2011 Annual Report

Guangdong Investment Limited

粵 海 投 資 有 限 公 司

Stock Code : 0270

CONTENTS

CORPORATE INFORMATION
as at 19 March 2012

Board of Directors

Executive Directors

Mr. HUANG Xiaofeng *(Chairman)*
Mr. ZHANG Hui *(Managing Director)*
Mr. TSANG Hon Nam *(Chief Financial Officer)*

Non-Executive Directors

Dr. CHENG Mo Chi, Moses, *GBS, OBE, JP*
Mr. WU Jianguo
Ms. XU Wenfang
Mr. LI Wenyue
Mr. LI Wai Keung
Mr. SUN Yingming
Ms. ZHAO Chunxiao

Independent Non-Executive Directors

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

Audit Committee

Dr. the Honourable LI Kwok Po, David
(Committee Chairman)
Dr. CHAN Cho Chak, John
Mr. FUNG Daniel Richard
Dr. CHENG Mo Chi, Moses

Remuneration Committee

Dr. CHAN Cho Chak, John *(Committee Chairman)*
Dr. the Honourable LI Kwok Po, David
Mr. FUNG Daniel Richard
Dr. CHENG Mo Chi, Moses

Nomination Committee

Mr. HUANG Xiaofeng *(Committee Chairman)*
Dr. CHAN Cho Chak, John
Dr. the Honourable LI Kwok Po, David
Mr. FUNG Daniel Richard
Dr. CHENG Mo Chi, Moses

Company Secretary

Mrs. HO LAM Lai Ping, Theresa

Auditors

Ernst & Young

Principal Bankers

Bank of China (Hong Kong) Limited
Bank of China, Shenzhen Branch
China CITIC Bank, Guangzhou Branch
China Merchants Bank
DBS Bank Ltd., Hong Kong Branch
Goldman Sachs Capital Markets, L.P.
Industrial and Commercial Bank of China (Asia) Limited
Industrial and Commercial Bank of China, Shenzhen Branch
Malayan Banking Berhad
Standard Chartered Bank
The Hongkong and Shanghai Banking Corporation Limited
Wing Hang 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

Annual General Meeting	1 June 2012 10:00 a.m.
Final Dividend	11.0 HK cents per ordinary share, payable on 18 July 2012
Closure of Register of Members	
Annual General Meeting	30 May 2012 to 1 June 2012 (both days inclusive)
Final Dividend	11 June 2012 to 13 June 2012 (both days inclusive)

THE GROUP'S PRINCIPAL BUSINESSES

19 March 2012

Guangdong Investment Limited
粵海投資有限公司

Water Distribution

- 95.68% GH Water Supply (Holdings) Limited
  - 99% Guangdong Yue Gang Water Supply Company Limited
  - 49% Nansha GDH Water Co., Ltd. *(Huangge Water Plant)*

Electric Power Generation

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

Toll Roads and Bridges

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

19 March 2012

Property Investment and Development

76.09%
Guangdong Teem (Holdings) Limited*
(Teem Plaza)

100%
Tianjin Teem Limited*
(Tianjin Teem Shopping Mall project)

60%
Guangzhou Tianhecheng Investment Co., Ltd.*

68%
Guangzhou City Wanye Investment Management Co. Ltd.*

100%
Global Head Developments Limited
(Guangdong Investment Tower properties)

100%
Guangdong Properties Holdings Limited
(Guangdong Group Building properties)

Department Stores Operations

85.18%
Guangdong Teemall Department Stores Ltd.*

Hotel Operations and Management

76.09%
Sheraton Guangzhou Hotel

100%
Guangdong (International) Hotel Management Holdings Limited

100%
Fill Success Investments Limited
(Wharney Guangdong Hotel (Hong Kong))

100%
Guangdong Hotel Limited
(Guangdong Hotel (Hong Kong))

100%
Guangdong Hotel (Zhu Hai)*

99%
Shenzhen Guangdong Hotel Enterprise Ltd.*
(Guangdong Hotel (Shen Zhen))

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.*
(ii) * *English translation of the official Chinese name of the individual company.*

FINANCIAL HIGHLIGHTS

Financial highlights for the year ended 31 December

	2011 HK$'000	2010 HK$'000	Changes %
Revenue	**7,161,377**	6,351,741	12.7
Profit for the year attributable to owners of the Company	**2,994,097**	2,420,174	23.7
Earnings per share — Basic	**48.05 HK cents**	38.93 HK cents	23.4
Dividends per share			
Interim	**7.00 HK cents**	5.00 HK cents	
Proposed final	**11.00 HK cents**	10.00 HK cents	
	18.00 HK cents	15.00 HK cents	20.0
EBITDA	**5,412,341**	4,695,291	15.3
Owners' equity	**21,598,678**	19,116,501	13.0
Total assets	**34,831,564**	31,920,476	9.1
Net financial borrowings[7]	**1,587,848**	1,520,021	4.5

Key ratios (as at 31 December)

	2011	2010
Gearing[1]	**0.09X**	0.10X
Interest cover[2]	**33.46X**	27.08X
Liquidity[3]	**1.10X**	1.21X
Return on average owners' equity[4]	**14.71%**	13.39%
Post-tax return on average assets[5]	**10.40%**	8.99%
Dividend payout ratio[6]	**37%**	38%

Share information (as at 31 December)

	2011	2010
Number of ordinary shares (HK$0.5 per share) in issue	**6,233m**	6,231m
Market capitalisation	**HK$29,357m**	HK$24,924m
Closing market price per share	**HK$4.71**	HK$4.00
Basic earnings per share	**48.05 HK cents**	38.93 HK cents
Diluted earnings per share	**47.88 HK cents**	38.75 HK cents
Net asset value[8] per share	**HK$3.47**	HK$3.07

Notes:

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

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

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

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

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

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

7. *Financial borrowings – cash and cash equivalents*

8. *Excluded non-controlling interests*

Analysis of gross financial borrowings (as at 31 December)

	2011 HK$'000	2010 HK$'000
Loans maturity profile		
Within 1 year	**2,602,600**	838,449
In the 2nd year	**340,600**	2,540,200
In the 3rd to 5th years, inclusive	**1,318,406**	834,600
Over 5 years	**869,200**	1,147,400
	5,130,806	5,360,649
Currency	**%**	**%**
Hong Kong dollars	**88.1**	94.0
United States dollars	**11.9**	–
Renminbi	**–**	6.0
Interest rate	**%**	%
Floating	***74.7**	*73.5
Non-interest bearing	**25.3**	26.5

Note:

* The Group has entered into certain fixed interest rate swap agreements, amounting to HK$5,400 million (2010: HK$5,400 million).

Source of financing (as at 31 December 2011)

	Available, committed and utilised %
Interest-bearing bank borrowings	**74.7**
Non-interest-bearing borrowing	**25.3**
	100.0

Analysis of the Group's Businesses

An analysis of the Group's revenue and segment results by principal activity and geographical area of operations for the years ended 31 December 2011 and 2010 is as follows:

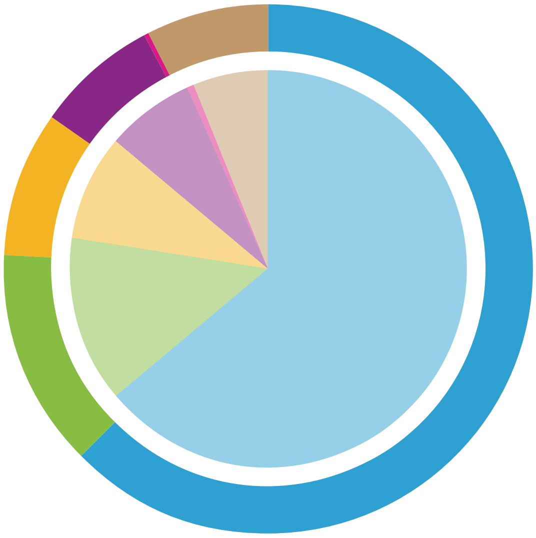
Year ended 31 December 2011

	Revenue		Segment results	
	HK$'000	**%**	**HK$'000**	**%**
By Activity:				
Water distribution	**4,493,385**	**62.75**	**2,585,631**	**57.92**
Property investment and development	**939,522**	**13.12**	**1,481,216**	**33.18**
Department stores	**649,343**	**9.07**	**257,801**	**5.78**
Electric power generation	**524,501**	**7.32**	**49,356**	**1.11**
Toll roads and bridges	**35,808**	**0.50**	**(108,762)**	**–**
Hotel operations and management	**518,818**	**7.24**	**89,753**	**2.01**
Others	**–**	**–**	**(25,340)**	**–**
	7,161,377	**100.00**	**4,329,655**	**100.00**
By Geographical Area:				
Mainland China	**6,882,888**	**96.11**		
Hong Kong	**278,489**	**3.89**		
	7,161,377	**100.00**		

Year ended 31 December 2010

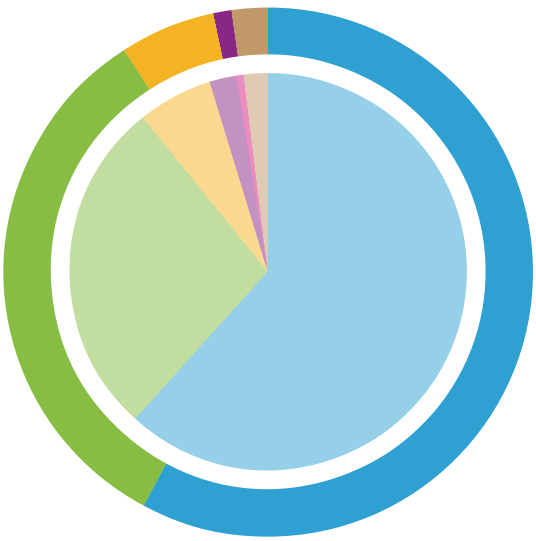
	Revenue		Segment results	
	HK$'000	%	HK$'000	%
By Activity:				
Water distribution	4,067,140	64.03	2,380,800	61.94
Property investment and development	859,542	13.53	1,052,572	27.38
Department stores	543,777	8.56	234,858	6.11
Electric power generation	467,245	7.36	81,244	2.11
Toll roads and bridges	36,624	0.58	21,136	0.55
Hotel operations and management	377,413	5.94	73,246	1.91
Others	–	–	(35,927)	–
	6,351,741	100.00	3,807,929	100.00
By Geographical Area:				
Mainland China	6,127,190	96.46		
Hong Kong	224,551	3.54		
	6,351,741	100.00		

Revenue by Operating Segments



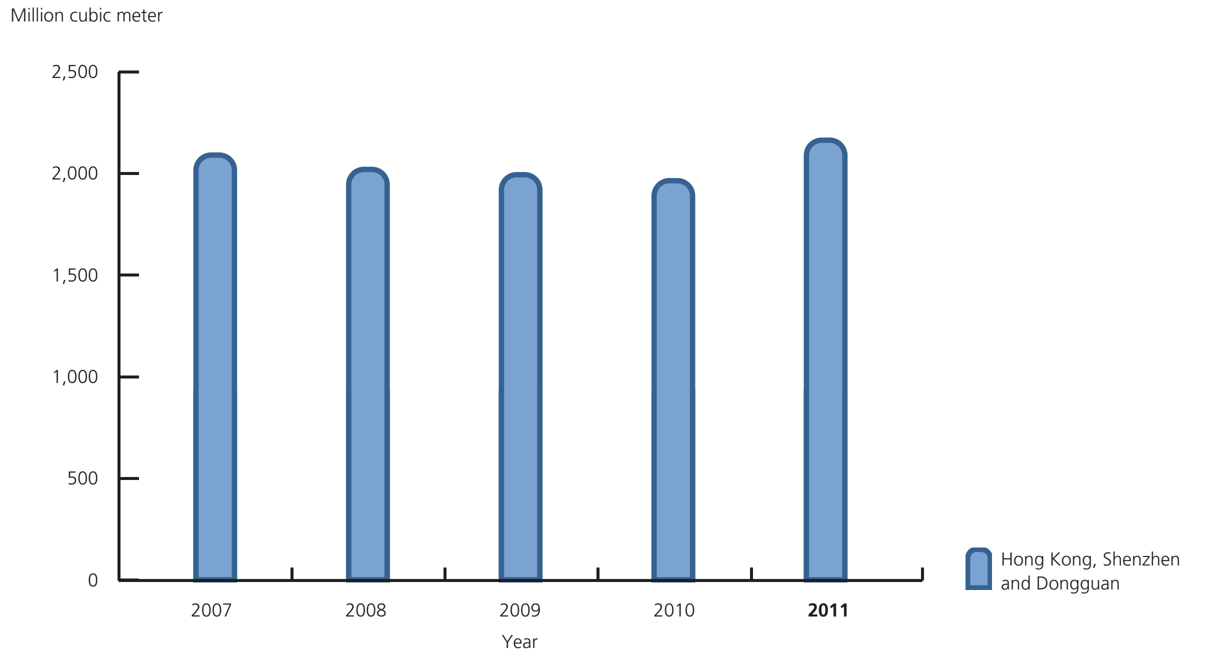
	2011	2010
Water distribution	62.75%	64.03%
Property investment and development	13.12%	13.53%
Department stores	9.07%	8.56%
Electric power generation	7.32%	7.36%
Toll roads and bridges	0.50%	0.58%
Hotel operations and management	7.24%	5.94%

Segment Results by Operating Segments

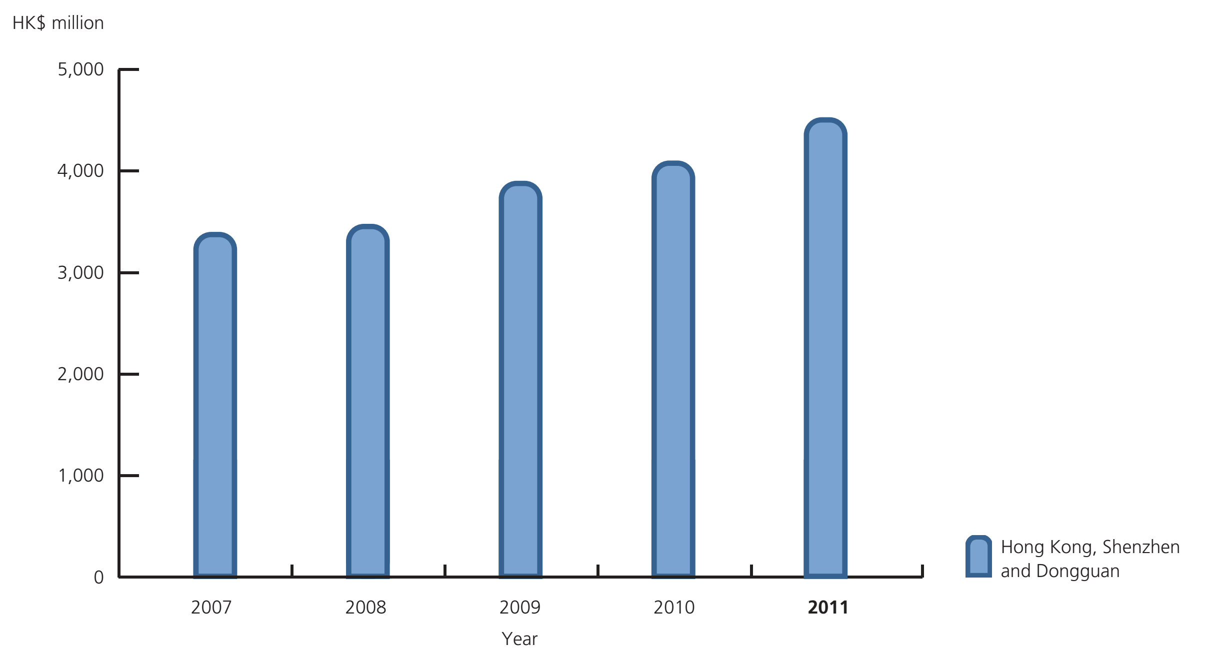


	2011	2010
Water distribution	57.92%	61.94%
Property investment and development	33.18%	27.38%
Department stores	5.78%	6.11%
Electric power generation	1.11%	2.11%
Toll roads and bridges	-	0.55%
Hotel operations and management	2.01%	1.91%

