attributable equity interest held by Company	Percentage of attributable equity interest held by Group	Principal activities
Guangdong Jusco Teem Stores Co. Ltd.*	RMB56,000,000	Mainland China	—	26.56%	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.*

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

	2008	2007
	HK$'000	HK$'000
Assets	**4,700,933**	4,400,962
Liabilities	**(2,905,753)**	(2,657,387)
Revenues	**3,851,849**	3,356,112
Profit/(loss)	**(20,362)**	144,240

21. Intangible Assets

Group — 2008

	Water distribution operation HK$'000 (Restated)	Power supply operation HK$'000 (Restated)	Toll road operation HK$'000 (Restated)	Total HK$'000 (Restated)
At 1 January 2008				
Cost	23,579,784	201,188	253,823	24,034,795
Accumulated amortisation and impairment	(5,451,522)	(113,695)	(169,072)	(5,734,289)
Net carrying value, as restated	18,128,262	87,493	84,751	18,300,506
At 1 January 2008, net of accumulated amortisation and impairment:				
As previously reported	11,161,801	—	—	11,161,801
Prior year adjustment *(note 2.2(c))*	6,966,461	87,493	84,751	7,138,705
As restated	18,128,262	87,493	84,751	18,300,506
Additions	2,178	7	17,963	20,148
Disposals and write-offs	(2,972)	—	—	(2,972)
Impairment *(note 6)*	—	(56,193)	—	(56,193)
Amortisation during the year *(note 6)*	(801,178)	(11,360)	(4,184)	(816,722)
Exchange realignment	—	4,626	5,405	10,031
As 31 December 2008, net of accumulated amortisation and impairment	17,326,290	24,573	103,935	17,454,798
As 31 December 2008				
Cost	23,566,452	213,695	287,734	24,067,881
Accumulated amortisation and impairment	(6,240,162)	(189,122)	(183,799)	(6,613,083)
Net carrying value	17,326,290	24,573	103,935	17,454,798

21. Intangible Assets (continued)

Group — 2007

	Water distribution operation HK$'000 (Restated)	Power supply operation HK$'000 (Restated)	Toll road operation HK$'000 (Restated)	Total HK$'000 (Restated)
At 1 January 2007				
Cost	23,579,315	182,710	236,549	23,998,574
Accumulated amortisation and impairment	(4,653,121)	(23,700)	(80,986)	(4,757,807)
Net carrying value, as restated	18,926,194	159,010	155,563	19,240,767
At 1 January 2007, net of accumulated amortisation and impairment:				
As previously reported	11,655,088	—	—	11,655,088
Effect of adopting HK(IFRIC)-Int 12 *(note 2.2(c))*	7,271,106	159,010	155,563	7,585,679
As restated	18,926,194	159,010	155,563	19,240,767
Additions	4,565	4,974	—	9,539
Disposals and write-offs	(1,715)	(2)	—	(1,717)
Impairment *(note 6)*	—	(62,892)	(76,723)	(139,615)
Amortisation during the year *(note 6)*	(800,782)	(24,390)	(6,882)	(832,054)
Exchange realignment	—	10,793	12,793	23,586
As 31 December 2007, net of accumulated amortisation and impairment	18,128,262	87,493	84,751	18,300,506
As 31 December 2007				
Cost	23,579,784	201,188	253,823	24,034,795
Accumulated amortisation and impairment	(5,451,522)	(113,695)	(169,072)	(5,734,289)
Net carrying value, as restated	18,128,262	87,493	84,751	18,300,506

21. Intangible Assets (continued)

Water distribution operation

Prior to the acquisition by the Group of an 81% interest in GH Holdings in 2000, WaterCo acquired the operating right from Guangdong Holdings Limited to operate the water supply business, which supplies natural water to the 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 the 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 (the "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.

At 31 December 2008, 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 the formal land use right certificates are in progress as at 31 December 2008. 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 Authorities in the PRC as at 31 December 2008. Notwithstanding this, the directors are of the opinion that the Group has obtained the beneficial title to these assets as at 31 December 2008 and the land use right certificates can be received.

Power supply operation

During the year ended 31 December 2008, certain items of intangible assets 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 intangible assets 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 the market environment of the power generation business in Mainland China, an impairment of HK$56,193,000 (2007: HK$62,892,000) was charged to the consolidated income statement during the year.

Toll road operation

During the year ended 31 December 2007, certain items of intangible assets of a non-wholly-owned subsidiary of the Group, which was engaged in a toll road project, were impaired with reference to the recoverable amounts of these items. The recoverable amounts of these items of intangible assets 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 toll road project. Due to the change in market environment of the toll road project in Mainland China, an impairment of HK$76,723,000 was charged to the consolidated income statement for the year ended 31 December 2007.

22. Available-for-sale Investments

	Group	
	2008	2007
	HK$'000	HK$'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	**23**	21
Unlisted debt investment, at fair value	**56,695**	42,024
Total available-for-sale investments	**56,718**	42,045

There was no change in the impairment account during the current and prior years.

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 discounted future cash flows. The unlisted available-for-sale equity investment, which fair value cannot be measured reliably, has been stated at cost less impairment.