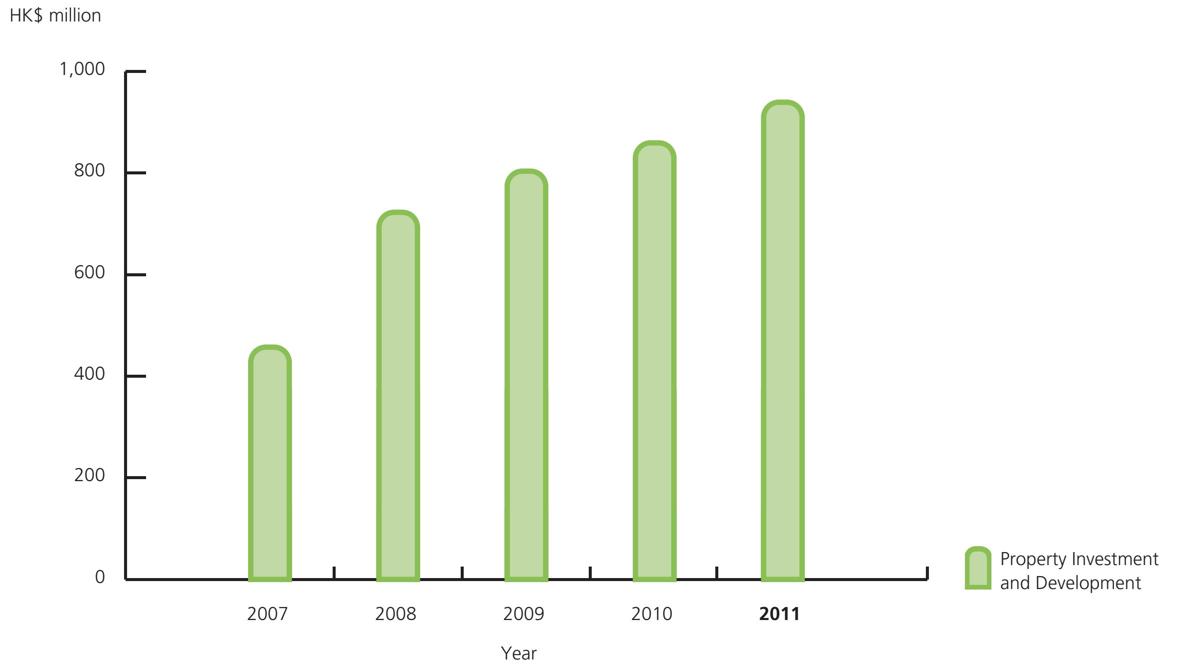
Water Distribution – Annual Volume



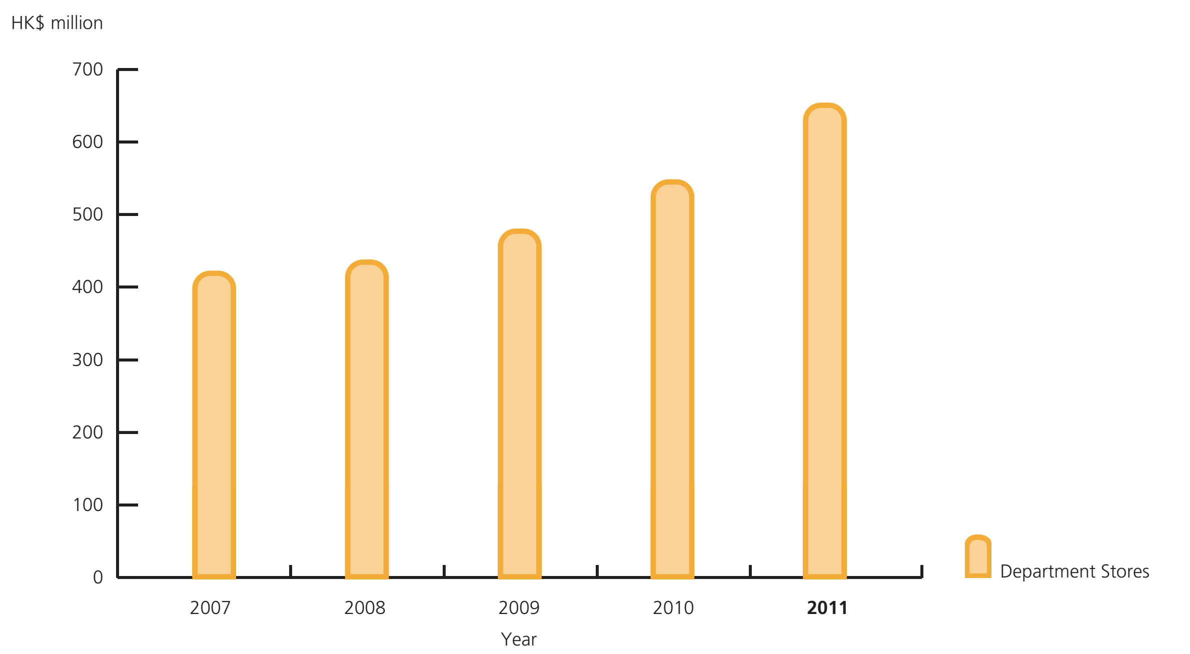
Water Distribution – Annual Revenue



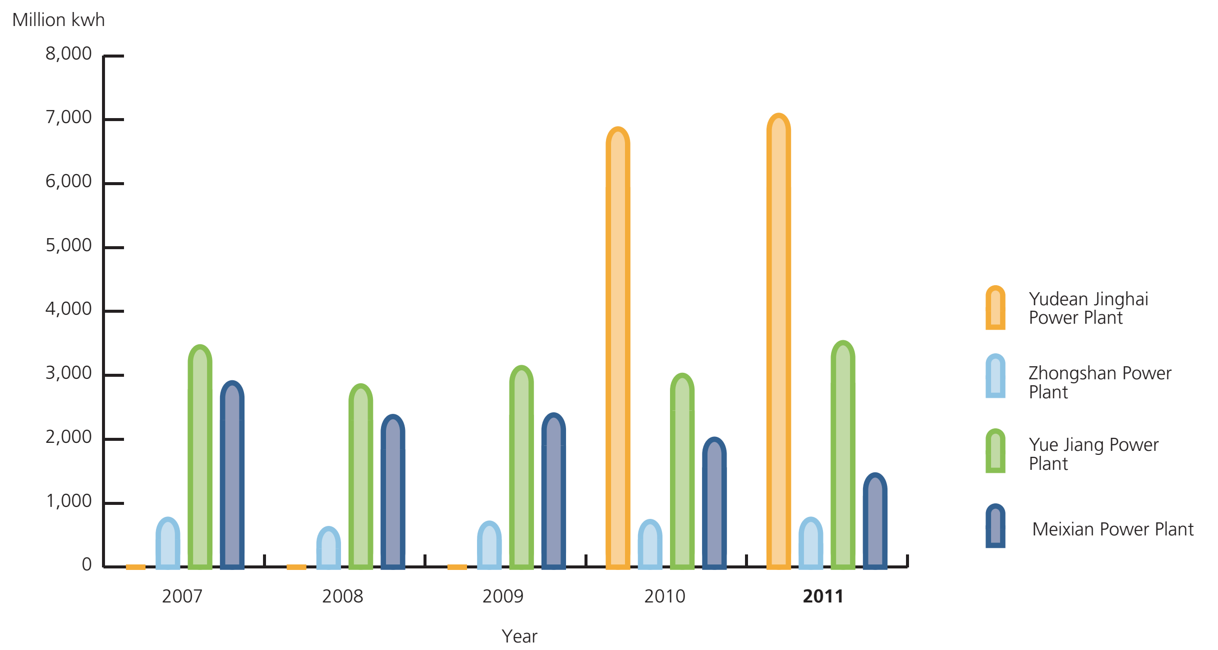
Property Investment and Development – Annual Revenue



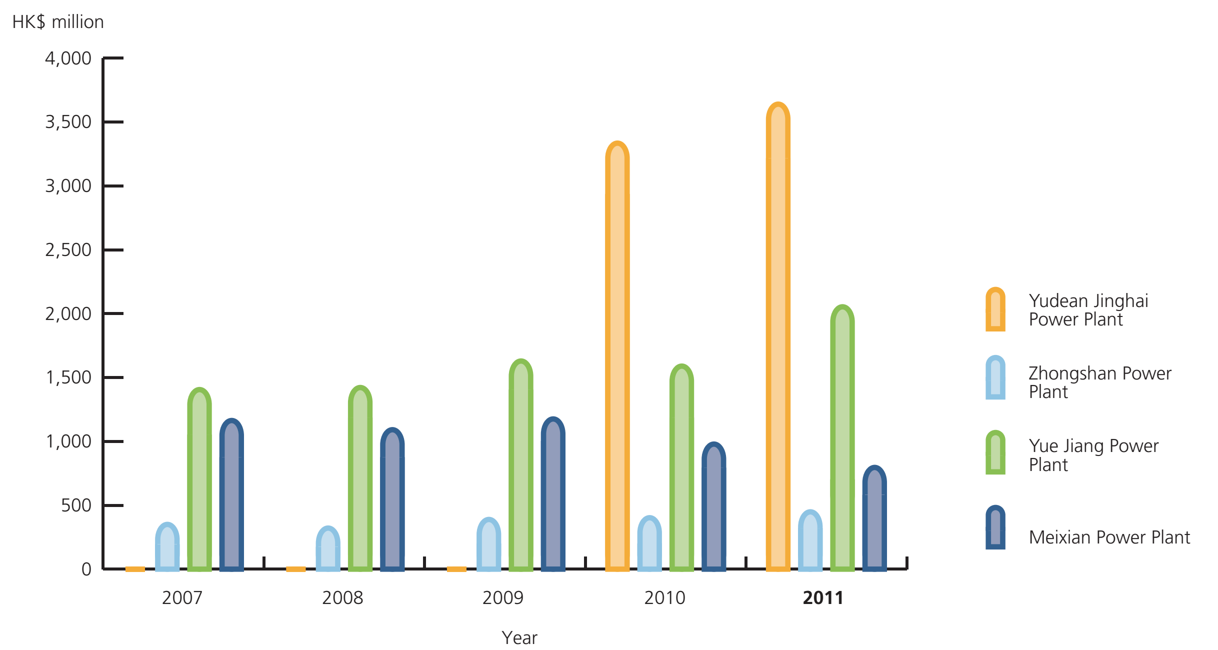
Department Stores – Annual Revenue



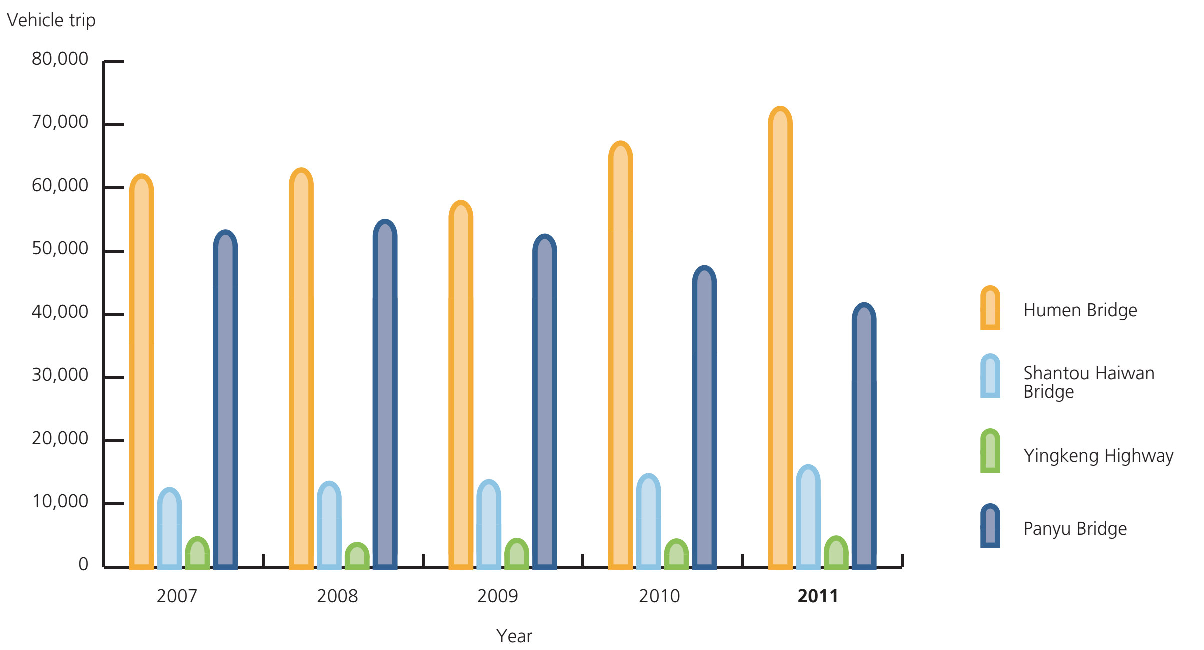
Electric Power Generation – Annual Sales of Electricity



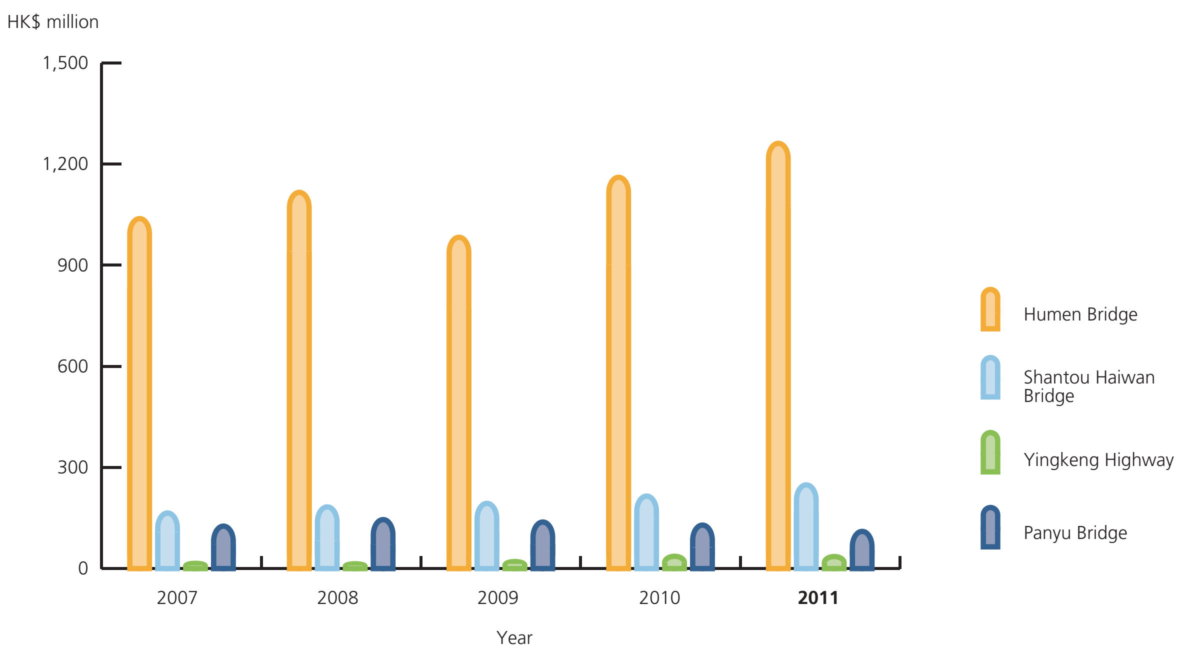
Electric Power Generation – Annual Revenue



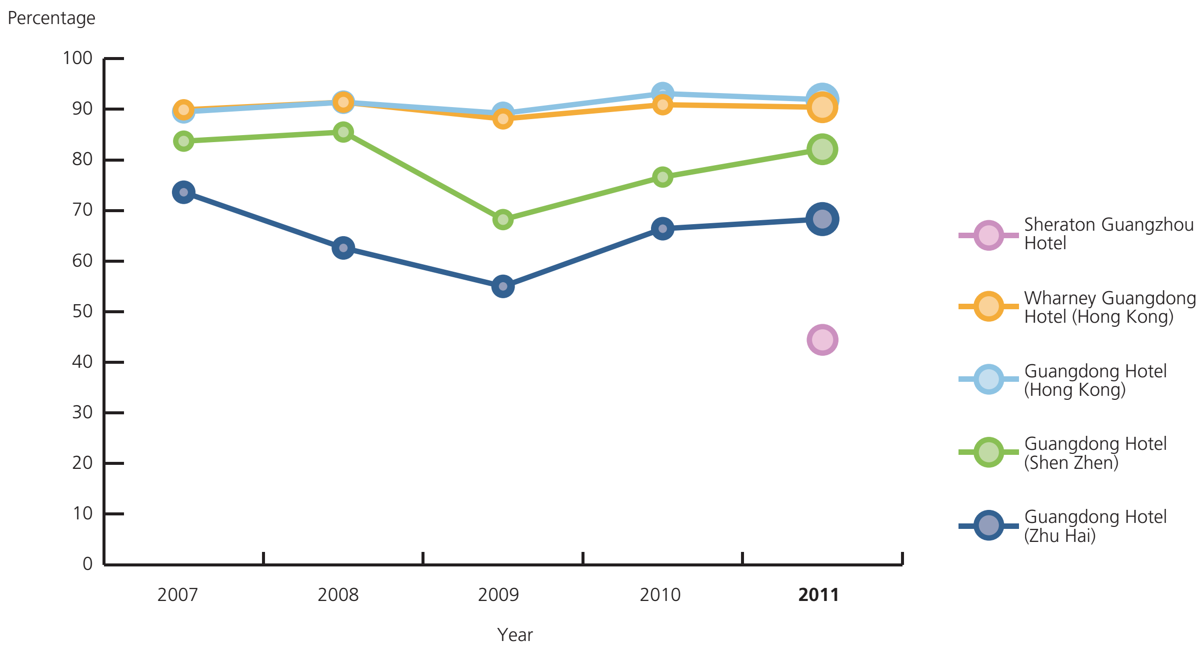
Toll Road and Bridges – Average Daily Traffic Flow



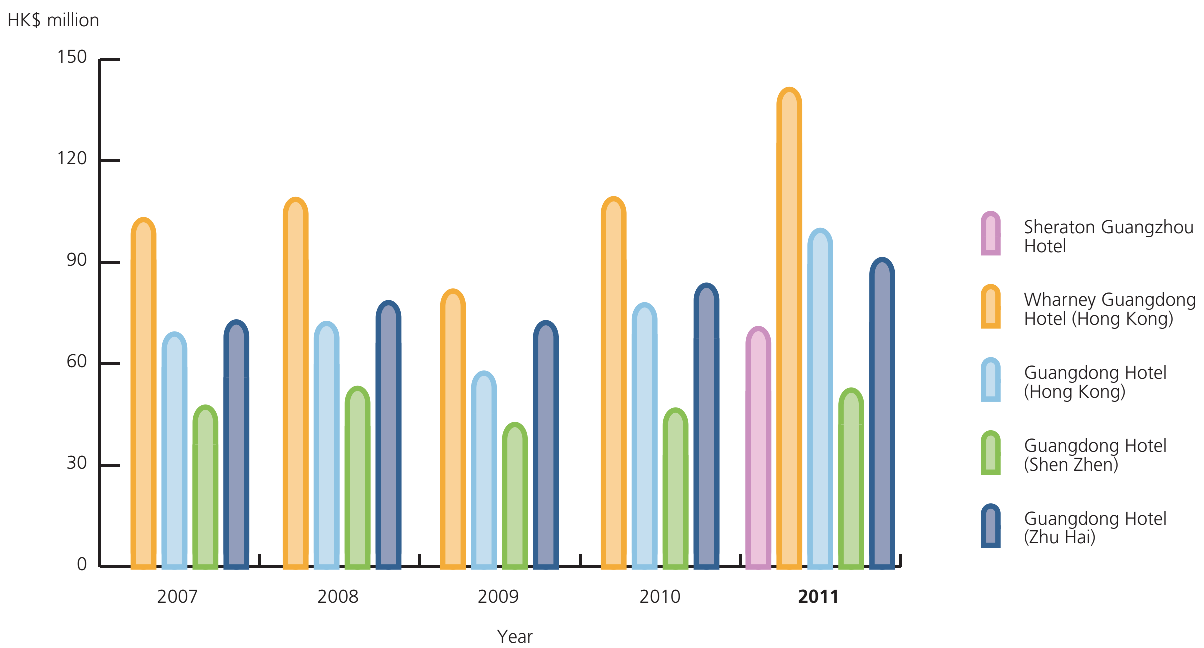
Toll Road and Bridges – Annual Revenue



Hotel Operations and Management – Occupancy Rate



Hotel Operations and Management – Annual Revenue



CHAIRMAN'S STATEMENT

Results

I am pleased to report to the shareholders that our results for 2011 maintained a steady growth. The Group's audited consolidated profit attributable to shareholders for 2011 amounted to HK$2,994 million (2010: HK$2,420 million), an increase of 23.7% over 2010. Basic earnings per share was 48.05 HK cents (2010: 38.93 HK cents), an increase of 23.4% over 2010.

Dividend

The board of directors (the "Board") recommends the payment of a final dividend of 11.0 HK cents per share for 2011. Aggregating such dividend with the interim dividend of 7.0 HK cents per share paid in 2011, the total dividend for the entire year will be 18.0 HK cents (2010: 15.0 HK cents) per share. The said 2011 final dividend, if approved by the shareholders of the Company at the forthcoming annual general meeting, will be paid on 18 July 2012.

Review

Confronted with challenges of continuous domestic and international economic turmoil against a backdrop of the deteriorating European debt crisis in 2011, the Group has managed to adopt scientific planning and take preventive measures by effectively integrating advantageous resources and optimizing our core businesses' competitive edge. By tapping the potential synergies in-depth, innovating the business model, creating a solid management foundation, grasping the opportunity to enhance efficiency, the Group has achieved good operating results in the increasingly competitive markets and secured a sustainable and healthy corporate development.

Through efforts made by the management, the Group's profit attributable to shareholders increased by 23.7% to HK$2,994 million, and profit before tax increased by 17.6% or HK$662 million to HK$4,422 million. The growth was mainly attributable to the contributions from our property investment and water distribution businesses but offset by the decrease in power generation business.

Prospects

Looking ahead in 2012, the continuing adverse influence of United States and European debt crisis will slow down the recovery of and may even aggravate the global economy. To meet new challenges and weather difficult times, the Group will seek to achieve a healthy and sustainable growth by unifying as a solid whole with all concerted efforts made by staff, analyzing the macroeconomic trends, optimizing internal control and management, enhancing our market competitiveness, and will strive to turn the external crisis into a new opportunity for internal development.

Bringing into full play of our capital strength, the Group will further enlarge and strengthen our existing advantageous businesses, secure and consolidate the leading position to grasp prime investment opportunities in the industry. Under the premise of a strict investment risk control, the Group will highly focus on potential investment opportunities that may emerge from water business and commercial properties. We will continue to optimize allocation of resources, focus on core business and identify our market position, in order to achieve a new leap forward in the Company's development and scale new heights in our operating results.

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

HUANG Xiaofeng
Chairman
Hong Kong, 19 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview

The consolidated revenue of the Group for 2011 was HK$7,161 million (2010: HK$6,352 million), an increase of 12.7% as compared with that in 2010. The growth was mainly contributed by the water distribution business, hotel businesses, department stores businesses and the property investment businesses.

The consolidated profit attributable to shareholders of the Group increased by 23.7% to HK$2,994 million (2010: HK$2,420 million). The profit before tax increased by 17.6% or HK$662 million to HK$4,422 million (2010: HK$3,760 million). The growth was mainly contributed by property investment and water distribution businesses but offset by the decrease in power generation business.

An increase in the fair value of investment properties of HK$777 million (2010: HK$381 million) was recorded during the year. Mainly because of the low interest rate and the decrease of financial borrowing of the Group, the finance cost decreased by 6.4% to HK$162 million.

The basic earnings per share were 48.05 HK cents (2010: 38.93 HK cents), representing an increase of 23.4% as compared with that in 2010.

Business Overview

A summary of the performance of the Group's major businesses during 2011 is as follows:

Water Distribution

Profit contribution from the Dongshen Water Supply Project remained a significant part of the Group. The Company's interest in GH Water Supply (Holdings) Limited ("GH Water Holdings") increased by 5.39% to 94.47% as at 31 December 2011. During the year, the Company has acquired additional interest in GH Water Holdings for a total consideration of HK$596,369,000. GH Water Holdings in turn has a 99% interest in Guangdong Yue Gang Water Supply Company Limited, owner of the Dongshen Water Supply Project.

The designed annual capacity of Dongshen Water Supply Project is 2.423 billion cubic meters. The total water supply to Hong Kong, Shenzhen and Dongguan during the year amounted to 2.163 billion cubic meters (2010: 1.963 billion cubic meters), an increase of 10.2%, generating revenue of HK$4,493,385,000 (2010: HK$4,067,140,000), an increase of 10.5%.