23. Inventories

	Group	
	2008	2007
	HK$'000	HK$'000
Raw materials	**35,126**	44,229
Finished goods	**15,064**	13,590
	50,190	57,819

24. Receivables, Prepayments and Deposits

		Group		Company	
		2008	2007	**2008**	2007
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Trade receivables, net of impairment		**247,955**	200,929	**—**	—
Other receivables, prepayments and deposits		**470,634**	175,623	**37,184**	6,094
Due from the immediate holding company	*38(b)*	**1,991**	606	**1,183**	—
Due from fellow subsidiaries	*38(b)*	**2,227**	2,685	**21**	37
		722,807	379,843	**38,388**	6,131

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 (2007: electricity supply business) and the Group has a certain concentration of credit risk as 28% (2007: 33%) 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	
	2008	2007
	HK$'000	HK$'000
Within 3 months	**247,296**	200,656
3 months to 6 months	**770**	258
6 months to 1 year	**778**	15
More than 1 year	**11,372**	11,030
	260,216	211,959
Less: Impairments	**(12,261)**	(11,030)
	247,955	200,929

24. Receivables, Prepayments and Deposits (continued)

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

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**11,030**	11,022
Impairment losses recognised *(note 6)*	**1,231**	8
At 31 December	**12,261**	11,030

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$12,261,000 (2007: HK$11,030,000) with the same carrying amount as at the balance sheet date.

The individually impaired trade receivables relate to customers that were in default payments and the full amount of the receivables is expected to be irrecoverable. 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	
	2008	2007
	HK$'000	HK$'000
Neither past due nor impaired	**242,177**	199,769
Less than 1 month past due	**1,788**	399
Equal to and over 1 month past due	**3,990**	761
	247,955	200,929

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.

25. Cash and Cash Equivalents and Restricted Cash and Bank Balances

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances *(notes (a) and (b))*	**1,269,832**	813,411	**18,156**	11,103
Time deposits *(notes (a) and (b))*	**2,827,145**	1,871,122	**714,509**	476,264
Trust account *(note (c))*	**2,831**	2,824	**—**	—
	4,099,808	2,687,357	**732,665**	487,367
Less: Restricted cash and bank balances *(note (c))*	**(2,831)**	(2,824)	**—**	—
Cash and cash equivalents *(notes (d) and 35(b))*	**4,096,977**	2,684,533	**732,665**	487,367

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 2008, cash and bank balances and time deposits retained for such purposes amounted to HK$3,815,000 (2007: HK$3,123,000).*

(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.*

(c) *Pursuant to the Undertaking as defined in note 34(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 2008, the amount standing to the credit of the Trust Account was HK$2,831,000 (2007: HK$2,824,000). 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.*

(d) *At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$3,165,376,000 (2007: HK$2,001,400,000). 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

		Group		Company	
		2008	2007	**2008**	2007
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Trade payables		**241,486**	226,479	**—**	—
Accruals and other liabilities		**1,266,431**	1,175,188	**9,818**	14,241
Due to the immediate holding company	*38(b)*	**2,592**	7,138	**—**	162
Due to fellow subsidiaries	*38(b)*	**1,842**	7,398	**—**	—
		1,512,351	1,416,203	**9,818**	14,403

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	
	2008	2007
	HK$'000	HK$'000
Within 3 months	**239,678**	211,740
3 months to 6 months	**840**	9,924
6 months to 1 year	**968**	4,815
	241,486	226,479

The Group's and the Company's payables, accruals and other liabilities are non-interest-bearing and are normally settled on 60-day terms.

27. Derivative Financial Instruments

	31 December 2008	
	Assets	**Liabilities**
	HK$'000	**HK$'000**
Interest rate swap agreements	**169,367**	**(708,242)**

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

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 29 to the financial statements.

27. Derivative Financial Instruments (continued)

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 2008, the Group had certain interest rate swap agreements with a total notional amount of HK$5,200 million (2007: HK$5,200 million) designated and qualified as hedges in respect of the Group's Refinancing Facilities, whereby the Group receives interest at HIBOR per annum and pays interest at a range of fixed rates per annum on the notional amounts. The swap agreements converted the interest obligation arising from the Refinancing Facilities from the floating rate of HIBOR to a range of fixed interest rates per annum for the period from the effective dates of respective contracts to 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$286,447,000 (2007: HK$54,649,000) included in the hedging reserve was as follows:

	2008 **HK$'000**	2007 HK$'000
Total fair value losses included in the hedging reserve	**(431,217)**	(72,694)
Fair value losses transferred from the hedging reserve and recognised in the income statement *(note 7)*	**107,644**	11,522
Net movement on cash flow hedges	**(323,573)**	(61,172)
Portion shared by minority interests	**37,126**	6,523
Net movement attributable to equity holders of the Company for the year ended 31 December	**(286,447)**	(54,649)

Derivatives not qualified for hedge accounting

At 31 December 2008, the Group had various other interest rate swap agreements which did not meet the criteria for hedge accounting. The net loss in the fair value of these derivatives not qualified for hedge accounting amounting to HK$25,310,000 (note 5) (2007: net gain of HK$7,135,000) was charged to the consolidated 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 29 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	
	2008	2007
	HK$'000	HK$'000
Non-interest-bearing borrowings:		
Current portion	**346,825**	415,349
Non-current portion	**18,007**	22,594
	364,832	437,943

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

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year or no specific terms of repayment	**346,825**	415,349
In the second year	**6,770**	6,438
In the third to fifth years, inclusive	**11,237**	16,156
	364,832	437,943

The balances due to minority shareholders of subsidiaries as at 31 December 2008 are unsecured and non-interest-bearing. The carrying amounts of the amounts due approximate to their fair values.

29. Interest-bearing Bank Borrowings

	2008			2007		
	Effective interest rate	**Maturity**	**HK$'000**	Effective interest rate	Maturity	HK$'000
Current						
Bank loan — secured	**4.51%–5.88%**	**2009**	**310,409**	5.47%–5.81%	2008	292,343
Non-current						
Bank loans — secured	**0.75%–5.88%***	**2010–2017**	**8,083,401**	4.08%–5.81%*	2009–2017	9,424,694
			8,393,810			9,717,037

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

The Group's interest-bearing bank borrowings are charged at floating rates and the carrying amounts approximate to their fair values.