Pursuant to the Hong Kong Water Supply Agreement for 2009 to 2011 entered into between the Government of Hong Kong Special Administrative Region ("HKSAR") and the Guangdong Provincial Government ("GPG") in 2008, the total annual revenue for water sales to Hong Kong 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 Hong Kong Water Supply Agreement for 2012 to 2014 was signed between the Government of HKSAR and GPG during the year. Under the new Hong Kong Water Supply Agreement, the annual revenue for water sales to Hong Kong for the three years 2012, 2013 and 2014 are to be HK$3,538.70 million, HK$3,743.30 million and HK$3,959.34 million respectively.

The Hong Kong water sales revenue for the year increased by 6.3% to HK$3,344 million (2010: HK$3,146 million). The water sales revenue to Shenzhen and Dongguan areas for the year increased by 24.8% to HK$1,149,385,000 (2010: HK$921,140,000). The profit before tax of the water distribution business for the year was HK$2,424,171,000 (2010: HK$2,067,922,000), 17.2% higher than that in last year.

Electric Power Generation

Zhongshan Power Plant

The Group's effective interest in 中山火力發電有限公司 (Zhongshan Thermal Power Co., Ltd.) ("ZTP") is 59.85% (Zhongshan Power (Hong Kong) Limited ("ZPHK"), a 95% owned subsidiary of the Company holding a 63% interest in ZTP). ZTP has 2 power generation units with a total installed capacity of 110 MW and steam generation capacity of 80 tons per hour. Sales of electricity during the year amounted to 749 million kwh (2010: 713 million kwh), an increase of 5%. As a result of the increase in both the electricity sales and average electricity tariff, revenue for the year amounted to HK$448,750,000 (2010: HK$402,600,000), an increase of 11.5%. However, due to the increase in coal price, the profit margin for the year had decreased as compared to that in 2010. The profit before tax for the year was HK$56,054,000 (2010: HK$80,622,000).

On 22 July 2009, ZPHK entered into two agreements with 中山興中集團有限公司 (Zhongshan Xingzhong Group Co., Ltd.) ("Xing Zhong") regarding a proposed project for the construction of two 300 MW heat and electricity supply plants (the "Zhongshan Project") utilising the existing land and certain auxiliary facilities of ZTP. Pursuant to the aforesaid agreements, ZPHK and Xing Zhong have agreed to make additional contribution into ZTP in order to provide part of the funding for the Zhongshan Project, and their respective interests in ZTP will then be adjusted to 75% and 25% after the completion of the contribution. ZPHK and Xing Zhong have also agreed to extend the original term of the joint venture, which is due to expire in 2013, for another 30 years from the issue of new business licence to ZTP after the approval of the Zhongshan Project by the relevant PRC authorities. In order to facilitate the obtaining of all requisite PRC government approvals for the Zhongshan Project, the existing power generating units of ZTP may be closed down in the future.

廣東粵電靖海發電有限公司 (Guangdong Yudean Jinghai Power Generation Co., Ltd.)("Yudean Jinghai Power")

The Group has an indirect equity interest of 25% of Yudean Jinghai Power, which owns 2 power generation units with a total installed capacity of 1,200 MW. During the year, the Group made capital contributions into Yudean Jinghai Power amounted to HK$206,350,000. Sales of electricity for the year amounted to 7,068 million kwh (2010: 6,856 million kwh), an increase of 3.1%. Revenue for the year amounted to HK$3,640,257,000 (2010: HK$3,335,023,000), an increase of 9.2% which was mainly due to the increase in both the electricity sales and tariff. Due to the increase in coal price, profit before tax for the year decrease by 35.8% to HK$293,476,000 (2010:HK$456,977,000).

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

The Group's effective interest in Yue Jiang Power is 11.48%. Yue Jiang Power has 2 power generation units with a total installed capacity of 600 MW. Sales of the electricity for the year amounted to 3,512 million kwh (2010: 3,001 million kwh), an increase of 17.0%. Revenue for the year amounted to HK$2,061,454,000 (2010: HK$1,589,515,000) an increase of 29.7% which was mainly due to the increase in both the electricity sales and tariff. Due to the increase in coal price off setting the increase in revenue, loss before tax for the year amounted to HK$196,968,000 (2010: HK$200,407,000). As full provision was made against the investment in Yue Jiang Power in 2009, no further loss was shared from Yue Jiang Power in the Group for 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 ("GD Power Investment"), holding a 25% interest in the project). During the year, no dividend income was received by GD Power Investment from this investment (2010: Nil).

Toll Roads and Bridges

"2 Bridges"

During the year, the share of profit of a Group's 51% owned jointly-controlled entity (the "JCE") which holds interests in the "2 Bridges" project amounted to HK$82,588,000 in aggregate (2010: HK$89,585,000), a decrease of 7.8% as a result of tax rate of Humen Bridge increase to 24% (2010: 11%).

(i) Humen Bridge

The JCE has a profit sharing ratio of 23% in this project. During the year, average daily traffic flow of this bridge increased by 8.2% to 72,571 vehicle trips (2010: 67,080 vehicle trips). Revenue for the year amounted to HK$1,261,564,000 (2010: HK$1,160,920,000), an increase of 8.7%. Accordingly, the profit before tax for the year increased by 6.8% to HK$956,737,000 (2010: HK$895,890,000).

(ii) Shantou Haiwan Bridge

The JCE holds a 30% interest in this project. During the year, average daily traffic flow of this bridge increased by 9.7% to 15,871 vehicle trips (2010: 14,467 vehicle trips). Revenue for the year increased by 15.5% to HK$248,362,000 (2010: HK$215,118,000). The profit before tax for the year was HK$165,182,000 (2010: HK$158,125,000), an increase of 4.5%.

Yingkeng Highway

The Group's effective interest in this project is 70%. During the year, average daily traffic flow of this highway increased by 11.4% to 4,598 vehicle trips (2010: 4,127 vehicle trips). Revenue decreased by 2.2% to HK$35,808,000 (2010: HK$36,624,000) as the increase in traffic flow comprised mainly light vehicles paying a lower tariff. The loss before tax for the year was HK$110,612,000 (2010: profit before tax of HK$19,935,000) attributable to an impairment of approximately HK$124 million. After a nation-wide review of the toll road industry by government authorities, Yingkeng Highway may be classified as non-commercial toll road and may be required to stop collecting toll shortly.

Panyu Bridge

The Group's effective interest in this project is 20%. Since late 2010, part of the Panyu Bridge's traffic flow has been diverted because of Xin Guang Expressway becoming free of charge. During the year, the average daily traffic flow of this bridge decreased by 12.4% to 41,506 vehicle trips (2010: 47,367 vehicle trips). As a result, revenue for the year decreased by 14.5% to HK$110,401,000 (2010: HK$129,072,000). The profit before tax for the year decreased to HK$33,651,000 (2010: HK$59,430,000) due to the decrease in traffic flow and no land compensation (a compensation received for certain land resumed by government amounted to RMB12,952,000 in last year).

Property Investment

Mainland China

Teem Plaza

As at 31 December 2011, the Group held an effective equity interest of 76.09% in 廣東天河城（集團）股份有限公司 (Guangdong Teem (Holdings) Limited) ("GD Teem"), which owns the property Teem Plaza comprising of a shopping mall, an office building and a hotel. The shopping mall and the office building are investment properties of the Group. The Sheraton Guangzhou Hotel (粵海喜來登酒店), which was completed and opened in July 2011, is an owner-occupied hotel property.

During the year, revenue of Teem Plaza, comprising rental income from both the shopping mall (including rentals from department store run by the Group) and the office building, reached HK$966,434,000 (2010: HK$883,037,000), an increase of 9.4%. The profit before tax for the year, excluding the revaluation gain, increased by 6.8% to HK$676,934,000 (2010: HK$633,777,000).

The Teemall, one of the most popular shopping malls in the prime area of Guangzhou, has a total gross floor area and lettable area of approximately 160,000 square meters and 97,000 square meters respectively. The mall is operated at a full capacity with an average occupancy rate of approximately 99% during the year (2010: 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 use of the open tender system for selecting tenants resulted in an increase of rental income.

The office building, known as the Teem Tower (粵海天河城大廈), is a 45-storey Grade A office tower with a total gross floor area and lettable area of approximately 102,000 square meters and 90,000 square meters respectively. With an occupancy rate of 98% (2010: 93%) as at 31 December 2011, the total rental income for the year was HK$178,202,000 (2010: HK$152,710,000), an increase of 16.7%. The profit before tax for the year increased to HK$152,121,000 (2010: HK$147,294,000), an increase of 3.3%.

Tianjin Teem Shopping Mall

GD Teem acquired a piece of land in Tianjin in 2009. The land will be developed into a large-scale modern shopping mall with a total gross floor area above ground and underground of approximately 137,100 square meters and 56,000 square meters respectively. Due to the delay in the completion of the interchange station of Routes 3 and 4 of the metro mass transit lines, on top of which the Tianjin Teem Shopping Mall will be built, and the demolition and relocation work problem together with certain historical and heritage property within the land that needs to be resolved, it is anticipated that the construction work of the Tianjin Teem Shopping Mall will be completed around the end of 2016. The estimated total investment of the project is now revised from RMB2.13 billion to about RMB2.3 billion, of which approximately HK$1,224 million has been invested as at 31 December 2011.

Acquisition of a 40% equity interest in each of the Target Companies (as defined below)

On 28 November 2011, GD Teem entered into a conditional equity transfer agreement with Guangdong Holdings, pursuant to which, GD Teem agreed to acquire from Guangdong Holdings a 40% equity interest in each of 廣東三誠經濟發展有限公司 (Guangdong Sancheng Economic Development Company Limited), 廣州金東源房地產開發有限公司 (Guangzhou Jindongyuan Real Estate Development Company Limited) and 廣州天源投資管理有限公司 (Guangzhou Tianyuan Investment Management Company Limited), collectively the Target Companies (the "Acquisition"). These Target Companies are property holding companies, directly or indirectly holding developed properties or property projects under development in Guangzhou, PRC.

As at 31 December 2011, an amount of RMB135 million was paid by GD Teem to Guangdong Holdings for the transfer of equity interest in the Target Companies to GD Teem. In addition, an amount of RMB2,013 million was made to Guangdong Holdings, representing a 40% share of the shareholders' loans made to the Target Companies by Guangdong Holdings, in form of entrusted loans (the "Entrusted Loans") through a PRC Bank. In connection to the amount made, Guangdong Holdings has assigned all the rights and obligations relating to 40% of the Entrusted Loans to GD Teem through various assignment agreements.

Further details on the Acquisition are included in the Company's announcement on 28 November 2011 and the Company's circular dated 12 December 2011.

Hong Kong

Guangdong Investment Tower

Average occupancy rate of the Guangdong Investment Tower for the year was 99.5% (2010: 99.5%), which was the same as that in 2010. Due to the increase in average rental, the total rental income for the year was HK$33,369,000 (2010: HK$32,890,000), an increase of 1.5%.

Department Stores Operations

As at 31 December 2011, the Group held an effective interest of approximately 85.18% in both 廣東天河城百貨有限公司 (Guangdong Teemall Department Stores Ltd.) ("GDTDS") and 廣州市天河城萬博百貨有限公司 ("天河城萬博"). GDTDS operates the Teemall Store in Teem Plaza, it also operates Teemall Store – Beijing road branch ("Ming Sheng Store"), 奧體歐萊斯名牌折扣店 ("Ao Ti Store"), 白雲新城百貨店 ("Baiyun New Town Store") and 東圃百貨店 ("Dong Pu Store"). 天河城萬博 operates the 天河城百貨歐萊斯折扣店 ("Wan Bo Store"). The 6 stores in aggregate with leased area of approximately 126,700 square meters (2010: 63,000 square meters) generated revenue of HK$649,343,000 (2010: HK$543,777,000), an increase of 19.4%. The profit before tax for the year was HK$279,504,000 (2010: HK$254,049,000), an increase of 10.0%.

The Teemall Store sells a wide range of products and its sales rank very high among the major department stores in Guangzhou. The revenue of the Teemall Store increased by 14.8% to HK$497,469,000 (2010: HK$433,505,000) arising from the improvement of the retail market and the success of various promotional activities launched at Teemall Store during the year.

The revenue of Ming Sheng Store for the year was HK$57,666,000 (2010: HK$46,677,000), an increase of 23.5%. The Ao Ti Store, which is operated as an outlet mall, was opened in April 2011 and its revenue for the year was HK$12,725,000. The Baiyun New Town Store was opened in November 2011 and its revenue for the year was HK$1,939,000. The Dong Pu Store was opened in December 2011 and its revenue for the year was HK$134,000.

The Wan Bo Store, which is operated as an outlet mall, sells brand-name products at a substantial discount. The revenue of Wan Bo Store for the year was HK$79,410,000 (2010: HK$63,595,000), an increase of 24.9%.

During the year, the Group's share of profit of 廣東吉之島天貿百貨有限公司 (Guangdong Jusco Teem Stores Co., Ltd.), an 26.63% associate of the Group, amounted to HK$49,160,000 (2010: HK$39,725,000), an increase of 23.8%.

Hotel Operations and Management

As at 31 December 2011, our hotel management team managed a total of 43 hotels (2010: 38 hotels), of which 2 were in Hong Kong, 1 in Macau and 40 in Mainland China. Of these 43 hotels, 7 were owned or lease owned by the Group (2 in Hong Kong, 2 in Shenzhen, 1 in Zhuhai, 1 in Zhengzhou and 1 in Changzhou). Another hotel, namely Sheraton Guangzhou Hotel, which was opened in July 2011, is owned by the Group and under the management of Sheraton Overseas Management Corporation.

Among the 8 hotels owned or lease owned by the Group, 5 are star-rated hotels and 3 are limited service hotels. During the year, the average room rate of the star-rated hotels of the Group (excluding Sheraton Guangzhou Hotel) in Hong Kong, Shenzhen and Zhuhai was HK$751 (2010: HK$612), an increase of 22.7%, while Sheraton Guangzhou Hotel recorded an average room rate of HK$1,318 during the year. The average room rate of the 3 limited service hotels of the Group in Shenzhen, Zhengzhou and Changzhou was HK$213 (2010: HK$202), an increase of 5.4%.

For the hotel operations and management business as a whole, the revenue for the year increased by 37.5% to HK$518,818,000 (2010: HK$377,413,000), and profit before tax increased by 23.9% to HK$93,472,000 (2010: HK$75,448,000).

Liquidity, Gearing and Financial Resources

As at 31 December 2011, the cash and bank balances of the Group decreased by HK$298 million to HK$3,543 million (2010: HK$3,841 million), of which 15% in Hong Kong dollars, 81% in Renminbi and 4% in US dollars.

During the year, the Group's financial borrowings decreased by HK$230 million due to the repayment of certain interest-bearing debts.

As at 31 December 2011, the Group's financial borrowings amounted to HK$5,131 million (2010: HK$5,361 million), of which 12% in US dollars and 88% in Hong Kong dollars, including the non-interest-bearing receipt in advance of HK$1,300 million. Of the Group's total financial borrowings, HK$2,603 million was repayable within one year while the remaining balance of HK$1,659 million and HK$869 million are repayable within two to five years and beyond five years from the end of reporting period respectively.

The Group maintained credit facilities of USD20 million and RMB50 million as at 31 December 2011 (2010: Nil).

The gearing (i.e. net financial indebtedness/net asset value (excluded non-controlling interests)) of the Group as at 31 December 2011 was 9% (2010: 10%). The improvement is in fact a reflection of the reduction in the level of the Group's financial borrowings and the increase in the net assets of the Group. The Group is in a healthy debt servicing position as the EBITDA/finance cost is 33.5 times (2010: 27.1 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 2011, none of the Group's property, plant and equipment, investment properties, intangible assets and bank deposits was pledged to secure general banking facilities granted to the Group (2010: Nil).

Capital Expenditure

The Group's capital expenditure in 2011 amounted to HK$370 million which was principally related to the land and development cost for the Tianjin Teem Shopping Mall and the Sheraton Guangzhou Hotel.

Exposure to Fluctuations in Exchange and Interest Rates and Related Hedges

As at 31 December 2011, total US dollars borrowings amounted to HK$609 million (2010: Renminbi borrowings: HK$320 million). The foreign currency risk exposure was considered to be minimal and no hedging was considered necessary.

As at 31 December 2011, the Group's total floating rate borrowings amounted to HK$3,831 million (2010: HK$3,942 million). For the purpose of interest rate risk management, the Group has entered into certain fixed interest rate swap agreements, amounting to HK$5,400 million (2010: HK$5,400 million), which will be terminated at the end of 2012.

Employee and Remuneration Policy

As at 31 December 2011, the Group had a total of 4,295 employees, of which 770 were at the managerial level. Among the employees, 4,070 were employed by subsidiaries in Mainland China and 225 were employed by the head office and subsidiaries in Hong Kong. Total remuneration paid for the year was approximately HK$503,895,000 (2010: HK$412,823,000).

In 2011, even when facing the challenges of global economic recession and domestic growth slowdown, the Group has raised its management standard further for efficiency and competitive advantages guided by the scientific approach to development. All these measures have made it possible for the Group to successfully maintain a stable and healthy growth. In the past year, the Group has implemented the core value of corporate culture, "Credibility, Integrity and Profitability", as well as, a set of people-oriented human resources strategies, which aim at improving the performance appraisal, assessment, incentive mechanisms and human resources management system, creating an environment of nurturing, training and developing management and technical personnel, so as to satisfy the requirement of corporate rapid development. Hong Kong, with its geographical advantage and attractiveness to excellent talents, will be treated as a platform by the Group to recruit various talents from home and abroad. In addition, the Group will strive to build a good environment for them to grow, so as to nurture and develop various excellent employees according with our growth. The Group has put in place the mechanism for regular performance appraisals of and feedback to senior management staff to ensure their integrity and performance. Our remuneration and incentive packages are driven mainly by the operating results. In order to effectively motivate our employees, the incentive bonuses we pay to our management, key staff and employees with outstanding performance are determined by reference to the operating net cash flows and profits after tax, as well as by a policy that links rewards with individual performance. The Group has adopted a share option scheme to attract and motivate outstanding employees to contribute to the continuing success of the Group in the long run. In terms of staff training and development, the Group encourages and subsidizes our staff to actively participate in relevant professional development and training programs. The Group has also continued to offer its various functional skilled-based and general corporate culture internal training to upgrade the overall quality of all our staff and thereby lay down a solid foundation for the sustainable growth and development of the Group in the years ahead.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

Directors

Mr. HUANG Xiaofeng, aged 53, was appointed a Non-Executive Director of the Company on 26 June 2008. He was appointed the Chairman and re-designated as an Executive Director of the Company with effect from 11 November 2010. Mr. Huang graduated from South China Normal University and holds a Bachelor's degree in History. He also holds a Master's degree in Public Administration from the Sun Yat-Sen University. From 1987 to 1999, he worked for 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 廣東粵海控股有限公司 (Guangdong Holdings Limited) ("Guangdong Holdings") in April 2008 and was subsequently appointed as an Executive Director and a Deputy General Manager of GDH Limited ("GDH"). Mr. Huang was appointed General Manager of both Guangdong Holdings and GDH in February 2009. He was appointed as the Chairman of Guangdong Holdings and GDH in September 2010 and October 2010, respectively. Guangdong Holdings and GDH are the ultimate holding company and the immediate holding company of the Company, respectively. In October 2008, Mr. Huang was appointed a Non-Executive Director of Guangnan (Holdings) Limited ("Guangnan Holdings") and Kingway Brewery Holdings Limited ("Kingway Brewery"), respectively. He was subsequently appointed the Chairman of Kingway Brewery in November 2010. Both Guangnan Holdings and Kingway Brewery are subsidiaries of GDH.

Mr. ZHANG Hui, aged 53, 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 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 from July 1996 to September 2000 in a number of positions including Section Chief and Vice President. He joined the Company in July 2002. He is also the Chairman of 廣東天河城(集團)股份有限公司 (Guangdong Teem (Holdings) Limited), a subsidiary of the Company. He was appointed a Director of GDH in December 2008. He is also the Chairman of both GDH Real Estates (China) Limited ("GDH Real Estates (China)") and 廣東粵港投資開發有限公司 (Guangdong Yue Gang Investment Development Company Limited) ("Yue Gang Investment Development"). GDH Real Estates (China) and Yue Gang Investment Development are subsidiaries of GDH and Guangdong Holdings, respectively.