29. Interest-bearing Bank Borrowings (continued)

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.

The maturities of the secured bank loans are analysed into:

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year or on demand	**310,409**	292,343
In the second year	**1,584,409**	292,343
In the third to fifth years, inclusive	**5,858,992**	8,332,351
Over five years	**640,000**	800,000
	8,393,810	9,717,037
Less: Portion classified as current liabilities	**(310,409)**	(292,343)
Non-current portion	**8,083,401**	9,424,694

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 2008, included in the Group's secured bank loans was an outstanding bank loan of HK$6,664 million (2007: HK$7,749 million) drawn under the Refinancing Facility A, with aggregate amounts of HK$5,390 million (2007: HK$6,475 million) repayable in 18 consecutive instalments within 10 years commencing from December 2003 and HK$1,274 million (2007: HK$1,274 million) repayable in full in December 2010. Included in the balance as at 31 December 2008, an amount of HK$5,390 million (2007: HK$6,475 million) bears interest at 1, 2 or 3-month HIBOR plus 0.6% per annum and HK$1,274 million (2007: HK$1,274 million) bears interest at 1, 2 or 3-month HIBOR plus 0.4% per annum.

As at 31 December 2008, included in the Group's secured bank loans was another outstanding bank loan of HK$800 million (2007: HK$800 million) drawn under the Refinancing Facility B which bears interest at 3-month or 6-month HIBOR plus 0.6% (2007: 3-month or 6-month HIBOR plus 0.6%) per annum with the first repayment due in 2013.

At 31 December 2008, 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 (2007: 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 in 2012 (2007: 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.

29. Interest-bearing Bank Borrowings (continued)

The remaining bank loans of HK$929,810,000 (2007: HK$1,168,037,000) are denominated in RMB and secured by a charge over the designated debt service accounts for the Phase IV Renovation Project as detailed in note 25(a) to the financial statements. 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 rates ranging from 4.51% to 5.88% (2007: 5.267%) per annum and the interest rates will be adjusted according to the interest rate for 3-5 year term loans published by the People's Bank of China.

30. Other Liabilities

At 31 December 2008, included in the other liabilities was a non-interest-bearing receipt in advance amounting to HK$1,654,800,000 (31 December 2007: HK$1,773,000,000). 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.

31. Deferred Tax

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

Deferred tax liabilities

Group

	2008				
	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of investment properties HK$'000	Withholding tax HK$'000	Others HK$'000	Total HK$'000
At 1 January 2008	338,632	429,128	—	(9,702)	758,058
Deferred tax charged/(credited) to the income statement during the year *(note 10)*	13,114	(111,480)	1,080	14,385	(82,901)
Exchange differences	19,717	22,817	—	(420)	42,114
Gross deferred tax liabilities recognised in the consolidated balance sheet at 31 December 2008	371,463	340,465	1,080	4,263	717,271

Deferred tax assets

Group

	2008		
	Depreciation expense in excess of related depreciation allowance HK$'000	Losses available for offsetting against future taxable profits HK$'000	Total HK$'000
At 1 January 2008	(482)	(21,136)	(21,618)
Deferred tax charged/(credited) to the income statement during the year *(note 10)*	(234)	5,551	5,317
Exchange differences	(60)	—	(60)
Gross deferred tax assets recognised in the consolidated balance sheet at 31 December 2008	(776)	(15,585)	(16,361)
Net deferred tax liabilities at 31 December 2008			700,910

31. Deferred Tax (continued)

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$'000	Losses available for offsetting against future taxable profits HK$'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

31. Deferred Tax (continued)

The Group has unrecognised tax losses arising in Hong Kong approximately of HK$317,728,000 (2007: HK$354,619,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of HK$106,390,000 (2007: HK$32,712,000) that will expire in one to five years for offsetting against future taxable profit. 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.

Pursuant to the New CIT Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries and jointly-controlled entities established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2008, except for those reflected in note 10 to the financial statements, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's certain subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$1,985,748,000 at 31 December 2008 (2007: Nil).

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

32. Share Capital

Shares

	2008 **HK$'000**	2007 HK$'000
Authorised:		
8,000,000,000 (2007: 8,000,000,000) ordinary shares of HK$0.50 each ("Ordinary Shares")	**4,000,000**	4,000,000
Issued and fully paid:		
6,161,388,071 (2007: 6,103,938,071) Ordinary Shares of HK$0.50 each	**3,080,694**	3,051,969

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 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 and 1 January 2008	6,103,938,071	3,051,969	2,339,544	5,391,513
Share options exercised *(note (i))*	57,450,000	28,725	34,613	63,338
At 31 December 2008	6,161,388,071	3,080,694	2,374,157	5,454,851

Notes:

(i) The subscription rights attaching to 57,450,000 (2007: 12,990,000) share options were exercised at subscription prices ranging from HK$0.960 to HK$1.590 (2007: from HK$1.220 to HK$3.405) per Ordinary Share, resulting in the issue of 57,450,000 (2007: 12,990,000) Ordinary Shares for a total consideration, net of expenses, of HK$63,338,000 (2007: HK$21,714,000).

(ii) During the year ended 31 December 2007, 12,990,000 share options were exercised, resulting in the release of share option reserve of HK$3,141,000 to the Ordinary Share premium account.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 33 to the financial statements.

33. Share Option Scheme

On 24 October 2008, the Company terminated its then share option scheme adopted on 31 May 2002 (the "2002 Scheme") and adopted a new share option scheme (the "2008 Scheme"). Upon termination of the 2002 Scheme, no further share options will be granted thereunder but in all other respects, the provisions of the 2002 Scheme shall remain in force and all existing share options which have been granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

2002 Scheme

The 2002 Scheme was adopted by the Company 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 2002 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 maximum number of Ordinary Shares of the Company which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the 2002 Scheme prior to its termination and any other schemes of the Company must not exceed 30% of Ordinary Shares in issue from time to time. The total number of Ordinary Shares which may be issued upon exercise of all share options to be granted under the 2002 Scheme prior to its termination and any other schemes of the Company must not in aggregate exceed 10% of Ordinary Shares in issue as at the date of adopting the 2002 Scheme without prior approval from the Company's shareholders.

The total number of Ordinary Shares issued and to be issued upon exercise of the share options granted and to be granted under the 2002 Scheme prior to its termination 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 Ordinary Shares in issue at the date of grant. Any further grant of share options under the 2002 Scheme prior to its termination in excess of this limit is subject to shareholders' approval in a general meeting of the Company.

Share options granted under the 2002 Scheme prior to its termination 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 under the 2002 Scheme prior to its termination 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 Ordinary Shares in issue at any time and with an aggregate value (based on the closing price of 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 under the 2002 Scheme prior to its termination 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 under the 2002 Scheme prior to its termination 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.

33. Share Option Scheme (continued)

2002 Scheme (continued)

The exercise price of the share options granted under the 2002 Scheme prior to its termination is determinable by the directors, but must not be less than the highest of (i) the closing price of Ordinary Shares as stated in the Hong Kong 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 Ordinary shares as stated in the Hong Kong 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.

Share options granted under the 2002 Scheme prior to its termination do not confer rights on the holders to dividends or to vote in shareholders' meetings.

The 57,450,000 (2007: 12,990,000) share options granted under the 2002 Scheme prior to its termination exercised in the year results in the issue of 57,450,000 (2007: 12,990,000) Ordinary Shares and new share capital of HK$28,725,000 (2007: HK$6,495,000) and Ordinary Share premium account of HK$34,613,000 (2007: HK$18,360,000 after release of share options reserve), net of issue expenses, as detailed in note 32 to the financial statements.

At 24 October 2008, the date of termination of the 2002 Scheme, share options to subscribe for a total of 324,753,939 Ordinary Shares had been granted under the 2002 Scheme since its adoption, which represented approximately 5.3% of Ordinary Shares in issue of which share options to subscribe for 53,550,000 Ordinary Shares remained outstanding, and share options to subscribe for 46,500,000 Ordinary Shares have lapsed in accordance with the terms of the 2002 Scheme since its adoption. Under the 2002 Scheme, no share options were granted during the year and 30,000,000 share options and 39,500,000 share options were cancelled and lapsed respectively during the year ended 31 December 2008.

The exercise in full of the remaining share options under the 2002 Scheme would, under the present capital structure of the Company, result in the issue of 53,550,000 new Ordinary Shares and increase share capital of HK$26,775,000 and Ordinary Share premium account of HK$51,725,000 (before issue expenses).

2008 Scheme

The purpose of the 2008 Scheme is to provide incentives to selected employees, officers and directors to contribute to the Group and to provide the Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to such employees, officers and directors or to serve such other purposes as the board of directors of the Company may approve from time to time. Eligible participants of the 2008 Scheme include the employees, officers or directors of a member of the Group ("Eligible Person"). The 2008 Scheme unless otherwise terminated or amended, will remain in force for 10 years from 24 October 2008.

The total number of Ordinary Shares which may be issued upon exercise of all share options to be granted under the 2008 Scheme (excluding any which have lapsed) 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 the adoption of the 2008 Scheme.

33. Share Option Scheme (continued)

2008 Scheme (continued)

The total number of Ordinary Shares issued and to be issued upon exercise of the share options granted and to be granted under the 2008 Scheme to each eligible participant (including both exercised, cancelled and outstanding options) in any 12-month period up to and including the date of grant of share options must not exceed 1% of the Ordinary Shares in issue at such date. Any further grant of share options under the 2008 Scheme in excess of this limit is subject to shareholders' approval in a general meeting of the Company.

Share options granted to a director or chief executive of the Company, or any of their respective associates, under the 2008 Scheme must be approved by the independent non-executive directors of the Company. In addition, any share options granted to an independent non-executive director of the Company, or any of their respective associates, which would result in the Ordinary Shares issued and to be issued upon exercise of all share options already granted or to be granted under the 2008 Scheme (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant (i) representing in aggregate over 0.1% of the Ordinary Shares in issue; and (ii) having an aggregate value (based on the closing price of the Ordinary Shares at the date of grant) in excess of HK$5 million, such grant of options by the board of directors must be approved by shareholders in a general meeting.

An offer of grant of a share option under the 2008 Scheme may be accepted by the grantee within the period of the time stipulated by the board of directors of the Company, but not exceeding 14 days inclusive of, and from the date of such offer. All share options under the 2008 Scheme will be unvested share options upon grant which will, subject to a grantee continuing to be an Eligible Person, vest with the grantee in accordance with the vesting schedules specified in their respective offer of grant. Subject to the rules of the 2008 Scheme and the relevant offer of the grant of a share option, a vested share option may be exercised in accordance with the terms of the rules of the 2008 Scheme at any time during the period to be determined and notified by the directors of the Company to each grantee, which period may commence on the date which is 2 years from the date of grant of the share option but shall end in any event not later than 10 years from the aforesaid date of grant. The exercise of any share option under the 2008 Scheme may be subject to the achievement of performance targets which may be determined by the board of directors of the Company at its absolute discretion on a case by case basis upon the grant of the relevant share option and stated in the offer of grant of such share option.

The exercise price of the share options under the 2008 Scheme is determinable by the board of directors of the Company and shall not be less than the highest of (i) the closing price of the Ordinary Shares as stated in the Hong Kong Stock Exchange's daily quotation sheet on the date of grant of the share options; (ii) the average closing price of the Company's Ordinary Shares as stated in the Hong Kong 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.