Mr. TSANG Hon Nam, aged 42, 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 during the period from February 2004 to April 2008. Before joining Guangnan Holdings he had acted as Deputy General Manager of the Finance Department of GDH and had also worked for Guangdong Enterprises (Holdings) Limited.

Dr. CHENG Mo Chi, Moses, *GBS, OBE, JP*, aged 62, was appointed an Independent Non-Executive Director of the Company on 25 November 1999. He was re-designated as a Non-Executive Director of the Company on 13 October 2004.

Dr. Cheng is a practising solicitor and the senior partner of Messrs. P.C. Woo & Co.. Dr. Cheng was a member of the Legislative Council of Hong Kong. He is the founder chairman of the Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. Dr. Cheng currently holds directorships in City Telecom (H.K.) Limited, China Mobile Limited, China Resources Enterprise, Limited, Towngas China Company Limited, Hong Kong Exchanges and Clearing Limited, K. Wah International Holdings Limited, Liu Chong Hing Investment Limited, Kader Holdings Company Limited and Tian An China Investments Company Limited, all being public listed companies in Hong Kong. His other directorships in public listed companies in Hong Kong in the last three years include Galaxy Entertainment Group Limited and China COSCO Holdings Company Limited. He is also an Independent Non-Executive Director of ARA Asset Management Limited, a company whose shares are listed on Singapore Exchange Limited. On 1 September 2010, he resigned as an Independent Non-Executive Director of ARA Asset Management (Fortune) Limited, which manages Fortune Real Estate Investment Trust (the "Trust"). The Trust, a real estate investment trust listed on Singapore Exchange Limited, was listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") effective 20 April 2010.

Mr. WU Jianguo, aged 54, was appointed a Non-Executive Director of the Company on 11 November 2010. Mr. Wu holds a Bachelor's Degree in Economics and Management from Guangdong Provincial Party School. From 1988 to 2004, he worked for the Organisation Department of the Guangdong Provincial Party Committee in a number of positions. From June 2004 to March 2010, he served as Director of Personnel Department and Deputy Director of the Guangdong State-Owned Assets Supervision and Administration Commission. Mr. Wu was appointed as a Director and Secretary of the Discipline and Inspection Group of Guangdong Holdings, and an Executive Director of GDH in March 2010.

Ms. XU Wenfang, aged 57, 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 from International East-West University, USA. 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 of both Guangdong Holdings and GDH, and is responsible for human resources management. Ms. Xu was appointed a Non-Executive Director of Kingway Brewery in November 2010. Ms. Xu is currently the Chairman of GH Water Supply (Holdings) Limited and Guangdong Yue Gang Water Supply Company Limited, both of which are subsidiaries of the Company. She is also the Chairman of 廣東粵港建設發展有限公司 (Guangdong Yue Gang Construction Development Company Limited), a company which is a wholly-owned subsidiary of Guangdong Holdings.

Mr. LI Wenyue, aged 61, 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 position as Managing Director. He has been re-designated as a Non-Executive Director and ceased to act as the Chairman of the Company with effect from 11 November 2010. He was appointed a Director and the General Manager of Guangdong Holdings and GDH in July 2000 and August 2000, respectively. He was also appointed the Chairman of both Guangdong Holdings and GDH in April 2005. Mr. Li subsequently ceased to act as General Manager of both Guangdong Holdings and GDH in February 2009. He no longer has official duties in Guangdong Holdings and GDH effective from 25 September 2010 and 15 October 2010 respectively, but Mr. Li's payroll relationship with GDH continues to be maintained. Mr. Li acted as the Chairman of the Board of Directors of Kingway Brewery, between July 2008 and November 2010. 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 GDE. He has a Master's degree in Engineering from Tsinghua University.

Mr. LI Wai Keung, aged 55, 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 Henderson Land Development Company Limited. Mr. Li who has been an Executive Director and the Chief Financial Officer of GDH since August 2000 is currently the Chief Financial Officer of Guangdong Holdings as well. He was appointed a Non-Executive Director of Kingway Brewery on 3 October 2011 and has been re-designated as an Executive Director on 8 March 2012. He is also an Independent Non-Executive Director of Shenzhen Investment Limited, Hans Energy Company Limited and China South City Holdings Limited and a Director of Shenzhen City Airport (Group) Company Limited. He is a member on the Council of the Hong Kong Chinese Orchestra Limited and the Vice Chairman of the Financial and Accounting Affairs Steering Committee of the Hong Kong Chinese Enterprises Association. He had been an Independent Non-Executive Director of Hong Long Holdings Limited during the period from March 2010 to May 2011.

Mr. SUN Yingming, aged 59, 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 and a Director of GDH since 2001. Mr. Sun is also the Chief Audit and Supervision Officer and the General Manager of the Audit and Supervision Department of Guangdong Holdings.

Ms. ZHAO Chunxiao, aged 42, was appointed a Non-Executive Director of the Company on 30 August 2011. Ms. Zhao was graduated from Liaoning Normal University (Faculty of Chinese Studies) and the School of China Journalism and Communication (major in Domestic News) and obtained two Bachelor's degrees. From 1994 to 2002, she worked for the Guangdong Branch of Xinhua News Agency as Director of the Finance Office and also Director of the Featured News Division. Between 2003 and 2008, she held a number of positions in Asia Television Limited including Director of Information Division of News and Public Relations Department and Assistant Vice President. Ms. Zhao was appointed as the Deputy General Manager of the Administration Department of GDH and Guangdong Holdings in December 2008 and January 2009 respectively. She was appointed the General Manager of the Administration Department of Guangdong Holdings and GDH and also the Company Secretary of GDH in December 2009. Ms. Zhao was appointed as the Chief Administration Officer of both of Guangdong Holdings and GDH in December 2010.

Dr. CHAN Cho Chak, John, *GBS, JP*, aged 68, was appointed an Independent Non-Executive Director of the Company on 25 June 1998.

Dr. Chan is also a Non-Executive Director of The Kowloon Motor Bus Company (1933) Limited and Long Win Bus Company Limited, and a Non-Executive Director and Chairman of RoadShow Holdings Limited. He is also an Independent Non-Executive Director of Hang Seng Bank Limited, Fordwell International Holdings Limited and Swire Properties Limited. Swire Properties Limited was listed on the Hong Kong Stock Exchange effective 18 January 2012. He has been re-designated from a Non-Executive Director to an Independent Non-Executive Director of Transport International Holdings Limited with effect from 4 January 2012. He is the Chairman of the Council of the Sir Edward Youde Memorial Fund and a Director of The Community Chest.

Dr. 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 and the degree of Doctor of Social Sciences (honoris causa) by the Hong Kong University of Science and Technology in November 2009 and by the University of Hong Kong in March 2011.

Dr. 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.

Dr. 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, the Managing Director of Transport International Holdings Limited from 1997 to April 2008 and the Chairman of The Hong Kong Jockey Club from 2006 to August 2010.

Dr. 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 (Edinburgh Napier), Hon. D.Hum.Litt. (Trinity, USA), Hon. DSocSc (Lingnan), Hon. LLD (Hong Kong), Hon. LLD (Warwick), Hon. LLD (Cantab), Hon. DLitt (Macquarie), 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, Commandeur dans l'Ordre National de la Légion d'Honneur*, aged 73, 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 and 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, an Advisory Committee Member of the Chinese University of Hong Kong S.H. Ho College, an Honorary Fellow of the School of Accountancy, Central University of Finance and Economics and a Companion of the Chartered Management Institute.

Dr. Li is the Chairman of The Chinese Banks' Association, Limited and The Hong Kong Management Association. He is the Honorary Advisor of the International Chamber of Commerce — Hong Kong, China, the First Honorary Chairman of the Hong Kong Chamber of Commerce in China and a Senior Professional Advisor of the Hong Kong China Chamber of Commerce. He is also the Honorary Chairman of The Chamber of Hong Kong Listed Companies and The Hong Kong Chi Tung Association Limited. Dr. Li is Vice President of the Council of the Hong Kong Institute of Bankers, Chairman of the Saint Joseph's College Foundation Limited, a member of the Advisory Board of the Judge Business School at the University of Cambridge and a member of the International Advisory Council of the Cambridge Commonwealth Trust and Cambridge Overseas Trust. He is also an Emeritus Trustee of the Cambridge Foundation and a Trustee Emeritus of the Institute for Advanced Study in Princeton. Dr. Li is Chairman of the Advisory Board of The Salvation Army Hong Kong and Macau Command, Chairman of the Executive Committee of St. James' Settlement and he also serves on the Hong Kong Red Cross Advisory Board. He is a Council Member of the Employers' Federation of Hong Kong, a Director of the David Li Kwok-po Charitable Foundation Limited, a Founder Member and an Executive Committee Member of the Heung Yee Kuk Foundation Limited and Chairman and President of The Légion d'Honneur Club Hong Kong Chapter Association Limited.

Dr. Li is a Director of AFFIN Holdings Berhad (listed in Malaysia), CaixaBank, S.A. (formerly known as Criteria CaixaCorp, S.A.) (listed in Spain), China Overseas Land & Investment Limited, COSCO Pacific Limited, The Hong Kong and China Gas Company Limited, The Hongkong and Shanghai Hotels, Limited, PCCW Limited, San Miguel Brewery Hong Kong Limited, SCMP Group Limited and Vitasoy International Holdings Limited. He is also a Director of Hong Kong Interbank Clearing Limited and The Hong Kong Mortgage Corporation Limited.

Dr. Li is a member of the Board of Trustees of the Asia Society International Council, a member of the Asia Business Council, a member of the Deutsche Bank Asia Pacific Advisory Board, a member of the Munich Re Greater China Advisory Board, and Chairman Emeritus of the Asian Youth Orchestra Board. He serves on the advisory boards of Carlos P. Romulo Foundation for Peace and Development, Federal Reserve Bank of New York's International Advisory Committee, Hospital for Special Surgery and Scripps International Network. Dr. Li is the Chairman of INSEAD East Asia Council, the Non-executive Chairman for Edelman Asia-Pacific and a Senior Adviser of Metrobank.

Mr. FUNG Daniel Richard, *SBS, QC, SC, JP*, aged 58, 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 three 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.

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. Huang Xiaofeng, 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 2011.

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 operations. Details of the principal activities of the principal subsidiaries, a jointly-controlled entity 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 2011 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 51 to 160.

An interim dividend of 7.0 HK cents (2010: 5.0 HK cents) per share was paid on 26 October 2011. The Directors recommend the payment of a final dividend of 11.0 HK cents (2010: 10.0 HK cents) per share for the year ended 31 December 2011. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position.

The proposed final dividend, if approved at the forthcoming annual general meeting of the Company to be held on Friday, 1 June 2012 (the "2012 AGM"), is expected to be paid on Wednesday, 18 July 2012 to shareholders whose names appear on the register of members of the Company on Wednesday, 13 June 2012.

The register of members of the Company will be closed during the following periods:

(i) from Wednesday, 30 May 2012 to Friday, 1 June 2012 (both days inclusive), for the purpose of determining shareholders' entitlement to attend and vote at the 2012 AGM, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the 2012 AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 29 May 2012; and

(ii) from Monday, 11 June 2012 to Wednesday, 13 June 2012 (both days inclusive), for the purpose of determining shareholders' entitlement to the proposed final dividend, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Tengis Limited at the address as set out in sub-paragraph (i) above not later than 4:30 p.m. on Friday, 8 June 2012.

Summary of Financial Information

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years extracted from the audited financial statements is set out below:

Results

	Year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**7,161,377**	6,351,741	5,915,758	5,913,200	5,533,682
PROFIT FROM OPERATING ACTIVITIES AFTER FINANCE COSTS	**4,230,963**	3,537,008	2,841,778	2,296,953	2,356,403
Share of profits of a jointly-controlled entity	**82,588**	89,585	91,074	134,084	3,030
Share of profits less losses of associates	**107,976**	133,744	26,347	6,188	44,589
PROFIT BEFORE TAX	**4,421,527**	3,760,337	2,959,199	2,437,225	2,404,022
INCOME TAX EXPENSE	**(949,193)**	(942,350)	(499,746)	(442,422)	(406,120)
PROFIT BEFORE NON-CONTROLLING INTERESTS	**3,472,334**	2,817,987	2,459,453	1,994,803	1,997,902
Non-controlling interests	**(478,237)**	(397,813)	(415,199)	(118,121)	(300,868)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	**2,994,097**	2,420,174	2,044,254	1,876,682	1,697,034

Summary of Financial Information (continued)

Assets, liabilities and non-controlling interests

	As at 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
PROPERTY, PLANT AND EQUIPMENT	**3,294,283**	3,165,098	3,033,699	3,002,616	3,043,961
INVESTMENT PROPERTIES	**7,106,639**	5,934,101	4,810,466	4,032,698	4,277,760
PREPAID LAND LEASE PAYMENTS	**101,501**	101,986	103,581	107,903	107,058
GOODWILL	**266,146**	266,146	266,146	262,370	256,119
INVESTMENT IN A JOINTLY-CONTROLLED ENTITY	**806,620**	859,406	909,136	994,757	852,142
INVESTMENTS IN ASSOCIATES	**1,346,244**	1,087,102	184,521	274,118	354,424
INTANGIBLE ASSETS	**14,933,423**	15,862,440	16,667,163	17,454,798	18,300,506
OTHER ASSETS	**6,953,128**	4,622,098	4,796,669	5,099,070	3,279,035
DEFERRED TAX ASSETS	**23,580**	22,099	15,773	16,361	21,618
TOTAL ASSETS	**34,831,564**	31,920,476	30,787,154	31,244,691	30,492,623
OTHER LOANS AND LIABILITIES	**(8,728,591)**	(8,715,134)	(10,449,471)	(13,045,789)	(13,703,079)
DEFERRED TAX LIABILITIES	**(1,654,827)**	(1,296,960)	(886,781)	(717,271)	(758,058)
TOTAL LIABILITIES	**(10,383,418)**	(10,012,094)	(11,336,252)	(13,763,060)	(14,461,137)
NON-CONTROLLING INTERESTS	**(2,849,468)**	(2,791,881)	(2,420,879)	(2,086,109)	(2,006,491)
TOTAL EQUITY	**24,448,146**	21,908,382	19,450,902	17,481,631	16,031,486

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 2011, 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$91,532,000.

Charitable Contributions

The Group made HK$26,523,000 charitable contributions during the year (2010: HK$12,623,000).

Arrangement to Acquire Shares or Debentures

Save as disclosed in the section headed "Directors' Interests and Short Positions in Securities" of this report, and "Share Option Scheme" 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 during the year and up to the date of this report are:

Executive Directors
Huang Xiaofeng *(Chairman)*
Zhang Hui *(Managing Director)*
Tsang Hon Nam *(Chief Financial Officer)*

Non-Executive Directors
Cheng Mo Chi, Moses
Wu Jianguo
Xu Wenfang
Li Wenyue
Li Wai Keung
Sun Yingming
Zhao Chunxiao (appointed on 30 August 2011)

Directors (continued)

Independent Non-Executive Directors
Chan Cho Chak, John
Li Kwok Po, David
Fung Daniel Richard

Mr. Huang Xiaofeng, Dr. Cheng Mo Chi, Moses, Mr. Li Wenyue and Mr. Sun Yingming will retire by rotation in accordance with Articles 77 to 79 of the Articles of Association of the Company at the 2012 AGM and shall be eligible for re-election.

Mr. Huang Xiaofeng and Dr. Cheng Mo Chi, Moses, being eligible, have offered themselves 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 2015, and (ii) 30 June 2015, subject to earlier determination in accordance with the Articles of Association of the Company and/or applicable laws and regulations.

Due to their age, Mr. Li Wenyue and Mr. Sun Yingming have elected not to offer themselves for re-election and will retire from office after the conclusion of the 2012 AGM.

Directors' Service Contracts

No Director proposed for re-election at the 2012 AGM 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 fellow subsidiaries was a party during the year or as at 31 December 2011.

Directors' Interests in Competing Businesses

As at 31 December 2011, none of the Directors had any interest in a business which competes or is likely to compete, either directly or indirectly, with the Group's businesses.

Directors' Interests and Short Positions in Securities

As at 31 December 2011, the interests and short positions of the Directors and chief executive of the Company in the shares, the 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 were 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 to 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)*
Zhang Hui	Personal	1,760,000	Long position	0.028%
Tsang Hon Nam	Personal	1,180,000	Long position	0.019%
Cheng Mo Chi, Moses	Personal	1,150,000	Long position	0.018%
Xu Wenfang	Personal	1,320,000	Long position	0.021%
Li Wenyue	Personal	1,846,000	Long position	0.030%
Li Wai Keung	Personal	1,340,000	Long position	0.021%
Sun Yingming	Personal	1,400,000	Long position	0.022%
Chan Cho Chak, John	Personal	5,450,000	Long position	0.087%
Li Kwok Po, David	Personal	7,000,000	Long position	0.112%

Note: The approximate percentage of interests held was calculated on the basis of 6,232,998,071 ordinary shares of the Company in issue as at 31 December 2011.

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 24 October 2008 ("2008 Scheme")

Name of Director	Date of grant of share options* (dd.mm.yyyy)	Number of share options: At date of grant	At 1 January 2011	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	At 31 December 2011	Total consideration paid for share options granted 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)
Huang Xiaofeng	24.10.2008	5,700,000	5,700,000	–	–	–	5,700,000	–	1.88	1.73	—
Zhang Hui	24.10.2008	4,400,000	2,640,000	–	–	–	2,640,000	–	1.88	1.73	—
Tsang Hon Nam	24.10.2008	2,950,000	1,770,000	–	–	–	1,770,000	–	1.88	1.73	—
Cheng Mo Chi, Moses	24.10.2008	2,500,000	2,500,000	–	–	–	2,500,000	–	1.88	1.73	—
Xu Wenfang	24.10.2008	3,300,000	1,980,000	–	–	–	1,980,000	–	1.88	1.73	—
Li Wenyue	24.10.2008	9,500,000	9,500,000	–	(2,100,000)	–	7,400,000	–	1.88	1.73	4.25
Li Wai Keung	24.10.2008	3,350,000	2,010,000	–	–	–	2,010,000	–	1.88	1.73	—
Sun Yingming	24.10.2008	3,500,000	2,100,000	–	–	–	2,100,000	–	1.88	1.73	—

Notes to the above share options granted pursuant to the 2008 Scheme:

(a) *The option period of all the share options is 5.5 years from the date of grant.*

(b) *Any share option is only exercisable during the option period after it has become vested.*

(c) *The normal vesting scale of the share options 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 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)

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

Notes to the above share options granted pursuant to the 2008 Scheme: (continued)

(e) The leaver vesting scale of the share options 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 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*

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

* *Details of the vesting period of the share options granted under the 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.

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%
Li Wenyue	Personal	1,354,000	Long position	0.079%

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 2011.

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)*
Tsang Hon Nam	Personal	300,000	Long position	0.033%
Li Wenyue	Personal	800,000	Long position	0.088%
Li Kwok Po, David	Personal	15,000	Long position	0.002%

Note: The approximate percentage of interests held was calculated on the basis of 907,293,285 ordinary shares of Guangnan (Holdings) Limited ("Guangnan Holdings") in issue as at 31 December 2011.

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

Name of Director	Date of grant of share options* (dd.mm.yyyy)	Number of share options: At 1 January 2011	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	At 31 December 2011	Total consideration paid for share options granted 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	09.03.2006	300,000	–	–	–	300,000	1.00	09.06.2006 to 08.03.2016	1.66	1.61	–

Notes to the share option scheme of Guangnan Holdings adopted on 11 June 2004:

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

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

*** *The price of Guangnan Holdings ordinary shares 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.*

Directors' Interests and Short Positions in Securities (continued)

Save as disclosed above, as at 31 December 2011, to the knowledge of the Company, none of the Directors or chief executive of the Company had any interests or short positions in the shares, the underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were 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 were 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 2011, 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 taken or deemed 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 were 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	3,769,979,875	Long position	60.48%
	Interest of controlled corporation	350,819,672	Short position	5.63%
GDH Limited *(Note 3)*	Beneficial owner/ Interest of controlled corporation	3,769,979,875	Long position	60.48%
	Beneficial owner	350,819,672	Short position	5.63%
Guangdong Trust Ltd.	Beneficial owner/ Interest of controlled corporation	576,404,918	Long position	9.25%

Notes:

1. *The approximate percentage of interests held was calculated on the basis of 6,232,998,071 ordinary shares of the Company in issue as at 31 December 2011.*

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 include attributable interest held through its wholly-owned subsidiary, Guangdong Trust Ltd.*

Substantial Shareholders' Interests (continued)

Save as disclosed above, as at 31 December 2011, 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 taken or deemed 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 were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

Significant Contracts with Controlling Shareholder

Save as disclosed in notes 38 and 39 to the financial statements, 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 connected transactions, including continuing connected transactions, are disclosed in note 39 to the financial statements.