No dividends (including distributions made upon the liquidation of the Company) will be payable and no voting rights will be exercisable in relation to any share option that has not been exercised.

During the year ended 31 December 2008, 60,800,000 share options were granted by the Company under the 2008 Scheme of which no share options were exercised, lapsed or cancelled.

33. Share Option Scheme (continued)

2008 Scheme (continued)

At 31 December 2008, the Company had 60,800,000 share options outstanding under the 2008 Scheme, which represented approximately 1% of Ordinary Shares in issue at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 60,800,000 additional Ordinary Shares and increase share capital of HK$30,400,000 and share premium of HK$83,904,000 (before issue expenses).

The total number of Ordinary Shares which may be issued upon exercise of share options yet to be granted under the 2008 Scheme (and thus not including those Ordinary Shares for share options already granted but yet to be exercised under both the 2002 Scheme and the 2008 Scheme) was 501,788,807 which represented approximately 8.14% of the issued share capital of the Company as at the date of approval of these financial statements.

Subsequent to the balance sheet date, a total of 1,000,000 share options under the 2002 Scheme were exercised, which resulted in the issue of 1,000,000 Ordinary Shares of the Company.

At the date of approval of these financial statements, the Company had 113,350,000 share options outstanding under both the 2002 Scheme and the 2008 Scheme, which represented approximately 1.84% of the Company's shares in issue as at that date.

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

	2008		2007	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**1.244**	**180,500**	1.273	193,490
Granted during the year	**1.880**	**60,800**	—	—
Cancelled during the year	**1.392**	**(30,000)**	—	—
Exercised during the year	**1.103**	**(57,450)**	1.673	(12,990)
Lapsed during the year	**1.036**	**(39,500)**	—	—
At 31 December	**1.686**	**114,350**	1.244	180,500

The weighted average share price at the date of exercise for share options exercised during the year was HK$3.557 per share (2007: HK$4.834 per share).

33. Share Option Scheme (continued)

The exercise prices and exercise periods of the share options outstanding as at that balance sheet date are as follows:

2008

Number of options '000	**Exercise price* HK$ per share**	**Exercise period (dd.mm.yyyy)**
27,550	1.25	25-08-2004 to 24-08-2009
24,500	1.59	07-05-2004 to 06-05-2009
1,500	3.405	11-06-2006 to 10-06-2011
24,320	1.88	24-10-2010 to 23-04-2014
18,240	1.88	24-10-2011 to 23-04-2014
6,080	1.88	24-10-2012 to 23-04-2014
12,160	1.88	24-10-2013 to 23-04-2014
114,350		

2007

Number of options '000	Exercise price* HK$ per share	Exercise period (dd.mm.yyyy)
61,000	0.96	05-03-2003 to 04-03-2008
30,500	1.22	08-08-2003 to 07-08-2008
45,500	1.25	25-08-2004 to 24-08-2009
42,000	1.59	07-05-2004 to 06-05-2009
1,500	3.405	11-06-2006 to 10-06-2011
180,500		

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

The fair value of the share options granted during the year was HK$27,591,000 (HK$0.45 each) (2007: Nil) of which the Group recognised a share option expense of HK$1,865,000 (2007: Nil) during the year ended 31 December 2008.

33. Share Option Scheme (continued)

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial lattice model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2008
Dividend yield (%)	5.85
Expected volatility (%)	41.05
Risk-free interest rate (%)	2.06
Expected life of options (year)	5.50
Weighted average share price (HK$)	1.88

The expected life of the options is based on the historical data over the past 5.5 years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

34. 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 55 to 56 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.

34. Reserves (continued)

(a) Group (continued)

(i) (continued)

During the year ended 31 December 2008, there is no release of provision as determined above (2007: HK$127,087,792); and no profit was distributed from the Company's subsidiaries as determined above (2007: HK$7,495,581), resulting in no aggregate transfer from retained profits to the Special Reserve of the Group and the Company (2007: aggregate transfer of HK$134,583,373).

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 a 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$63,372,500 (2007: HK$60,534,348). 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 was turned into a permanent loss of the Group and the Company (2007: Nil).

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.

34. Reserves (continued)

(a) Group (continued)

(i) (continued)

As at 31 December 2008, 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$63,372,500 (2007: HK$21,729,000); and (ii) the amount of a non-permanent loss of nil (2007: Nil) which was turned into a permanent loss for the year ended 31 December 2008.

The Limit, as adjusted, was HK$639,588,033 (2007: HK$702,960,533) and the amount standing to the credit of the Group's and the Company's Special Reserve was HK$10,676,525 (2007: HK$74,049,025) as at 31 December 2008.

(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.

34. Reserves (continued)

(b) Company

	Notes	Ordinary Share premium account HK$'000	Capital reserve HK$'000	Share option reserve HK$'000 (note 34(a)(ii))	Exchange fluctuation reserve HK$'000	Special reserve HK$'000 (note 34(a)(i))	Retained profits HK$'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	32	15,219	—	—	—	—	—	15,219
Equity-settled share option arrangements	32(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	34(a)(i)	—	—	—	—	134,583	(134,583)	—
Transfer to retained profits upon issue of new Ordinary Shares during the year	34(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
At 1 January 2008		**2,339,544**	**1,733,711**	**1,485**	**(14,813)**	**74,049**	**301,248**	**4,435,224**
Share options exercised, net of issue expenses	32	**34,613**	**—**	**—**	**—**	**—**	**—**	**34,613**
Equity-settled share option arrangements	33	**—**	**—**	**1,865**	**—**	**—**	**—**	**1,865**
Profit for the year	11	**—**	**—**	**—**	**—**	**—**	**428,997**	**428,997**
Interim 2008 dividend paid	12	**—**	**—**	**—**	**—**	**—**	**(246,456)**	**(246,456)**
Proposed final 2008 dividend	12	**—**	**—**	**—**	**—**	**—**	**(369,683)**	**(369,683)**
Final 2007 dividend paid		**—**	**—**	**—**	**—**	**—**	**(2,067)**	**(2,067)**
Transfer to retained profits upon issue of new Ordinary Shares during the year	34(a)(i)	**—**	**—**	**—**	**—**	**(63,372)**	**63,372**	**—**
At 31 December 2008		**2,374,157**	**1,733,711**	**3,350**	**(14,813)**	**10,677**	**175,411**	**4,282,493**