Share Options of the Company

As at 31 December 2011, save as disclosed in the section of "Directors' Interests and Short Positions in Securities", certain other eligible persons had the following interests in rights to subscribe for shares of the Company granted under the 2008 Scheme. Each option gives the holder the right to subscribe for one share of par value HK$0.50 each of the Company. Further details are set out in note 33 to the financial statements.

2008 Scheme

		Number of share options									
Category of participants	Date of grant of share options* (dd.mm.yyyy)	At date of grant	At 1 January 2011	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	At 31 December 2011	Total consideration paid for share options granted 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)
Employees	24.10.2008	18,500,000	11,100,000	–	–	(1,950,000)	9,150,000	–	1.88	1.73	–

Additional information regarding the above share options granted in 2008 is set out in the "Notes to the above share options granted pursuant to the 2008 Scheme" in the "Directors' Interests and Short Positions in Securities" section of this report on pages 36 and 37.

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 37.

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 an option holder during the year pursuant to the Company's 2008 Scheme:

Total number of new ordinary shares issued	Exercise price per ordinary share HK$	Total Cash consideration HK$
2,100,000	1.880	3,948,000

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 63% of the revenue for the year and sales to the Group's largest customer included therein amounted to 47%. Purchases from the Group's five largest suppliers accounted for 32% of the total purchases for the year and purchases from the Group's largest supplier included therein amounted to 16%.

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.

Disclosure under Rule 13.21 of the Listing Rules

Under a facility agreement (the "Facility Agreement") entered into between the Company and a bank on 19 December 2011 in relation to a term loan facility ("Facility") of up to a principal amount of US$100 million made available by the bank to the Company, it shall be an event of default if:

(i) GDH Limited ("GDH") does not or ceases to beneficially own, directly or indirectly, at least 51% of the shareholding in the Company; or

(ii) the Guangdong Provincial People's Government does not or ceases to beneficially own, directly or indirectly, 100% of the shareholding in GDH.

On and at any time after the occurrence of any of the aforementioned events which is continuing, the bank may by notice to the Company:

(i) cancel the commitments (or any part thereof) under the Facility whereupon they shall immediately be cancelled; and/or

(ii) declare that all or part of the principal amount outstanding, together with accrued interest, and all other amounts accrued or outstanding under the Facility Agreement and any other finance documents be immediately due and payable, whereupon they shall immediately become due and payable; and/or

(iii) declare that all or part of the principal amount outstanding be payable on demand, whereupon they shall immediately become payable on demand by the bank.

The outstanding principal of the Facility as at 31 December 2011 amounted to US$80 million. The Facility shall be repaid by the Company by instalments with the last instalment due on the date 36 months from the date of the Facility Agreement.

Events after the Reporting Period

Details of the significant events after the reporting period are set out in note 44 to the financial statements.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the 2012 AGM.

By Order of the Board
HUANG Xiaofeng
Chairman

Hong Kong, 19 March 2012

CORPORATE GOVERNANCE REPORT

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 to 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 complied with the code provisions set out in the CG Code throughout the year ended 31 December 2011 and, where appropriate, the applicable recommended best practices of 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 to 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") currently comprises three Executive Directors, being Mr. Huang Xiaofeng, Mr. Zhang Hui and Mr. Tsang Hon Nam, seven Non-Executive Directors, being Dr. Cheng Mo Chi, Moses, Mr. Wu Jianguo, Ms. Xu Wenfang, Mr. Li Wenyue, Mr. Li Wai Keung, Mr. Sun Yingming and Ms. Zhao Chunxiao, and three Independent Non-Executive Directors, being Dr. Chan Cho Chak, John, Dr. Li Kwok Po, David and Mr. Fung Daniel Richard. Ms. Zhao Chunxiao was appointed as a Non-Executive Director on 30 August 2011.

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. The management is delegated with 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 2011, the Board had five scheduled meetings. The attendances of the Directors at the Board meetings are as follows:

Directors	Number of Attendance
Huang Xiaofeng	5/5
Zhang Hui	5/5
Tsang Hon Nam	5/5
Cheng Mo Chi, Moses	5/5
Wu Jianguo	2/5
Xu Wenfang	4/5
Li Wenyue	5/5
Li Wai Keung	5/5
Sun Yingming	4/5
Chan Cho Chak, John	5/5
Li Kwok Po, David	5/5
Fung Daniel R.	4/5
Zhao Chunxiao (appointed on 30 August 2011)	1/2

The Company has received confirmation of independence from the three Independent Non-Executive Directors, namely Dr. 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 as at the date of this report as set out in pages 24 to 29 to the annual report, demonstrate a diversity of skills, expertise, experience and qualifications.

Chairman and Managing Director

The Chairman of the Board is Mr. Huang Xiaofeng and the Managing Director is Mr. Zhang Hui. Their roles are clearly defined and segregated to ensure independence and proper checks and balances. The Chairman has executive responsibilities, provides leadership for the Board and ensures the proper and effective functioning of the Board in the discharge of its responsibilities. 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 Committee

The Company established the Remuneration Committee in 2005. Details of the authority and responsibilities of the Remuneration Committee are available on the Company's website.

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

During the financial year ended 31 December 2011, the Remuneration Committee held four meetings to approve the annual review of the remuneration packages and performance bonuses for the Executive Directors of the Company that came up for determination. The attendance of each member of the Remuneration Committee is set out as follows:

Directors	Number of Attendance
Chan Cho Chak, John	4/4
Li Kwok Po, David	4/4
Fung Daniel R.	3/4
Cheng Mo Chi, Moses	4/4

Details of the amount of Directors' emoluments for the year 2011 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. On 19 March 2012, the Company established the Nomination Committee. The Nomination Committee is responsible for, amongst other things, identifying individuals suitably qualified to become Board members, considering the re-appointment of the Directors and succession planning for Directors and making recommendations to the Board in respect of the aforesaid matters.

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

Details of the authority and responsibilities of the Nomination Committee are available on the Company's website.

During the financial year ended 31 December 2011, the nomination of Ms. Zhao Chunxiao as a Director of the Company was fully deliberated by the Board at a meeting. The attendance of each of the Directors at the said Board meeting is as follows:

Directors	**Number of Attendance**
Huang Xiaofeng	1/1
Zhang Hui	1/1
Tsang Hon Nam	1/1
Cheng Mo Chi, Moses	1/1
Wu Jianguo	1/1
Xu Wenfang	1/1
Li Wenyue	1/1
Li Wai Keung	1/1
Sun Yingming	1/1
Chan Cho Chak, John	1/1
Li Kwok Po, David	1/1
Fung Daniel R.	1/1

Auditors' Remuneration

During the year under review, the remuneration paid to Ernst & Young, is set out as follows:

Services rendered	**Fee paid/ payable** HK$'000
Audit of financial statements	6,530
Review of interim results	1,144
	7,674

Audit Committee

The Audit Committee of the Company was established in 1998. Details of the authority and responsibilities of the Audit Committee are available on the Company's website.

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

During the financial year ended 31 December 2011, the Audit Committee held two meetings. It reviewed the 2010 annual results and the 2011 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 had a private meeting with the external auditors 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 and maintains an overview of the Group's risk assessment, control and management processes. It reviews the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function and their training programmes and budget. 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 2011, 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 2011, 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 3 months and 2 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 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 these risks. The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls include the following:

A defined management structure is maintained with specific limits of authority and control responsibilities, which is designed to help the achievement of business objectives, safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations.

The Audit Committee 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. During its annual review, the Audit Committee also considers the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budgets.

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 issues reports to the Board and relevant management covering various operational and financial processes of the Group and provides summary reports to the Audit Committee together with the status of implementation of their recommendation in each Audit Committee meeting.

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
HUANG Xiaofeng
Chairman

Hong Kong, 19 March 2012

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永

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

We have audited the consolidated financial statements of Guangdong Investment Limited (the ''Company") and its subsidiaries (together, the "Group") set out on pages 51 to 160, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, 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
19 March 2012

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	Notes	**2011 HK$'000**	2010 HK$'000
REVENUE	*5*	**7,161,377**	6,351,741
Cost of sales		**(2,533,832)**	(2,159,474)
Gross profit		**4,627,545**	4,192,267
Other income and gains/(losses), net	*5*	**132,203**	(35,075)
Changes in fair value of investment properties		**776,652**	381,433
Selling and distribution costs		**(149,828)**	(106,592)
Administrative expenses		**(841,036)**	(694,887)
Other operating expenses, net		**(152,813)**	(26,747)
Finance costs	*7*	**(161,760)**	(173,391)
Share of profit of a jointly-controlled entity		**82,588**	89,585
Share of profits less losses of associates		**107,976**	133,744
PROFIT BEFORE TAX	*6*	**4,421,527**	3,760,337
Income tax expense	*10*	**(949,193)**	(942,350)
PROFIT FOR THE YEAR		**3,472,334**	2,817,987
Attributable to:			
Owners of the Company	*11*	**2,994,097**	2,420,174
Non-controlling interests		**478,237**	397,813
		3,472,334	2,817,987
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*13*		
Basic		**48.05 HK cents**	38.93 HK cents
Diluted		**47.88 HK cents**	38.75 HK cents

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	Note	**2011 HK$'000**	2010 HK$'000
PROFIT FOR THE YEAR		**3,472,334**	2,817,987
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**463,477**	285,952
Cash flow hedges:			
Net movement on cash flow hedges	*27*	**105,928**	84,627
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**569,405**	370,579
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**4,041,739**	3,188,566
Attributable to:			
Owners of the Company		**3,453,391**	2,726,059
Non-controlling interests		**588,348**	462,507
		4,041,739	3,188,566

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**3,294,283**	3,165,098
Investment properties	15	**7,106,639**	5,934,101
Prepaid land lease payments	16	**101,501**	101,986
Goodwill	17	**266,146**	266,146
Investment in a jointly-controlled entity	19	**806,620**	859,406
Investments in associates	20	**1,346,244**	1,087,102
Intangible assets	21	**14,933,423**	15,862,440
Prepayments and deposits	24	**342,702**	–
Deferred tax assets	31	**23,580**	22,099
Total non-current assets		**28,221,138**	27,298,378
CURRENT ASSETS			
Available-for-sale investments	22	**25**	23
Tax recoverable		**–**	2,582
Inventories	23	**61,317**	59,749
Receivables, prepayments and deposits	24	**2,941,673**	596,158
Derivative financial instruments	27	**64,453**	122,958
Cash and cash equivalents	25	**3,542,958**	3,840,628
Total current assets		**6,610,426**	4,622,098
CURRENT LIABILITIES			
Payables and accruals	26	**(2,545,073)**	(1,956,658)
Tax payable		**(399,606)**	(323,438)
Derivative financial instruments	27	**(265,473)**	(425,064)
Due to non-controlling shareholders of subsidiaries	28	**(317,919)**	(401,770)
Interest-bearing bank borrowings	29	**(2,484,400)**	(720,249)
Total current liabilities		**(6,012,471)**	(3,827,179)
NET CURRENT ASSETS		**597,955**	794,919
TOTAL ASSETS LESS CURRENT LIABILITIES – page 54		**28,819,093**	28,093,297

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES – page 53		**28,819,093**	28,093,297
NON-CURRENT LIABILITIES			
Derivative financial instruments	*27*	**–**	(94,704)
Due to non-controlling shareholders of subsidiaries	*28*	**–**	(4,973)
Interest-bearing bank borrowings	*29*	**(1,346,206)**	(3,222,000)
Other liabilities	*26*	**(1,369,914)**	(1,566,278)
Deferred tax liabilities	*31*	**(1,654,827)**	(1,296,960)
Total non-current liabilities		**(4,370,947)**	(6,184,915)
Net assets		**24,448,146**	21,908,382
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*32*	**3,116,499**	3,115,449
Reserves	*34(a)*	**17,796,549**	15,377,962
Proposed final dividends	*12*	**685,630**	623,090
		21,598,678	19,116,501
Non-controlling interests		**2,849,468**	2,791,881
Total equity		**24,448,146**	21,908,382

Huang Xiaofeng
Director

Tsang Hon Nam
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	Notes	Attributable to owners of the Company														
		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	Other reserve* HK$'000	Special reserve* HK$'000 (note 34(a)(i))	Retained profits* HK$'000	Proposed final dividends HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2010		3,106,719	2,421,477	13,217	14,247	1,430,009	(258,981)	734,098	840,346	–	–	8,356,085	372,806	17,030,023	2,420,879	19,450,902
Profit for the year		–	–	–	–	–	–	–	–	–	–	2,420,174	–	2,420,174	397,813	2,817,987
Other comprehensive income for the year:																
Exchange differences on translation of foreign operations																
– Subsidiaries		–	–	–	–	–	–	–	141,032	–	–	–	–	141,032	53,493	194,525
– Jointly-controlled entity		–	–	–	–	–	–	–	36,882	–	–	–	–	36,882	–	36,882
– Associates		–	–	–	–	–	–	–	52,585	–	–	–	–	52,585	1,960	54,545
Net movement on cash flow hedges		–	–	–	–	–	75,386	–	–	–	–	–	–	75,386	9,241	84,627
Total comprehensive income for the year		–	–	–	–	–	75,386	–	230,499	–	–	2,420,174	–	2,726,059	462,507	3,188,566
Share options exercised, net of share issue expenses	32	8,730	35,084	(8,728)	–	–	–	–	–	–	–	–	–	35,086	–	35,086
Acquisition of non-controlling interests		–	–	–	34	–	–	–	–	1,683	–	–	–	1,717	(4,132)	(2,415)
Equity-settled share option arrangements	33	–	–	7,149	–	–	–	–	–	–	–	–	–	7,149	–	7,149
Transfer from retained profits		–	–	–	–	–	–	193,880	–	–	–	(193,880)	–	–	–	–
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	–	–	(87,373)	(87,373)
Interim 2010 dividend paid	12	–	–	–	–	–	–	–	–	–	–	(310,697)	–	(310,697)	–	(310,697)
Proposed final 2010 dividend	12	–	–	–	–	–	–	–	–	–	–	(623,090)	623,090	–	–	–
Final 2009 dividend paid	12	–	–	–	–	–	–	–	–	–	–	(30)	(372,806)	(372,836)	–	(372,836)
Transfer from retained profits in accordance with the Undertaking	34(a)(i)	–	–	–	–	–	–	–	–	–	5,979	(5,979)	–	–	–	–
Transfer to retained profits upon issue of new ordinary shares	34(a)(i)	–	–	–	–	–	–	–	–	–	(5,979)	5,979	–	–	–	–
At 31 December 2010		3,115,449	2,456,561	11,638	14,281	1,430,009	(183,595)	927,978	1,070,845	1,683	–	9,648,562	623,090	19,116,501	2,791,881	21,908,382

	Notes	Attributable to owners of the Company													Non-controlling interests HK$'000	Total equity HK$'000
		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	Other reserve* HK$'000	Special reserve* HK$'000 (note 34(a)(i))	Retained profits* HK$'000	Proposed final dividends HK$'000	Total HK$'000		
At 1 January 2011		3,115,449	2,456,561	11,638	14,281	1,430,009	(183,595)	927,978	1,070,845	1,683	-	9,648,562	623,090	19,116,501	2,791,881	21,908,382
Profit for the year		-	-	-	-	-	-	-	-	-	-	2,994,097	-	2,994,097	478,237	3,472,334
Other comprehensive income for the year:																
Exchange differences on translation of foreign operations																
– Subsidiaries		-	-	-	-	-	-	-	318,456	-	-	-	-	318,456	98,832	417,288
– Jointly-controlled entity		-	-	-	-	-	-	-	16,331	-	-	-	-	16,331	-	16,331
– Associates		-	-	-	-	-	-	-	28,919	-	-	-	-	28,919	939	29,858
Net movement on cash flow hedges		-	-	-	-	-	95,588	-	-	-	-	-	-	95,588	10,340	105,928
Total comprehensive income for the year		-	-	-	-	-	95,588	-	363,706	-	-	2,994,097	-	3,453,391	588,348	4,041,739
Share options exercised, net of share issue expenses	32	1,050	3,848	(953)	-	-	-	-	-	-	-	-	-	3,945	-	3,945
Capital contribution from non-controlling interest		-	-	-	-	-	-	-	-	-	-	-	-	-	192,896	192,896
Acquisition of non-controlling interests		-	-	-	-	-	-	-	-	81,268	-	-	-	81,268	(631,852)	(550,584)
Equity-settled share option arrangements	33	-	-	2,973	-	-	-	-	-	-	-	-	-	2,973	-	2,973
Transfer from retained profits		-	-	-	-	-	-	163,910	-	-	-	(163,910)	-	-	-	-
Dividends paid to non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	-	-	(91,805)	(91,805)
Interim 2011 dividend paid	12	-	-	-	-	-	-	-	-	-	-	(436,310)	-	(436,310)	-	(436,310)
Proposed final 2011 dividend	12	-	-	-	-	-	-	-	-	-	-	(685,630)	685,630	-	-	-
Final 2010 dividend paid	12	-	-	-	-	-	-	-	-	-	-	-	(623,090)	(623,090)	-	(623,090)
Transfer from retained profits in accordance with the Undertaking	34(a)(i)	-	-	-	-	-	-	-	-	-	12,854	(12,854)	-	-	-	-
Transfer to retained profits upon issue of new ordinary shares	34(a)(i)	-	-	-	-	-	-	-	-	-	(3,948)	3,948	-	-	-	-
At 31 December 2011		3,116,499	2,460,409	13,658	14,281	1,430,009	(88,007)	1,091,888	1,434,551	82,951	8,906	11,347,903	685,630	21,598,678	2,849,468	24,448,146

* These reserve accounts comprise the consolidated reserves of HK$17,796,549,000 (2010: HK$15,377,962,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**4,421,527**	3,760,337
Adjustments for:			
Finance costs	*7*	**161,760**	173,391
Share of profit of a jointly-controlled entity		**(82,588)**	(89,585)
Share of profits less losses of associates		**(107,976)**	(133,744)
Interest income	*5*	**(78,118)**	(46,290)
Fair value losses, net:			
Derivative instruments – transactions not qualifying as hedges	*5*	**15,050**	143,820
Depreciation	*6*	**196,653**	165,172
Recognition of prepaid land lease payments	*6*	**4,643**	4,493
Amortisation of intangible assets	*6*	**818,322**	815,226
Changes in fair value of investment properties		**(776,652)**	(381,433)
Impairment of items of property, plant and equipment	*6*	**–**	7,167
Impairment of items of intangible assets	*6*	**123,942**	–
Loss/(gain) on disposal of items of intangible assets, net	*6*	**1,477**	(320)
Equity-settled share option expense	*33*	**2,973**	7,149
Loss/(gain) on disposal of items of property, plant and equipment, net	*6*	**68**	(230)
Interest income from available-for-sale investments		**(6,628)**	(2,602)
Operating profit before working capital changes		**4,694,453**	4,422,551
Increase in inventories		**(1,568)**	(10,350)
Increase in receivables, prepayments and deposits		**(173,245)**	(24,840)
Increase in payables and accruals		**478,439**	213,617
Increase/(decrease) in amounts due to non-controlling shareholders of subsidiaries		**(5,038)**	28,156
Cash generated from operations		**4,993,041**	4,629,134
Interest received		**78,118**	46,290
Dividends from a jointly-controlled entity		**172,256**	155,646
Dividends from associates		**122,435**	62,710
Hong Kong profits tax paid		**(10,227)**	(16,497)
Mainland China tax paid		**(561,538)**	(415,637)
Net cash flows from operating activities – page 58		**4,794,085**	4,461,646

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Net cash flows from operating activities – page 57		**4,794,085**	4,461,646
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of available-for-sale investments		**(1,440,328)**	(357,156)
Proceeds from disposals of available-for-sale investments		**1,449,400**	416,816
Purchases of items of property, plant and equipment		**(244,036)**	(351,933)
Purchases of items of intangible assets		**(10,943)**	(7,842)
Additions to investment properties		**(115,419)**	(474,488)
Acquisitions of non-controlling interests		**(634,369)**	(2,415)
Acquisition of an associate		**–**	(599,935)
Capital injection in associates		**(219,683)**	(201,546)
Deposits for investment and loan receivables	24	**(2,648,603)**	–
Proceeds from disposal of items of property, plant and equipment		**1,551**	1,050
Proceeds from disposal of items of intangible assets		**–**	434
Decrease/(increase) in non-pledged time deposits with original maturity of more than three months when acquired		**1,254,523**	(349,325)
Net cash flows used in investing activities		**(2,607,907)**	(1,926,340)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of new ordinary shares	32	**3,945**	35,086
New bank loans		**608,606**	400,000
Repayments of bank loans		**(728,511)**	(2,408,114)
Interest paid	7	**(35,851)**	(39,596)
Finance charges paid on cash flow hedges, net	7	**(125,909)**	(133,795)
Finance charges paid on derivative financial instruments not qualified as hedges		**(104,914)**	(99,855)
Capital contribution from non-controlling interest		**192,896**	–
Dividends paid to non-controlling shareholders		**(91,805)**	(87,373)
Dividends paid to shareholders		**(1,059,400)**	(683,533)
Net cash flows used in financing activities		**(1,340,943)**	(3,017,180)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**845,235**	(481,874)
Cash and cash equivalents at beginning of year		**2,107,978**	2,487,702
Effect of foreign exchange rate changes, net		**111,618**	102,150
CASH AND CASH EQUIVALENTS AT END OF YEAR		**3,064,831**	2,107,978
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	*35(b)*		
Cash and bank balances		**1,486,163**	1,029,173
Non-pledged time deposits with original maturity of less than three months when acquired		**1,578,668**	1,078,805
Cash and cash equivalents as stated in the consolidated statement of cash flows		**3,064,831**	2,107,978

STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,077**	787
Investments in subsidiaries	18	**8,061,277**	7,671,227
Investments in associates	20	**–**	–
Prepayments and deposits	24	**115,350**	–
Total non-current assets		**8,177,704**	7,672,014
CURRENT ASSETS			
Receivables, prepayments and deposits	24	**4,999**	34,454
Tax recoverable		**–**	2,582
Cash and cash equivalents	25	**532,731**	733,395
Total current assets		**537,730**	770,431
CURRENT LIABILITIES			
Payables and accruals	26	**(11,296)**	(10,929)
Interest-bearing bank borrowings	29	**(62,400)**	(400,000)
Total current liabilities		**(73,696)**	(410,929)
NET CURRENT ASSETS		**464,034**	359,502
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,641,738**	8,031,516
NON-CURRENT LIABILITY			
Interest-bearing bank borrowings	29	**(546,206)**	–
Net assets		**8,095,532**	8,031,516
EQUITY			
Issued capital	32	**3,116,499**	3,115,449
Reserves	34(b)	**4,293,403**	4,292,977
Proposed final dividends	12	**685,630**	623,090
Total equity		**8,095,532**	8,031,516

Huang Xiaofeng
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, Shenzhen and Dongguan, hotel ownership and operations, hotel management and department stores operations.

GDH Limited is the immediate holding company of the Company. 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) ("Guangdong Holdings"), 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 and derivative financial instruments 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 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group losses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.2 Changes in Accounting Policy and Disclosures

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

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int *14 Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in Improvements to HKFRSs 2010, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

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

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 38 to the consolidated financial statements.

2.2 Changes in Accounting Policy and Disclosures (continued)

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- *HKFRS 3 Business Combinations*: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- *HKAS 1 Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- *HKAS 27 Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

2.3 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 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	*Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	*Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 9 issued in November 2010 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

2.3 Issued but Not Yet Effective Hong Kong Financial Reporting Standards (continued)

In November 2011, the HKICPA issued additions to HKFRS 9 to address financial liabilities. The changes resulting from the amendments only affect the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other requirements in HKAS 39 in respect of liabilities are carried forward into HKFRS 9. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of these additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting, derecognition and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

2.3 Issued but Not Yet Effective Hong Kong Financial Reporting Standards (continued)

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt HKAS 12 Amendments from 1 January 2012.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

Amendments to HKAS 32 clarify the requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria and clarify the meaning of "currently has a legally enforceable right of set-off" and some gross settlement systems may be considered equivalents to net settlements. The Group expects to adopt the amendments from 1 January 2014.

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 investments 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.

2.4 Summary of Significant Accounting Policies (continued)

Joint ventures (continued)

A joint venture is treated as:

(a) a subsidiary, if the Group, 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;

(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 investments in a jointly-controlled entity is stated in the consolidated statement of financial position 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 a jointly-controlled entity is included in the consolidated income statement and consolidated capital reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entity are eliminated to the extent of the Group's investments in the jointly-controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities. 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 investments in associates are stated in the consolidated statement of financial position 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 investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2.4 Summary of Significant Accounting Policies (continued)

Associates (continued)

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

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other terms is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested 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.

2.4 Summary of Significant Accounting Policies (continued)

Business combinations and goodwill (continued)

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.

Impairment of non-financial assets

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 the end of each reporting period 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.

2.4 Summary of Significant Accounting Policies (continued)

Related parties

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

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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 recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation (continued)

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% – 5%
Land and buildings	2% – 5%
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 financial year end.

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

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

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

The Group applies the intangible asset model to account for the service concession arrangements. Service concession arrangements represent the rights to charge users of the public service, that the Group obtained under the service concession arrangements. Service concession arrangements are stated at cost, that is, the fair value of the consideration received or receivable in exchange for the construction services provided under the service concession arrangements, less accumulated amortisation and any impairment losses.

2.4 Summary of Significant Accounting Policies (continued)

Intangible assets (other than goodwill) (continued)

Subsequent expenditures such as repairs and maintenance are charged to the income statement in the period in which they are incurred. In situations where the recognition criteria are satisfied, the expenditures are capitalised as an additional cost of service concession arrangements.

Amortisation of service concession arrangements is calculated on the straight-line basis to write off their costs over the concession periods of the respective service concession arrangements other than toll road. Amortisation of the toll road is calculated to write off their costs on a unit-of-usage basis whereby the amortisation is provided based on the share of traffic volume in a particular period over the projected total traffic volume throughout the periods for which the Group is granted to operate those service concession arrangements.

It is the Group's policy to review regularly the projected total traffic volume throughout the concession periods of the respective service concession arrangements. If it is considered appropriate, independent professional traffic studies will be performed. Appropriate adjustment will be made should there be a material change in the projected total traffic volume.

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 end of the reporting period.

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

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

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for 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.

Property under development for future use as investment property has been accounted for in the same way as completed investment properties. Specifically, construction costs incurred for investment property under development are capitalised as part of the carrying amounts of the investment property under development. Investment property under development are measured at fair value as at the end of the reporting period. Any difference between the fair values of the investment property under development and their carrying amounts is recognised in the income statement in the period in which they arise.

If the fair value of an investment property under development is at present not reliably determinable but is expected to be reliably determinable when construction is complete, such investment property under development is stated at cost until either its fair value becomes reliably determinable or development is completed, whichever is earlier.

2.4 Summary of Significant Accounting Policies (continued)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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.

The Group's financial assets include cash and bank balances, trade and other receivables, available-for-sale investments, loans and receivables and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets 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 as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in other income and gains or finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation as these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other operating expenses for receivables.

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in listed and unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement. Interest and dividends earned whilst holding the available-for-sale financial investments 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.

When the fair value of unlisted equity investments 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 investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale investments in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether there is any objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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). The present value of estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the impairment loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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.

Available-for-sale investments

For available-for-sale investments, the Group assesses at the end of the reporting period whether there is any objective evidence that an investment or a group of investments is impaired.

If an available-for-sale investment 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 removed from other comprehensive income and recognised in the income statement.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Available-for-sale investments (continued)

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increase in the fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as other income in the income statement. Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instruments 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; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

2.4 Summary of Significant Accounting Policies (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include payables, other liabilities, derivative financial instruments, amounts due to non-controlling shareholders of subsidiaries and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

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 selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. 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.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

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)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate 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.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments (i.e., interest rate swap agreements) to hedge its interest rate risk. 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.

The fair value of derivative financial instruments is estimated at the amount that the Group would receive or pay to terminate the agreements at the reporting date, taking into account the current market conditions and the current creditworthiness of the counterparties.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement, except for the effective potion of cash flow hedges, which is recognised in other comprehensive income.

For the purpose of hedge accounting, the Group's hedges are classified as 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.

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 of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in 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 for 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 other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in the income statement.

2.4 Summary of Significant Accounting Policies (continued)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

Amounts recognised in other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income 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 other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current or non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

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 statement of cash flows, 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 statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including time deposits, and assets similar in nature to cash, which are not restricted as to use.

2.4 Summary of Significant Accounting Policies (continued)

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 end of the reporting period 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.

Deferred revenue

Coupon liabilities are recognised based on the fair value of credit awards granted to customers in accordance with the credit award programme and the Group's past experience on the level of redemption of credit awards and are recorded in payables and accruals. The revenue of the Group is deducted when the credit awards are recognised.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period 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:

- when 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 investments in subsidiaries, associates and joint ventures, when 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.

2.4 Summary of Significant Accounting Policies (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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:

- when 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 investments in subsidiaries, associates and 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 the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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 by the end of the reporting period.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, 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.

2.4 Summary of Significant Accounting Policies (continued)

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 recorded by the entities in the Group are initially recorded using their respective 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 end of the reporting period. All differences arising on settlement or translation of monetary items 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 gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain subsidiaries, jointly-controlled entity and associates operating in Mainland China are currency other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rate ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rate for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

Government grants

Government grants 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.

2.4 Summary of Significant Accounting Policies (continued)

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 for grants after 7 November 2002 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 model.

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. The cumulative expense recognised for equity-settled transactions at the end of each reporting period 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 equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service 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, if the original terms of the award are met. In addition, an expense is recognised for any modification, that increases the total fair value of the share-based payment transaction, 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. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. 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)

Other employee benefits

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 payroll costs 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) commissions from concessionaire sales, upon the sale of goods by the department stores;

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

(d) from the sale of water:

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

  (ii) with respect to sale of water to the Hong Kong Special Administrative Region (''HKSAR"), based on a fixed amount for a target volume of water supplied;

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

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

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

(h) 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

(i) 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 end of the reporting period. 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.

(iii) Impairment of assets

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

3. Significant Accounting Judgements and Estimates (continued)

Judgements (continued)

(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 end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described 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

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) 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

(c) discounted cash flow projections, based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of cash flows.

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

(ii) Fair value of derivative financial instruments

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

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

(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 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 cash-generating units 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 the end of each reporting period. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. 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) 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 2011 was HK$16 million (2010: HK$20 million). The amount of unrecognised tax losses at 31 December 2011 was HK$340 million (2010: HK$369 million). Further details are contained in note 31 to the financial statements.

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

(vii) 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 entity 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. Operating Segment Information

For management purposes, the Group is organised into business units based on their products and services and has seven reportable operating segments 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 to 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-fired power plants supplying electricity and steam in Guangdong Province, Mainland China;

(v) The hotel operations and management segment operates the Group's hotels and manages third parties' 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 Mainland China and engages in the provision of corporate services to other segments.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, other unallocated gains/(losses), net and share of profits less losses of a jointly-controlled entity and associates are excluded from such measurement.

Segment assets exclude investments in associates, investment in a jointly-controlled entity, deferred tax assets, tax recoverable, cash and cash equivalents, available-for-sale investments, derivative financial instruments and other unallocated assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, interest-bearing bank borrowings, tax payable, deferred tax liabilities and other unallocated liabilities as these liabilities are managed on a group basis.

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.

4. Operating Segment Information (continued)

(a) Operating segments

Group

	Property investment and development		Toll roads and bridges		Water distribution	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to external customers	**939,522**	859,542	**35,808**	36,624	**4,493,385**	4,067,140
Intersegment sales	**99,935**	94,050	**–**	–	**–**	–
Other revenue from external sources *(note)*	**5,968**	5,375	**289**	6,014	**2,066**	6,800
Other revenue from intersegment transactions *(note)*	**–**	–	**–**	–	**–**	–
Exchange differences, net	**1,551**	358	**1,940**	1,255	**993**	(14,986)
Total	**1,046,976**	959,325	**38,037**	43,893	**4,496,444**	4,058,954
Segment results	**1,481,216**	1,052,572	**(108,762)**	21,136	**2,585,631**	2,380,800
Interest income						
Other unallocated losses, net						
Finance costs						
Share of profits less losses of:						
A jointly-controlled entity	**–**	–	**82,588**	89,585	**–**	–
Associates	**–**	–	**4,643**	8,244	**–**	–
Profit before tax						
Income tax expense						
Profit for the year						

Note: Excluding exchange differences, net

4. Operating Segment Information (continued)

(a) Operating segments (continued)

Group

	Electric power generation		Hotel operations and management		Department stores	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to external customers	**524,501**	467,245	**518,818**	377,413	**649,343**	543,777
Intersegment sales	**–**	–	**–**	–	**–**	–
Other revenue from external sources *(note)*	**12,666**	10,876	**1,480**	459	**36,771**	31,129
Other revenue from intersegment transactions *(note)*	**–**	–	**–**	–	**–**	–
Exchange differences, net	**(549)**	(372)	**7,643**	1,418	**–**	–
Total	**536,618**	477,749	**527,941**	379,290	**686,114**	574,906
Segment results	**49,356**	81,244	**89,753**	73,246	**257,801**	234,858
Interest income						
Other unallocated losses, net						
Finance costs						
Share of profits less losses of:						
A jointly-controlled entity	**–**	–	**–**	–	**–**	–
Associates	**54,173**	85,775	**–**	–	**49,160**	39,725
Profit before tax						
Income tax expense						
Profit for the year						

Note: Excluding exchange differences, net

4. Operating Segment Information (continued)

(a) Operating segments (continued)

Group

	Others		Eliminations		Consolidated	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to external customers	**–**	–	**–**	–	**7,161,377**	6,351,741
Intersegment sales	**–**	–	**(99,935)**	(94,050)	**–**	–
Other revenue from external sources *(note)*	**9,895**	1,802	**–**	–	**69,135**	62,455
Other revenue from intersegment transactions *(note)*	**3,738**	3,697	**(3,738)**	(3,697)	**–**	–
Exchange differences, net	**14,836**	5,342	**–**	–	**26,414**	(6,985)
Total	**28,469**	10,841	**(103,673)**	(97,747)	**7,256,926**	6,407,211
Segment results	**(25,340)**	(35,927)	**–**	–	**4,329,655**	3,807,929
Interest income					**78,118**	46,290
Other unallocated losses, net					**(15,050)**	(143,820)
Finance costs					**(161,760)**	(173,391)
Share of profits less losses of:						
A jointly-controlled entity	**–**	–	**–**	–	**82,588**	89,585
Associates	**–**	–	**–**	–	**107,976**	133,744
Profit before tax					**4,421,527**	3,760,337
Income tax expense					**(949,193)**	(942,350)
Profit for the year					**3,472,334**	2,817,987

Note: Excluding exchange differences, net

4. Operating Segment Information (continued)

(a) Operating segments (continued)

Group

	Property investment and development		Toll roads and bridges		Water distribution	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**10,330,101**	7,254,016	**4,388**	132,537	**15,790,862**	16,780,186
Investments in associates	**–**	–	**69,269**	68,981	**–**	–
Investment in a jointly-controlled entity	**–**	–	**806,620**	859,406	**–**	–
Unallocated assets						
Total assets						
Segment liabilities	**649,781**	649,878	**94,423**	91,071	**1,563,108**	1,643,111
Unallocated liabilities						
Total liabilities						
Other segment information:						
Depreciation and amortisation	**36,558**	33,688	**9,970**	8,299	**866,675**	866,684
Changes in fair value of derivative financial instruments not qualified as hedges, net	**–**	–	**–**	–	**15,050**	143,820
Impairment losses recognised in the income statement	**–**	–	**123,942**	–	**–**	–
Impairment losses reversed in the income statement	**(306)**	–	**–**	–	**–**	–
Other non-cash income, net	**(776,652)**	(381,433)	**–**	–	**(304)**	(61)
Capital expenditure *	**116,477**	790,404	**2,307**	7,054	**14,605**	8,176

* *Capital expenditure consists of additions to property, plant and equipment, intangible assets and investment properties.*

4. Operating Segment Information (continued)

(a) Operating segments (continued)

Group

	Electric power generation		Hotel operations and management		Department stores	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**172,953**	165,285	**2,470,212**	1,541,547	**144,033**	60,596
Investments in associates	**1,087,181**	867,181	**–**	–	**189,794**	150,940
Investment in a jointly-controlled entity	**–**	–	**–**	–	**–**	–
Unallocated assets						
Total assets						
Segment liabilities	**558,001**	521,121	**97,105**	70,161	**1,245,223**	927,805
Unallocated liabilities						
Total liabilities						
Other segment information:						
Depreciation and amortisation	**7,980**	6,760	**90,351**	63,238	**7,573**	5,739
Changes in fair value of derivative financial instruments not qualified as hedges, net	**–**	–	**–**	–	**–**	–
Impairment losses recognised in the income statement	**–**	–	**224**	7,167	**–**	–
Impairment losses reversed in the income statement	**–**	–	**–**	(572)	**–**	–
Other non-cash income, net	**–**	–	**–**	(18)	**–**	–
Capital expenditure *	**8,952**	1,365	**193,630**	22,192	**33,626**	4,306

* *Capital expenditure consists of additions to property, plant and equipment, intangible assets and investment properties.*

4. Operating Segment Information (continued)

(a) Operating segments (continued)

Group

	Others		Eliminations		Consolidated	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**8,702**	40,269	**–**	–	**28,921,251**	25,974,436
Investments in associates	**–**	–	**–**	–	**1,346,244**	1,087,102
Investment in a jointly-controlled entity	**–**	–	**–**	–	**806,620**	859,406
Unallocated assets					**3,757,449**	3,999,532
Total assets					**34,831,564**	31,920,476
Segment liabilities	**13,922**	14,987	**–**	–	**4,221,563**	3,918,134
Unallocated liabilities					**6,161,855**	6,093,960
Total liabilities					**10,383,418**	10,012,094
Other segment information:						
Depreciation and amortisation	**511**	483	**–**	–	**1,019,618**	984,891
Changes in fair value of derivative financial instruments not qualified as hedges, net	**–**	–	**–**	–	**15,050**	143,820
Impairment losses recognised in the income statement	**–**	–	**–**	–	**124,166**	7,167
Impairment losses reversed in the income statement	**–**	–	**–**	–	**(306)**	(572)
Other non-cash income, net	**–**	–	**–**	–	**(776,956)**	(381,512)
Capital expenditure *	**801**	766	**–**	–	**370,398**	834,263

* *Capital expenditure consists of additions to property, plant and equipment, intangible assets and investment properties.*

4. Operating Segment Information (continued)

(b) Geographical information

The following table presents revenue and certain asset information for the Group's geographical information for the years ended 31 December 2011 and 2010.

Group

	2011 **HK$'000**	2010 HK$'000
Revenue from external customers		
Hong Kong	**278,489**	224,551
Mainland China	**6,882,888**	6,127,190
	7,161,377	6,351,741

The revenue information above is based on the location in which the Group operates.

	2011 **HK$'000**	2010 HK$'000
Non-current assets		
Hong Kong	**1,711,784**	1,539,087
Mainland China	**26,485,774**	25,737,192
	28,197,558	27,276,279

The non-current assets information above is based on the location of assets and excludes deferred tax assets.

(c) Information about a major customer

Revenue of approximately HK$3,344,000,000 (2010: HK$3,146,000,000) was derived from sales by the water distribution segment to a single customer.

5. Revenue and Other Income and Gains/(Losses), Net

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; commissions from concessionaire sales; revenue from hotel ownership and operations; rental income; and toll revenue during the year.