35. Notes to the Consolidated Cash Flow Statement

(a) Major non-cash transaction

During the year, the Group settled the non-interest-bearing receipt in advance of an amount of HK$118,200,000 (2007: 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 30 to the financial statements.

(b) Cash and cash equivalents

	2008	2007
	HK$'000	HK$'000
Cash and cash equivalents for the purpose of the consolidated balance sheet as at 31 December *(note 25)*	**4,096,977**	2,684,533
Non-pledged time deposits with original maturity of more than three months when acquired	**(880,783)**	(872,196)
Cash and cash equivalents for the purpose of the consolidated cash flow statement as at 31 December	**3,216,194**	1,812,337

36. 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 fourteen years (2007: 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 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year	**636,846**	490,212
In the second to fifth years, inclusive	**1,037,230**	956,194
After five years	**25,409**	88,168
	1,699,485	1,534,574

36. Operating Lease Arrangements (continued)

Group (continued)

(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 nineteen years (2007: one to fifteen years).

At 31 December 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year	**26,238**	10,143
In the second to fifth years, inclusive	**71,409**	41,559
After five years	**116,757**	60,948
	214,404	112,650

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$8,050,000 (2007: HK$5,245,000) 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 (2007: Nil).

37. Commitments

In addition to the operating lease commitments detailed in note 36(b), the Group and the Company had the following commitments at the balance sheet date:

	Group	
	2008	2007
	HK$'000	HK$'000
(a) Capital commitments in respect of property, plant and equipment:		
Contracted for	**567,632**	106,482
Authorised, but not contracted for	**1,015,919**	530,354
	1,583,551	636,836

37. Commitments (continued)

(b) In the prior year, the Company has signed a letter of intent regarding the construction of two 300,000-kilowatt heat and electricity supply plants (the "Zhongshan Project") utilising the existing land and production facilities of ZPP. 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.

38. 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	**2008 HK$'000**	2007 HK$'000
Hotel management and other services fees received from fellow subsidiaries	*(i)*	**(7,180)**	(3,777)
Rental income from GDH Limited and certain of its subsidiaries	*(ii)*	**(5,514)**	(5,284)
Storage and handling fee income from an associate	*(iii)*	**(3,245)**	(3,203)
Service fees from fellow subsidiaries	*(iv)*	**(1,786)**	(811)
Dividend income received from an associate	*(v)*	**—**	(11,466)
Property management service fees paid to fellow subsidiaries	*(vi)*	**1,630**	1,374
Dividends paid to GDH Limited and certain of its subsidiaries by GH Holdings	*(vii)*	**17,299**	17,524
Dividends paid to GDH Limited and certain of its subsidiaries by the Company	*(viii)*	**376,577**	376,577

38. Related Party Transactions (continued)

(a) Transactions with related parties (continued)

Notes:

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

(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) *The management fee income arose from the accounting and administrative services provided by the Group to fellow subsidiaries. The fee charged is based on the actual costs incurred by the Group during the year.*

(v) *In 2007, the Company recorded HK$11,466,000 dividend income from an associate.*

(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) *During the year, out of the dividend distributions made by GH Holdings, a 88.45% subsidiary of the Group, to all its shareholders in accordance with their respective shareholdings in GH Holdings, the total divided distributions of approximately HK$17,299,000 (2007: HK$17,524,000), was paid or payable to GDH Limited and certain of its subsidiaries as shareholders of GH Holdings.*

(viii) *During the year, the Company paid dividends, in aggregate of approximately HK$376,577,000 (2007: 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.*

(b) Outstanding balances with related parties

		Group		**Company**	
		2008	2007	**2008**	2007
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Balances due from:					
Immediate holding company	*(i)*	**1,991**	606	**1,183**	—
Fellow subsidiaries	*(ii)*	**2,227**	2,685	**21**	37
Associate	*(iii)*	**7,280**	—	**—**	—
Balances due to:					
Immediate holding company	*(i)*	**(2,592)**	(7,138)	**—**	(162)
Fellow subsidiaries	*(ii)*	**(1,842)**	(7,398)	**—**	—

38. Related Party Transactions (continued)

(b) Outstanding balances with related parties (continued)

Notes:

(i) *The balances with the immediate holding company are unsecured, non-interest-bearing and have no specific terms of repayment.*

(ii) *The balances with fellow subsidiaries are unsecured, non-interest-bearing and have no specific terms of repayment.*

(iii) *The balance with an associate is unsecured, non-interest-bearing and has no specific terms of repayment.*

(iv) *As at 31 December 2008, of the advances made by the Company to Nan Fang Holdings, a 56.34% owned subsidiary of the Company, HK$264,482,000 (2007: HK$256,868,000) remained outstanding. Included in the amount due from Nan Fang Holdings is an unsecured loan of HK$81,479,000 (2007: HK$81,479,000) which bears interest at a rate of 9% (2007: 9%) per annum and is repayable on demand. The remaining balance of HK$183,003,000 (2007: HK$175,389,000) is unsecured, interest-free and has no specific terms of repayment.*