An analysis of revenue, other income and gains/(losses), net is as follows:

	2011 HK$'000	2010 HK$'000
Revenue		
Sale of water and electricity	**5,017,886**	4,534,385
Sale of goods	**62,017**	55,831
Commissions from concessionaire sales	**587,326**	487,946
Hotel and rental income	**1,458,340**	1,236,955
Toll revenue	**35,808**	36,624
	7,161,377	6,351,741
Other income		
Interest income	**78,118**	46,290
Others	**69,135**	62,455
	147,253	108,745
Other losses		
Changes in fair value of derivative financial instruments not qualified as hedges, net *(note 27)*	**(15,050)**	(143,820)
	132,203	(35,075)

6. Profit before Tax

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

	Notes	**2011 HK$'000**	2010 HK$'000
Cost of inventories sold*		**505,135**	413,677
Depreciation	*14*	**196,653**	165,172
Recognition of prepaid land lease payments	*16*	**4,643**	4,493
Amortisation of intangible assets*	*21*	**818,322**	815,226
Minimum lease payments under operating leases in respect of land and buildings		**62,484**	47,884
Auditors' remuneration		**7,798**	6,855
Employee benefit expense (excluding directors' remuneration – *note 8*)			
Wages and salaries		**503,895**	412,823
Equity-settled share option expense		**899**	1,744
Pension scheme contributions		**55,507**	50,351
Less: Forfeited contributions		**(3)**	(44)
Net pension scheme contributions#		**55,504**	50,307
		560,298	464,874
Gross rental income from investment properties		**(808,113)**	(736,571)
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		**90,030**	68,421
Net rental income from investment properties		**(718,083)**	(668,150)
Exchange differences, net		**(26,414)**	6,985
Impairment of items of property, plant and equipment^	*14*	**–**	7,167
Impairment of items of intangible assets^	*21*	**123,942**	–
Loss/(gain) on disposal of items of property, plant and equipment, net^		**68**	(230)
Loss/(gain) on disposal of items of intangible assets, net^		**1,477**	(320)

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

As at 31 December 2011 and 2010, 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 expenses, net" on the face of the consolidated income statement.*

7. Finance Costs

An analysis of finance costs is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Interest on bank borrowings wholly repayable [1]:		
Within five years	**34,452**	35,515
Over five years	**1,399**	4,081
Total interest expense on financial liabilities not at fair value through profit or loss	**35,851**	39,596
Finance charges on cash flow hedges, net *(note 27)*	**125,909**	133,795
Total finance costs for the year	**161,760**	173,391

(1) Net of government grants of HK$8,177,000 (2010: HK$17,642,000) 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	
	2011	2010
	HK$'000	HK$'000
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**1,778**	1,778
Non-executive director	**560**	560
	2,338	2,338
Other emoluments:		
Salaries, allowances and benefits in kind	**2,125**	1,992
Performance-related bonuses	**1,950**	1,842
Equity-settled share option expense	**2,074**	5,405
Pension scheme contributions	**457**	442
Less: Forfeited contributions	**–**	–
Net pension scheme contributions	**457**	442
Total directors' remuneration	**8,944**	12,019

(a) Independent non-executive directors

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

	2011	2010
	HK$'000	HK$'000
CHAN Cho Chak, John	**602**	602
LI Kwok Po, David	**616**	616
FUNG Daniel R.	**560**	560
	1,778	1,778

There were no other emoluments payable to the independent non-executive directors during the year (2010: 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
2011						
Executive directors:						
HUANG Xiaofeng	–	–	–	336	–	336
ZHANG Hui	–	682	1,393	259	397	2,731
TSANG Hon Nam	–	1,443	557	174	60	2,234
	–	2,125	1,950	769	457	5,301
Non-executive directors:						
CHENG Mo Chi, Moses	560	–	–	147	–	707
WU Jianguo	–	–	–	–	–	–
XU Wenfang	–	–	–	195	–	195
LI Wenyue	–	–	–	560	–	560
LI Wai Keung	–	–	–	197	–	197
SUN Yingming	–	–	–	206	–	206
ZHAO Chunxiao	–	–	–	–	–	–
	560	2,125	1,950	2,074	457	7,166
2010						
Executive directors:						
HUANG Xiaofeng	–	–	–	838	–	838
ZHANG Hui	–	630	1,393	647	382	3,052
TSANG Hon Nam	–	1,362	449	434	60	2,305
	–	1,992	1,842	1,919	442	6,195
Non-executive directors:						
CHENG Mo Chi, Moses	560	–	–	368	–	928
WU Jianguo	–	–	–	–	–	–
XU Wenfang	–	–	–	485	–	485
LI Wenyue	–	–	–	1,397	–	1,397
LI Wai Keung	–	–	–	492	–	492
SUN Yingming	–	–	–	515	–	515
ZHAI Zhiming	–	–	–	229	–	229
WANG Xiaofeng	–	–	–	–	–	–
	560	1,992	1,842	5,405	442	10,241

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

9. Five Highest Paid Employees

The five highest paid employees during the year included two (2010: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the other three (2010: three) non-director, highest paid employees for the year are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**3,300**	2,479
Performance-related bonuses	**3,123**	3,239
Equity-settled share option expense	**374**	1,412
Pension scheme contributions	**186**	281
	6,983	7,411

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

	Number of employees	
	2011	2010
HK$1,000,001 – HK$1,500,000	**–**	–
HK$1,500,001 – HK$2,000,000	**–**	–
HK$2,000,001 – HK$2,500,000	**2**	2
HK$2,500,001 – HK$3,000,000	**1**	1
	3	3

10. Income Tax Expense

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

Under the PRC Corporate Income Tax Law, which became effective from 1 January 2008, enterprises are subject to corporate income tax ("CIT") at a rate of 25%. 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% are 18% in 2008; 20% in 2009; 22% in 2010; 24% in 2011; and 25% in 2012 and thereafter.

10. Income Tax Expense (continued)

	2011 HK$'000	2010 HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**19,717**	13,433
Overprovision in prior years	**(189)**	–
Current – Mainland China		
Charge for the year	**637,614**	551,481
Under/(over) provision in prior years	**(6,625)**	6,837
Deferred *(note 31)*	**298,676**	370,599
Total tax charge for the year	**949,193**	942,350

A reconciliation of the tax expense applicable to profit before tax at 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:

	2011					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	217,409		4,204,118		4,421,527	
Tax at the statutory tax rates	35,873	16.5	1,051,029	25.0	1,086,902	24.6
Lower tax rates for specific provinces or enacted by local authority and as a result of tax holidays	–	–	(12,771)	(0.3)	(12,771)	(0.3)
Adjustments in respect of current tax of previous periods	(189)	(0.1)	(6,625)	(0.2)	(6,814)	(0.2)
Profits attributable to a jointly–controlled entity and associates	–	–	(47,641)	(1.1)	(47,641)	(1.1)
Income not subject to tax	(7,237)	(3.3)	(254,979)	(6.1)	(262,216)	(5.9)
Expenses not deductible for tax	10,787	5.0	26,948	0.6	37,735	0.9
Effect of withholding tax at 5% on the distributable profits on the Group's PRC subsidiaries	–	–	110,533	2.6	110,533	2.5
Tax losses utilised from previous periods	–	–	(9,161)	(0.2)	(9,161)	(0.2)
Tax losses not recognised	895	0.4	3,102	0.1	3,997	0.1
Others	38	–	48,591	1.2	48,629	1.1
Tax charge at the Group's effective rates	40,167	18.5	909,026	21.6	949,193	21.5

10. Income Tax Expense (continued)

	2010					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	154,935		3,605,402		3,760,337	
Tax at the statutory tax rates	25,564	16.5	901,351	25.0	926,915	24.6
Lower tax rates for specific provinces or enacted by local authority and as a result of tax holidays	–	–	(68,060)	(1.9)	(68,060)	(1.8)
Adjustments in respect of current tax of previous periods	–	–	6,837	0.2	6,837	0.2
Profits attributable to a jointly–controlled entity and associates	–	–	(55,832)	(1.5)	(55,832)	(1.5)
Income not subject to tax	(1,000)	(0.6)	(183,675)	(5.1)	(184,675)	(4.9)
Expenses not deductible for tax	6,495	4.2	58,153	1.6	64,648	1.7
Effect of withholding tax at 5% on the distributable profits on the Group's PRC subsidiaries	–	–	228,997	6.4	228,997	6.1
Temporary differences not recognised in prior years	(8,351)	(5.4)	–	–	(8,351)	(0.2)
Tax losses utilised from previous periods	(4,679)	(3.1)	(7,054)	(0.2)	(11,733)	(0.3)
Tax losses not recognised	238	0.2	1,806	–	2,044	–
Others	258	0.2	41,302	1.1	41,560	1.1
Tax charge at the Group's effective rates	18,525	12.0	923,825	25.6	942,350	25.0

11. Profit Attributable to Owners of the Company

The consolidated profit attributable to owners of the Company for the year ended 31 December 2011 includes a profit of HK$1,116,498,000 (2010: HK$897,099,000) which has been dealt with in the financial statements of the Company (note 34(b)).

12. Dividends

	2011	2010
	HK$'000	HK$'000
Interim – 7.0 HK cents (2010: 5.0 HK cents) per ordinary share	**436,310**	310,697
Proposed final – 11.0 HK cents (2010: 10.0 HK cents) per ordinary share	**685,630**	623,090
	1,121,940	933,787

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

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

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:

	2011 **HK$'000**	2010 HK$'000
Earnings:		
Profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculation	**2,994,097**	2,420,174

	Number of shares	
	2011	2010
Shares:		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**6,231,841,633**	6,216,931,989
Effect of dilution – weighted average number of ordinary shares that assumed to have been issued:		
Share options	**21,056,729**	28,920,943
For the purpose of diluted earnings per share calculation	**6,252,898,362**	6,245,852,932

14. Property, Plant and Equipment

Group – 2011

	Hotel properties HK$'000	Land and buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At 1 January 2011:								
Cost	1,975,095	1,134,841	1,697,200	255,096	173,442	25,966	827,425	6,089,065
Accumulated depreciation and impairment	(611,082)	(704,872)	(1,223,242)	(219,445)	(147,756)	(17,570)	–	(2,923,967)
Net carrying amount	1,364,013	429,969	473,958	35,651	25,686	8,396	827,425	3,165,098
At 1 January 2011, net of accumulated depreciation and impairment	1,364,013	429,969	473,958	35,651	25,686	8,396	827,425	3,165,098
Additions	239	–	9,901	27,383	15,944	3,195	187,374	244,036
Disposals and write-offs	(80)	(798)	(291)	(296)	(3)	(151)	–	(1,619)
Depreciation provided during the year *(note 6)*	(55,148)	(34,202)	(65,360)	(25,006)	(14,665)	(2,272)	–	(196,653)
Reclassification	815,771	–	2,427	123,386	–	–	(941,584)	–
Transfer from investment properties *(note 15)*	–	4,709	–	–	–	–	–	4,709
Exchange realignment	32,060	16,688	–	4,586	1,032	339	24,007	78,712
At 31 December 2011, net of accumulated depreciation and impairment	2,156,855	416,366	420,635	165,704	27,994	9,507	97,222	3,294,283
At 31 December 2011								
Cost	2,832,688	1,191,352	1,716,828	411,092	194,881	28,716	97,222	6,472,779
Accumulated depreciation and impairment	(675,833)	(774,986)	(1,296,193)	(245,388)	(166,887)	(19,209)	–	(3,178,496)
Net carrying amount	2,156,855	416,366	420,635	165,704	27,994	9,507	97,222	3,294,283

14. Property, Plant and Equipment (continued)

Group – 2010

	Hotel properties HK$'000	Land and buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At 1 January 2010:								
Cost	1,948,711	1,085,014	1,675,889	237,286	169,283	22,280	485,764	5,624,227
Accumulated depreciation and impairment	(566,356)	(527,758)	(1,142,596)	(205,545)	(131,192)	(17,081)	–	(2,590,528)
Net carrying amount	1,382,355	557,256	533,293	31,741	38,091	5,199	485,764	3,033,699
At 1 January 2010, net of accumulated depreciation and impairment	1,382,355	557,256	533,293	31,741	38,091	5,199	485,764	3,033,699
Additions	201	–	4,740	15,036	8,586	4,733	318,637	351,933
Disposals and write-offs	(49)	–	(124)	(426)	–	(221)	–	(820)
Impairment *(note 6)*#	–	–	–	(955)	(6,212)	–	–	(7,167)
Depreciation provided during the year *(note 6)*	(38,770)	(32,509)	(65,686)	(12,592)	(13,946)	(1,669)	–	(165,172)
Reclassification	–	–	1,735	75	–	–	(1,810)	–
Transfer to investment properties *(note 15)*	–	(107,065)	–	–	–	–	–	(107,065)
Exchange realignment	20,276	12,287	–	2,772	(833)	354	24,834	59,690
At 31 December 2010, net of accumulated depreciation and impairment	1,364,013	429,969	473,958	35,651	25,686	8,396	827,425	3,165,098
At 31 December 2010:								
Cost	1,975,095	1,134,841	1,697,200	255,096	173,442	25,966	827,425	6,089,065
Accumulated depreciation and impairment	(611,082)	(704,872)	(1,223,242)	(219,445)	(147,756)	(17,570)	–	(2,923,967)
Net carrying amount	1,364,013	429,969	473,958	35,651	25,686	8,396	827,425	3,165,098

\# *During the year ended 31 December 2010, certain items of property, plant and equipment of certain wholly-owned subsidiaries of the Group, which were engaged in hotel operations and management in Mainland China, 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 hotel operations and management. Due to the change in market environment of the hotel operations and management business in Mainland China and cessation of certain hotel management businesses, an impairment loss of HK$7,167,000 was charged to the income statement during the year ended 31 December 2010.*

14. Property, Plant and Equipment (continued)

Group

The net carrying amount of the Group's hotel properties and land and buildings at the end of the reporting period are analysed as follows:

	Hotel properties	
	2011	2010
	HK$'000	HK$'000
Long term leases in Hong Kong	**586,990**	595,461
Medium term leases in Hong Kong	**287,764**	300,489
Medium term leases in Mainland China	**1,282,101**	468,063
	2,156,855	1,364,013

	Land and buildings	
	2011	2010
	HK$'000	HK$'000
Long term leases in Hong Kong	**18,465**	18,465
Medium term leases in Hong Kong	**9,435**	9,738
Medium term leases in Mainland China	**388,466**	401,766
	416,366	429,969

Company – 2011

	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2011, net of accumulated depreciation	**62**	**22**	**703**	**787**
Additions	**556**	**245**	**–**	**801**
Depreciation provided during the year	**(134)**	**(70)**	**(307)**	**(511)**
At 31 December 2011, net of accumulated depreciation	**484**	**197**	**396**	**1,077**
At 31 December 2011:				
Cost	**7,798**	**9,044**	**1,025**	**17,867**
Accumulated depreciation	**(7,314)**	**(8,847)**	**(629)**	**(16,790)**
Net carrying amount	**484**	**197**	**396**	**1,077**

14. Property, Plant and Equipment (continued)

Company – 2010

	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2010:				
Cost	7,217	8,799	895	16,911
Accumulated depreciation	(7,049)	(8,733)	(625)	(16,407)
Net carrying amount	168	66	270	504
At 1 January 2010, net of accumulated depreciation	168	66	270	504
Additions	25	–	741	766
Depreciation provided during the year	(131)	(44)	(308)	(483)
At 31 December 2010, net of accumulated depreciation	62	22	703	787
At 31 December 2010:				
Cost	7,242	8,799	1,025	17,066
Accumulated depreciation	(7,180)	(8,777)	(322)	(16,279)
Net carrying amount	62	22	703	787

15. Investment Properties

Group

	Investment properties at fair value HK$'000	**Investment property under development at cost HK$'000**	**Total HK$'000**
Carrying amount at 1 January 2010	4,248,301	562,165	4,810,466
Additions	–	474,488	474,488
Net gain from fair value adjustments	381,433	–	381,433
Transfer from property, plant and equipment, net *(note 14)*	107,065	–	107,065
Exchange realignment	141,097	19,552	160,649
Carrying amount at 31 December 2010 and 1 January 2011	**4,877,896**	**1,056,205**	**5,934,101**
Additions	**–**	**115,419**	**115,419**
Net gain from fair value adjustments	**776,652**	**–**	**776,652**
Transfer to property, plant and equipment, net *(note 14)*	**(4,709)**	**–**	**(4,709)**
Exchange realignment	**232,779**	**52,397**	**285,176**
Carrying amount at 31 December 2011	**5,882,618**	**1,224,021**	**7,106,639**

15. Investment Properties (continued)

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

	2011 HK$'000	2010 HK$'000
Long term leases in Hong Kong	645,810	565,930
Medium term leases in Mainland China	6,460,829	5,368,171
	7,106,639	5,934,101

The Group's investment properties at fair value were revalued on 31 December 2011 by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, at an aggregate amount of HK$5,882,618,000 on an open market, existing use basis. The investment properties are leased to third parties, Guangdong Holdings, GDH Limited and fellow subsidiaries under operating leases, further summary details of which are included in notes 36(a) and 38(b) to the financial statements.

Included in the above investment properties was a land parcel located in Tianjin under development as a shopping mall with land and development costs amounting to HK$1,224,021,000 (2010: HK$1,056,205,000). This investment property was carried at cost less any accumulated impairment losses as the directors are of the opinion that its fair value cannot be reliably determined due to the fact that the development project was still at its initial stage as at the end of the reporting period.

At 31 December 2011, the Group held a temporary land use right certificate for the land parcel located in Tianjin issued by the Tainjin Land Authorities in 2009. The procedures for the conversion from the temporary land use right certificate to the formal land use right certificate was in progress as at 31 December 2011. Notwithstanding this, the directors are of the opinion that the Group has obtained the beneficial title to the land parcels as at 31 December 2011 and the land use right certificate can be received.

Further particulars of the Group's investment properties are included on page 163.

16. Prepaid Land Lease Payments

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

	Group	
	2011 HK$'000	2010 HK$'000
Carrying amount at 1 January	101,986	103,581
Recognised during the year *(note 6)*	(4,643)	(4,493)
Exchange realignment	4,158	2,898
Carrying amount at 31 December	101,501	101,986

The leasehold land situated in Mainland China and is held under medium term leases.

17. Goodwill

	Group 2011 HK$'000	2010 HK$'000
Cost and net carrying amount at 1 January and 31 December	**266,146**	266,146

Impairment testing of goodwill

Goodwill acquired through business combinations, as further detailed in note 2.4 to the financial statements, is principally allocated 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% (2010: 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 revenue from the water supply to the HKSAR during the cash flow projection period is based on the latest 2012 Hong Kong Water Supply Agreement where the annual water revenue receivable from the HKSAR for the three years 2012, 2013 and 2014 are HK$3,538.7 million, HK$3,743.3 million and HK$3,959.34 million, respectively. No growth in the revenue from the water supply to the HKSAR are extrapolated beyond 2014 (No growth in the revenue was considered solely for the purposes of the impairment test to arrive at a conservative projection of cash flows and does not reflect the forecast long-term industry growth or our expectation of the business performance). Operating expenses are expected to increase by 3% to 10% per annum during the cash flow projection period. 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 2011. Based on the approved cash flow projections, the directors believe that any reasonable 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$265,788,000 (2010: HK$265,788,000) as at 31 December 2011.

18. Investments in Subsidiaries

	Company 2011 HK$'000	2010 HK$'000
Unlisted investments, at cost	**5,535,559**	4,927,148
Due from subsidiaries	**4,263,141**	4,402,397
Due to subsidiaries	**(117,106)**	(70,933)
	9,681,594	9,258,612
Less: Impairments	**(1,620,317)**	(1,587,385)
	8,061,277	7,671,227

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

18. Investments 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 as at 31 December 2011 is an unsecured loan of HK$81,479,000 (2010: HK$81,479,000) which bears interest at a fixed rate of 9% (2010: fixed rate of 9%) per annum and is repayable on demand.

Particulars of the principal subsidiaries are as follows:

Company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Global Head Developments Limited	British Virgin Islands/ Hong Kong	US$1	100%	–	Property investment
Fill Success Investments Limited	Hong Kong	HK$2 ordinary HK$2 non-voting deferred	–	100%	Hotel ownership
GH Water Supply (Holdings) Limited ("GH Water Holdings")*	Cayman Islands/ Hong Kong	HK$1,000,000 ordinary HK$100 Class A special shares HK$10 Class B special shares	94.47%	–	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%	64.58%	Property investment and investment holding
Guangdong Hotel Limited	Hong Kong	HK$2 ordinary HK$5,000,000 non-voting deferred	–	100%	Hotel ownership and operations
Guangdong (International) Hotel Management Holdings Limited	Hong Kong	HK$10,000,000	100%	–	Hotel management
Guangdong Nan Fang (Holdings) Co. Ltd. ("Nan Fang Holdings")(6)*	British Virgin Islands/ Mainland China	US$10,000	100%	–	Property investment
Guangdong Power (International) Limited	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	RMB50,000,000	–	85.18%	Department stores operations

18. Investments in Subsidiaries (continued)

Company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Guangdong Yue Gang Water Supply Company Limited ("WaterCo") (2)*	Mainland China	HK$6,116,000,000	–	93.53%	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
深圳粤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
珠海粤海酒店 (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") (5)	Hong Kong	HK$100	95%	–	Investment holding
中山火力發電有限公司 (Zhongshan Thermal Power Co., Ltd.) (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	–	85.18%	Department stores operations
廣東粤海投資財務管理有限公司 (3)*	Mainland China	RMB10,000,000	100%	–	Finance

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

(5) As at 31 December 2011, included in the amounts due from subsidiaries is an amount advanced by the Company to ZPHK, a 95%-owned subsidiary of the Company, of HK$111,874,000 (2010: HK$111,810,000). The balance is unsecured, interest-free and has no specific terms of repayment.