(v) *As at 31 December 2008, of the advance made by the Company to ZPHK, a 95% owned subsidiary of the Company, HK$109,390,000 (2007: HK$132,369,000) remained outstanding. The balance is unsecured, interest-free and has no specific terms of repayment.*

(vi) *As at 31 December 2008, of the advances made by a Company's wholly-owned subsidiary to ZPP, a 59.85% indirectly owned subsidiary of the Company, HK$58,554,000 (2007: Nil) remained outstanding. Included in the amount due from ZPP is an unsecured loan of HK$56,695,000 which bears interest at a rate of 4.05% per annum and repayable on 22 July 2009. The remaining balance of HK$1,859,000 is unsecured, interest-free and has no specific terms of repayment.*

(c) Compensation of key management personnel of the Group

	2008	2007
	HK$'000	HK$'000
Short term employee benefits	**3,923**	2,461
Post-employment benefits	**324**	261
Equity-settled share option expense	**1,298**	—
Total compensation paid to key management personnel	**5,545**	2,722

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

39. Continuing Connected Transactions

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

(a) Hotel Management Agreements

(i) On 1 May 2006, Guangdong (International) Hotel Management Holdings Limited ("GIHM"), a wholly-owned subsidiary of the Company, Guangdong Assets Management (BVI) No. 10 Limited, an indirect wholly-owned subsidiary of GDH Limited (which is a substantial shareholder of the Company), and Nam Yue Hotel Management Company Limited, an indirect wholly-owned subsidiary of GDH Limited, entered into a hotel management agreement in relation to the management of Fu Hua Guangdong Hotel (Macau) by GIHM for the period from 1 May 2006 to 30 April 2009 for an annual consideration of 2% on total operating income or HK$100,000, whichever is higher plus 10% on profit after tax (subject to adjustment);

(ii) On 18 April 2008, GIHM and Kwong Leung Hing (H.K.) Properties Company Limited, an indirect wholly-owned subsidiary of Guangdong Holdings Limited ("GHL") which holds 100% interest in GDH Limited, entered into a management service agreement in relation to the management of Guangdong Hotel (Zhengzhou) by GIHM for the period from 1 February 2008 to 31 December 2008 for a consideration of RMB3,336,000;

(iii) On 18 April 2008, Guangdong International Hotel Management (China) Limited ("GIHM (China)"), a wholly-owned subsidiary of GIHM, and Take Win Investment Limited, an indirect wholly-owned subsidiary of GDH Limited, entered into a management service agreement in relation to the management of Guangdong Hotel (Shanghai) by GIHM (China) for the period from 1 January 2008 to 31 December 2009 for a consideration of 2% on total operating income plus 6% of gross operating profits ("GOP");

(iv) On 18 April 2008, GIHM (China) and Shenzhen Dongshen Investment Holding Company Limited ("Shenzhen Dongshen"), a wholly-owned subsidiary of GHL, entered into a management service agreement in relation to the management of the Golden Lake Guangdong Hotel by GIHM (China) for the period from 1 January 2008 to 31 December 2010 for a consideration of 2% on total operating income plus 2% of GOP, subject to fulfilment of performance targets; and

(v) On 18 April 2008, GIHM (China) and Shenzhen Dongshen entered into a management service agreement in relation to the management of GDH Inn Hotel (Donghu) by GIHM (China) for the period from 1 January 2008 to 31 December 2010 for a consideration of 2% on total operating income plus 2% of GOP, subject to fulfilment of performance targets.

All of the above hotel management agreements are collectively referred to as the "Hotel Management Agreements".

During the year ended 31 December 2008, the total income arising from the hotel management and other services rendered to fellow subsidiaries in accordance with the terms of the Hotel Management Agreements amounted to HK$7,180,000 (2007: HK$3,777,000).

39. Continuing Connected Transactions (continued)

(b) Deposit Arrangements

On 4 August 2008, Shaoguan Power Plant (D) Ltd. ("Shaoguan PPD"), a non wholly-owned subsidiary of Guangdong Power International Limited ("GPIL") (which is a 51% owned subsidiary of the Company), and Guangdong Yudean Finance Co., Ltd. ("GY Finance"), a non-wholly-owned subsidiary of Guangdong Yudean Group Co., Ltd. (which has a 10% interest in Shaoguan PPD and is also the holding company of the 49% minority shareholder in GPIL) entered into a deposit agreement and an electronic settlement account management agreement (the "Deposit Arrangements") for Shaoguan PPD to open a deposit account with GY Finance and deposit its fund into the deposit account and for GY Finance to provide electronic settlement services to Shaoguan PPD until 31 December 2009.

During the year ended 31 December 2008, other than signing the agreements constituting the Deposit Arrangements and opening the deposit account pursuant thereto, there has been no further transaction between Shaoguan PPD and GY Finance and there has also been no payment to or from either Shaoguan PPD or GY Finance to the other.

The board of directors of the Company including all the independent non-executive directors have reviewed the aforesaid continuing connected transactions, and unanimously confirmed that they had been entered into (i) in the ordinary and usual course of the Group's business; (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor has confirmed in a letter to the board of directors of the Company that the 2008 continuing connected transactions:

(1) had received the approval of the board of directors of the Company;

(2) were in accordance with the pricing policies of the Group if such transactions involved provision of goods and services by the Group;

(3) were entered into in accordance with the terms of the relevant agreements governing such transactions; and

(4) did not exceed the respective cap amounts as referred to in the previous announcements.

40. Pledge of Assets

At 31 December 2008, none of the Group's property, plant and equipment, investment properties and bank deposits was pledged to secure the interest-bearing bank borrowings, and the general banking facilities granted to the Group (2007: Nil).

41. Financial Instruments by Category

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

2008

Financial assets

	Group			
	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	—	—	56,718	56,718
Financial assets included in receivables, prepayments and deposits	—	698,086	—	698,086
Derivative financial instruments	169,367	—	—	169,367
Restricted cash and bank balances	—	2,831	—	2,831
Cash and cash equivalents	—	4,096,977	—	4,096,977
	169,367	4,797,894	56,718	5,023,979

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
Financial liabilities included in payables, accruals and other liabilities	—	(1,384,464)	—	(1,384,464)
Derivative financial instruments	(194,747)	—	(513,495)	(708,242)
Due to minority shareholders of subsidiaries	—	(364,832)	—	(364,832)
Interest-bearing bank borrowings	—	(8,393,810)	—	(8,393,810)
Financial liabilities included in other liabilities	—	(143,472)	—	(143,472)
	(194,747)	(10,286,578)	(513,495)	(10,994,820)

41. Financial Instruments by Category (continued)

2007

Financial assets

	Group			
	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
Financial assets included in 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
Financial liabilities included in 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)

Financial assets

	Company	
	Loans and receivables	
	2008 **HK$'000**	2007 HK$'000
Due from subsidiaries	**3,848,806**	4,295,512
Financial assets included in receivables, prepayments and deposits	**35,021**	6,131
Cash and cash equivalents	**732,665**	487,367
	4,616,492	4,789,010

41. Financial Instruments by Category (continued)

Financial liabilities

	Financial liabilities at amortised cost	
	2008	2007
	HK$'000	HK$'000
Due to subsidiaries	**(55,467)**	(35,470)
Financial liabilities included in payables, accruals and other liabilities	**(5,256)**	(14,403)
	(60,723)	(49,873)

42. 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 29 to the financial statements.

At 31 December 2008, the Group had interest rate swap agreements with an aggregate notional contract amount of HK$5,200 million (2007: HK$5,200 million) which qualified as hedges. The swap agreements will mature over the next four years (2007: five years) matching the maturity of the Refinancing Facilities and have fixed swap interest rates ranging from 4.43% to 4.70% (2007: 4.43% to 4.70%) per annum.

42. 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 2008 was HK$538,875,000 (2007: HK$199,131,000). 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
2008			
Hong Kong dollar	**50**	**3,766**	**97,919**
Hong Kong dollar	**(50)**	**(3,766)**	**(97,919)**
2007			
Hong Kong dollar	50	4,488	116,696
Hong Kong dollar	(50)	(4,488)	(116,696)

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
2008			
Hong Kong dollar	**200**	**(41,280)**	**(41,280)**
Hong Kong dollar	**(15)**	**3,096**	**3,096**
2007			
Hong Kong dollar	10	(3,149)	(3,149)
Hong Kong dollar	(180)	56,682	56,682

42. 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/ (decrease) in RMB rate %	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity HK$'000
2008			
If Hong Kong dollar weakens against RMB	**2**	**(4,786)**	**(4,786)**
If Hong Kong dollar strengthens against RMB	**(2)**	**4,786**	**4,786**
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

(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.

42. Financial Risk Management Objectives and Policies (continued)

(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.

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

Year ended 31 December 2008	**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**
Financial liabilities included in payables, accruals and other liabilities	**427,802**	**582,585**	**374,077**	**—**	**—**	**1,384,464**
Derivative financial instruments, net	**—**	**—**	**169,942**	**493,530**	**—**	**663,472**
Due to minority shareholders of subsidiaries	**—**	**—**	**346,825**	**18,007**	**—**	**364,832**
Interest-bearing bank borrowings	**—**	**—**	**440,711**	**7,640,377**	**851,489**	**8,932,577**
Financial liabilities included in other liabilities	**—**	**—**	**—**	**143,472**	**—**	**143,472**
	427,802	**582,585**	**1,331,555**	**8,295,386**	**851,489**	**11,488,817**

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
Financial liabilities included in payables, accruals and other liabilities	292,839	490,768	476,351	—	—	1,259,958
Derivative financial instruments, net	—	—	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

42. Financial Risk Management Objectives and Policies (continued)

(iv) Liquidity risk (continued)

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 shareholders' 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 for managing capital during the years ended 31 December 2008 and 31 December 2007.

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.

	2008	2007
	HK$'000	HK$'000
Due to minority shareholders of subsidiaries	**364,832**	437,943
Interest-bearing bank borrowings	**8,393,810**	9,717,037
Less: Cash and cash equivalents	**(4,096,977)**	(2,684,533)
Net debt	**4,661,665**	7,470,447
Equity attributable to equity holders of the Company	**15,395,522**	14,024,995
Hedging reserve	**(437,264)**	(150,817)
Total adjusted capital	**14,958,258**	13,874,178
Net debt to adjusted capital ratio	**31%**	54%

43. Comparative Amounts

As further explained in note 2.2(c) to the financial statements, due to the adoption of HK(IFRIC)-Int 12 during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, prior year adjustment has been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

44. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 15 April 2009.

DETAILS OF MAJOR PROPERTIES HELD BY THE GROUP

31 December 2008

Details of Property, Plant and Equipment

Property	Lot No.	Category of lease	Use
The Wharney Guang Dong 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
Guangdong Hotel (Zhu Hai) No. 1145 Yuehai Road East Gongbei, Zhuhai Guangdong Province Mainland China	N/A	Medium term	Hotel, offices and serviced apartments
Shaoguan Power Plant D Wushi Town, Qujiang County Shaoguan City Guangdong Province 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 Guangdong Investment Tower, 148 Connaught Road Central 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

Details of Intangible Assets

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
Zhongshan Power Plant Lands and various buildings and structures of Huang Pu Town Zhongshan City Guangdong Province Mainland China	N/A	Short term	Factory