(6) As at 31 December 2010, included in the amounts due from subsidiaries is an amount advanced by the Company to Nan Fang Holdings, a 56.34%-owned subsidiary of the Company, of HK$260,034,000. Included in the amount is an unsecured loan of HK$81,479,000 which bears interest at a rate of 9% per annum and is repayable on demand. The remaining balance of HK$178,555,000 is unsecured, interest-free and has no specific terms of repayment. Nan Fang Holdings became a wholly-owned subsidiary of the Company during the year ended 31 December 2011.

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

18. Investments in Subsidiaries (continued)

During the years ended 31 December 2011 and 2010, the Group acquired additional interests in GH Water Holdings from non-controlling interests. During the year ended 31 December 2011, the Group acquired additional interests in Nan Fang Holdings from non-controlling interests. During the year ended 31 December 2010, the Group acquired additional interests in GD Teem from non-controlling 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. Investment in a Jointly-Controlled Entity

	Group	
	2011	2010
	HK$'000	HK$'000
Share of net assets	**806,620**	859,406

Particulars of the jointly-controlled entity are as follows:

Name	Nominal value of issued ordinary/registered share capital	Place of incorporation/ registration	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Guangdong Transport Investment (BVI) Company Limited	US$100,000	British Virgin Islands	51	50	51	Investments in bridge projects

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

	2011	2010
	HK$'000	HK$'000
Share of the jointly-controlled entity's assets and liabilities:		
Non-current assets	**739,518**	775,929
Current assets	**99,154**	84,260
Current liabilities	**(32,052)**	(783)
Net assets	**806,620**	859,406
Share of the jointly-controlled entity's results:		
Share of profit of a jointly-controlled entity	**82,588**	89,585

20. Investments in Associates

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted investments, at cost	**–**	–	**115,062**	115,062
Share of net assets	**1,644,250**	1,385,416	**–**	–
Goodwill on acquisition	**17,570**	17,570	**–**	–
Due from an associate *(note 38(c))*	**6,503**	6,195	**–**	–
	1,668,323	1,409,181	**115,062**	115,062
Less: Impairments	**(322,079)**	(322,079)	**(115,062)**	(115,062)
	1,346,244	1,087,102	**–**	–

Impairments of HK$322,079,000 have been made as the carrying amounts of investments in associates which were in the power supply operations exceeded their recoverable amounts. The recoverable amounts of the investments in associates were estimated based on the present value of discounted cash flows of the power supply operations at the discount rate of 8% (2010: 8%).

Particulars of the associates are as follows:

Company	Nominal value of issued ordinary/ registered share capital	Place of incorporation/ registration	Percentage of ownership interest attributable to		Principal activities
			Company	Group	
廣東吉之島天貿百貨有限公司 (Guangdong Jusco Teem Stores Co., Ltd.)*	RMB136,400,000	Mainland China	–	26.63%	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)*	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
廣東粵電靖海發電有限公司 (Guangdong Yudean Jinghai Power Generation Co., Ltd.)*	RMB2,919,272,000	Mainland China	–	25%	Power plant operations

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

20. Investments in Associates (continued)

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

	2011 HK$'000	2010 HK$'000
Assets	**22,464,271**	18,114,988
Liabilities	**(16,542,769)**	(13,119,971)
Revenues	**9,356,055**	7,849,910
Profits	**185,008**	240,845

21. Intangible Assets

Group – 2011

	Water distribution operation HK$'000	**Power supply operation HK$'000**	**Toll road operation HK$'000**	**Total HK$'000**
At 1 January 2011:				
Cost	**23,554,544**	**222,220**	**329,050**	**24,105,814**
Accumulated amortisation and impairment	**(7,834,288)**	**(207,845)**	**(201,241)**	**(8,243,374)**
Net carrying amount	**15,720,256**	**14,375**	**127,809**	**15,862,440**
At 1 January 2011, net of accumulated amortisation and impairment	**15,720,256**	**14,375**	**127,809**	**15,862,440**
Additions	**2,882**	**5,873**	**2,188**	**10,943**
Disposals and write-offs	**(1,477)**	**–**	**–**	**(1,477)**
Impairment during the year *(note 6)*	**–**	**–**	**(123,942)**	**(123,942)**
Amortisation during the year *(note 6)*	**(801,315)**	**(7,696)**	**(9,311)**	**(818,322)**
Exchange realignment	**–**	**525**	**3,256**	**3,781**
At 31 December 2011, net of accumulated amortisation and impairment	**14,920,346**	**13,077**	**–**	**14,933,423**
At 31 December 2011:				
Cost	**23,555,954**	**239,092**	**347,593**	**24,142,639**
Accumulated amortisation and impairment	**(8,635,608)**	**(226,015)**	**(347,593)**	**(9,209,216)**
Net carrying amount	**14,920,346**	**13,077**	**–**	**14,933,423**

21. Intangible Assets (continued)

Group – 2010

	Water distribution operation HK$'000	Power supply operation HK$'000	Toll road operation HK$'000	Total HK$'000
At 1 January 2010:				
Cost	23,554,368	214,201	315,983	24,084,552
Accumulated amortisation and impairment	(7,033,436)	(194,672)	(189,281)	(7,417,389)
Net carrying amount	16,520,932	19,529	126,702	16,667,163
At 1 January 2010, net of accumulated amortisation and impairment	16,520,932	19,529	126,702	16,667,163
Additions	413	734	6,695	7,842
Disposals and write-offs	(91)	(23)	–	(114)
Amortisation during the year (note 6)	(800,998)	(6,538)	(7,690)	(815,226)
Exchange realignment	–	673	2,102	2,775
At 31 December 2010, net of accumulated amortisation and impairment	15,720,256	14,375	127,809	15,862,440
At 31 December 2010:				
Cost	23,554,544	222,220	329,050	24,105,814
Accumulated amortisation and impairment	(7,834,288)	(207,845)	(201,241)	(8,243,374)
Net carrying amount	15,720,256	14,375	127,809	15,862,440

Water distribution operation

Prior to the acquisition by the Group of an 81% interest in GH Water Holdings in 2000, WaterCo acquired the operating right from Guangdong Holdings 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 related to the operating right to the GPG.

21. Intangible Assets (continued)

Water distribution operation (continued)

At 31 December 2011, the Group held certain temporary land use right certificates for the existing water supply operation issued by the Shenzhen and Dongguan Land Authorities in 2000. The procedures for the conversion from the temporary land use right certificates to the formal land use right certificates were in progress as at 31 December 2011. For land related to the Phase IV Renovation Project on the water distribution operation facilities, 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 2011. Notwithstanding the above, the directors are of the opinion that the Group has obtained the beneficial title to these land parcels as at 31 December 2011 and the land use right certificates can be received.

Toll road operation

During the year ended 31 December 2011, the Group conducted a review of its toll road operation in view of a nation-wide assessment of the toll road industry by government authorities, in which the toll road industry in the Guangdong Province were categorised into different categories and may be subjected to approval for continuing operations.

The review resulted in a provision for impairment of HK$123,942,000 being made against the intangible assets relating to the toll road operation.

22. Available-for-Sale Investments

	Group	
	2011	2010
	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 cost	**25**	23
Total available-for-sale investments	**25**	23

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

The above investments consist of investments in equity securities which were designated as available-for-sale investments. The equity investment has no specific maturity date or coupon rate.

23. Inventories

	Group	
	2011	2010
	HK$'000	HK$'000
Raw materials	**44,722**	45,480
Finished goods	**16,595**	14,269
	61,317	59,749

24. Receivables, Prepayments and Deposits

		Group		Company	
		2011	2010	**2011**	2010
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Trade receivables, net of impairment	*(i)*	**308,165**	251,270	**–**	–
Other receivables, prepayments and deposits	*(ii)*	**2,971,726**	344,733	**120,349**	34,454
Due from the immediate holding company	*38(c)*	**1,142**	–	**–**	–
Due from fellow subsidiaries	*38(c)*	**3,342**	155	**–**	–
		3,284,375	596,158	**120,349**	34,454
Less: Portion classified as non-current assets		**(342,702)**	–	**(115,350)**	–
Current portion		**2,941,673**	596,158	**4,999**	34,454

Except for trade receivables as detailed below, 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.

24. Receivables, Prepayments and Deposits (continued)

Note (i)

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 due within 30 days to 180 days of issue. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management. The Group's trade receivables relate principally to the water distribution and electricity supply business and the Group has a certain concentration of credit risk whereby 16% (2010: 18%) of the total trade receivables was due from one customer. The Group does not hold any collateral or other credit enhancements over these balances.

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

	Group	
	2011	2010
	HK$'000	HK$'000
Within 3 months	**292,251**	247,877
3 months to 6 months	**15,786**	2,190
6 months to 1 year	**5**	310
More than 1 year	**10,917**	11,535
	318,959	261,912
Less: Impairments	**(10,794)**	(10,642)
	308,165	251,270

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

	Group	
	2011	2010
	HK$'000	HK$'000
At 1 January	**10,642**	11,170
Impairment losses recognised/(reversed)	**152**	(528)
At 31 December	**10,794**	10,642

Included in the above provision for impairment of trade receivables is provision for individually impaired trade receivables of HK$10,794,000 (2010: HK$10,642,000) with the same carrying amount before provision as at the end of the reporting period. The individually impaired trade receivables relate to customers that were in default payments and the full amount of the receivables is not expected to be recoverable.

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

	Group	
	2011	2010
	HK$'000	HK$'000
Neither past due nor impaired	**258,430**	187,615
Less than 1 month past due	**12,427**	43,082
Equal to and over 1 month past due	**37,308**	20,573
	308,165	251,270

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

24. Receivables, Prepayments and Deposits (continued)

Note (i) (continued)

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.

Note (ii)

Included in the balances at 31 December 2011 were a payment of approximately RMB135 million (equivalent to approximately HK$166 million) made to Guangdong Holdings for the acquisition of a 40% equity interest in each of the Target Companies (as defined in note 39(b)) and an amount of RMB2,013 million (equivalent to approximately HK$2,483 million) was paid to Guangdong Holdings, as a 40% share of the shareholders' loans made to the Target Companies by Guangdong Holdings. Further details are included in note 39(b) to the financial statements.

25. Cash and Cash Equivalents

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances *(notes (a) and (b))*	**1,486,163**	1,029,173	**30,108**	24,566
Time deposits *(note (b))*	**2,056,795**	2,811,455	**502,623**	708,829
Cash and cash equivalents *(notes (c) and 35(b))*	**3,542,958**	3,840,628	**532,731**	733,395

Notes:

(a) *A subsidiary of the Company is required to reserve certain cash and bank balances for, amongst other things, payment of interest, repayment of debts and distribution to shareholders of that subsidiary pursuant to an agreement entered into between the subsidiary and other parties. As at 31 December 2011, cash and bank balances retained for such purposes amounted to HK$1,908,000 (2010: HK$1,214,000).*

(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 one year 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) *At the end of the reporting period, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$2,871,667,000 (2010: HK$3,038,239,000). 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 and Accruals

		Group		Company	
		2011	2010	**2011**	2010
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Trade payables		**484,230**	382,037	**–**	–
Accruals, other payables and other liabilities	*30*	**3,394,789**	3,113,741	**10,975**	10,715
Due to the immediate holding company	*38(c)*	**2,502**	5,045	**321**	214
Due to fellow subsidiaries	*38(c)*	**912**	4,485	**–**	–
Due to a jointly-controlled entity	*38(c)*	**29,276**	17,628	**–**	–
Due to ultimate holding company	*38(c)*	**3,278**	–	**–**	–
		3,914,987	3,522,936	**11,296**	10,929
Less: Portion classified as non-current liabilities	*30*	**(1,369,914)**	(1,566,278)	**–**	–
Current portion		**2,545,073**	1,956,658	**11,296**	10,929

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

	Group	
	2011	2010
	HK$'000	HK$'000
Within 3 months	**480,783**	379,775
3 months to 6 months	**966**	108
6 months to 1 year	**2,481**	2,154
	484,230	382,037

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

27. Derivative Financial Instruments

	Group			
	Assets		Liabilities	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Interest rate swap agreements	**64,453**	122,958	**(265,473)**	(519,768)
Less: Portion classified as non-current	**–**	–	**–**	(94,704)
Current portion	**64,453**	122,958	**(265,473)**	(425,064)

The Group entered into certain interest rate swap agreements to hedge against 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.

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 end of the reporting period, 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 2011, the Group had certain interest rate swap agreements with a total notional amount of HK$2,950 million (2010: HK$2,950 million) designated and qualified as hedging instruments 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 gain on cash flow hedges of HK$95,588,000 (2010: HK$75,386,000) included in the hedging reserve was as follows:

	2011	2010
	HK$'000	HK$'000
Total fair value losses included in the hedging reserve	**(19,981)**	(114,205)
Interest expense on cash flow hedges charged to finance costs upon realisation of certain interest rate swap agreements *(note 7)*	**125,909**	133,795
Reclassified from other comprehensive income to the income statement*	**–**	65,037
Net movement on cash flow hedges	**105,928**	84,627
Portion shared by non-controlling interests	**(10,340)**	(9,241)
Net movement attributable to owners of the Company for the year ended 31 December	**95,588**	75,386

* *HK$65,037,000 was included in other income and gains/(losses), net upon revocation of designation of certain interest rate swap agreements for hedge accounting in 2010.*

27. Derivative Financial Instruments (continued)

Derivatives not qualified for hedge accounting

At 31 December 2011, 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, including the amount of Nil (2010: HK $65,037,000) reclassified from other comprehensive income to the income statement, amounting to HK$15,050,000 (note 5) (2010: HK$143,820,000) 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 Non-Controlling Shareholders of Subsidiaries

The amounts due to non-controlling shareholders of subsidiaries as at the end of the reporting period are analysed as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Unsecured and non-interest-bearing:		
Current portion	**317,919**	401,770
Non-current portion	**–**	4,973
	317,919	406,743

The maturity profile of the amounts due to non-controlling shareholders of subsidiaries as at the end of the reporting period was as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Within one year or no specific terms of repayment	**317,919**	401,770
In the second year	**–**	4,973
	317,919	406,743

The carrying amounts of the amounts due to non-controlling shareholders of subsidiaries approximate to their fair values.

29. Interest-Bearing Bank Borrowings

Group

	2011 Effective interest rate	2011 Maturity	2011 HK$'000	2010 Effective interest rate	2010 Maturity	2010 HK$'000
Current						
Bank loans – unsecured	2.96%	2012	62,400	0.96% – 1.12%	2011	400,000
Bank loans – secured	0.75% – 5.30%*	2012	2,422,000	4.38% – 4.73%	2011	320,249
Non-current						
Bank loan – unsecured	2.96%	2013-2014	546,206	–	–	–
Bank loans – secured	0.75% – 5.30%*	2013-2017	800,000	0.66% – 5.54%*	2012-2017	3,222,000
			3,830,606			3,942,249

Company

	2011 Effective interest rate	2011 Maturity	2011 HK$'000	2010 Effective interest rate	2010 Maturity	2010 HK$'000
Current						
Bank loans – unsecured	2.96%	2012	62,400	0.96% – 1.12%	2011	400,000
Non-current						
Bank loan – unsecured	2.96%	2013-2014	546,206	–	–	–
			608,606			400,000

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

The fair values of interest-bearing bank borrowings are estimated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

29. Interest-Bearing Bank Borrowings (continued)

The bank borrowings are analysed into:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**2,484,400**	720,249	**62,400**	400,000
In the second year	**222,400**	2,422,000	**62,400**	–
In the third to fifth years, inclusive	**963,806**	480,000	**483,806**	–
Over five years	**160,000**	320,000	**–**	–
	3,830,606	3,942,249	**608,606**	400,000
Less: Portion classified as current liabilities	**(2,484,400)**	(720,249)	**(62,400)**	(400,000)
Non-current portion	**1,346,206**	3,222,000	**546,206**	–

Pursuant to a facility agreement entered into by the Group and certain banks in prior years (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"). The Refinancing Facility A and the Refinancing Facility B are guaranteed by WaterCo on a subordinated basis and are secured by the pledge of the water revenue of WaterCo.

At 31 December 2011, outstanding balance under the Refinancing Facility A was HK$2,422 million (2010: HK$2,422 million), which bears interest at 1, 2 or 3-month HIBOR plus 0.6% (2010: 1, 2 or 3-month HIBOR plus 0.6%) per annum and is repayable in full in November 2012.

Outstanding balance under the Refinancing Facility B at 31 December 2011 was HK$800 million (2010: HK$800 million) which bears interest at 3-month or 6-month HIBOR plus 0.6% (2010: 3-month or 6-month HIBOR plus 0.6%) per annum and the first repayment is due in 2013.

At 31 December 2011, 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 (2010: from the floating rate of HIBOR to a range of fixed interest rates) for the respective periods up to the various maturity dates in 2012 (2010: up to the various maturity dates in 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.

Included in the Group's and the Company's unsecured bank loans at 31 December 2011 was outstanding bank loan of HK$609 million (2010: Nil) denominated in USD. The loan bear interest at LIBOR plus 2% (2010: Nil) per annum with the first repayment due in 2012.

At 31 December 2010, the Group's secured bank loans included HK$320,249,000 which were denominated in RMB, secured by a charge over the designated debt service accounts, bore interest at 4.73% per annum, adjustable according to the interest rate for 3-5 year term loans published by the People's Bank of China and were repaid in full during the current year.

Also included in the Group's and the Company's unsecured bank loans at 31 December 2010 were two loans of HK$200 million each which bore interest at HIBOR plus 0.75% and HIBOR plus 0.88% per annum, respectively, and were repaid in full during the current year.

30. Other Liabilities

At 31 December 2011, included in the other liabilities was a non-interest-bearing receipt in advance of HK$1,300,200,000 (2010: HK$1,418,400,000). In prior years, 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. The outstanding Loan Facility is settled 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

	2011				
	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of investment properties HK$'000	Withholding tax levied on dividend HK$'000	Others HK$'000	Total HK$'000
At 1 January 2011	413,306	531,411	339,146	13,097	1,296,960
Deferred tax charged to the consolidated income statement during the year *(note 10)*	13,878	171,493	110,533	3,975	299,879
Exchange differences	19,676	28,062	9,509	741	57,988
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2011	446,860	730,966	459,188	17,813	1,654,827

31. Deferred Tax (continued)

Deferred tax assets

Group

	2011				
	Depreciation expense in excess of related depreciation allowance HK$'000	**Losses available for offsetting against future taxable profits HK$'000**	**Customer loyalty programme HK$'000**	**Others HK$'000**	**Total HK$'000**
At 1 January 2011	**(1,044)**	**(20,353)**	**–**	**(702)**	**(22,099)**
Deferred tax charged/ (credited) to the consolidated income statement during the year *(note 10)*	**–**	**4,757**	**(5,825)**	**(135)**	**(1,203)**
Exchange differences	**(52)**	**(53)**	**(134)**	**(39)**	**(278)**
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December 2011	**(1,096)**	**(15,649)**	**(5,959)**	**(876)**	**(23,580)**
Net deferred tax liabilities at 31 December 2011					**1,631,247**

Deferred tax liabilities

Group

	2010				
	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of investment properties HK$'000	Withholding tax levied on dividend HK$'000	Others HK$'000	Total HK$'000
At 1 January 2010	383,047	388,978	105,655	9,101	886,781
Deferred tax charged to the consolidated income statement during the year *(note 10)*	17,306	127,104	228,997	3,592	376,999
Exchange differences	12,953	15,329	4,494	404	33,180
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2010	413,306	531,411	339,146	13,097	1,296,960

31. Deferred Tax (continued)

Deferred tax assets

Group

	2010			
	Depreciation expense in excess of related depreciation allowance HK$'000	Losses available for offsetting against future taxableprofits HK$'000	Others HK$'000	Total HK$'000
At 1 January 2010	(738)	(14,212)	(823)	(15,773)
Deferred tax charged/(credited) to the consolidated income statement during the year *(note 10)*	(271)	(6,141)	12	(6,400)
Exchange differences	(35)	–	109	74
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December 2010	(1,044)	(20,353)	(702)	(22,099)
Net deferred tax liabilities at 31 December 2010				1,274,861

The Group has unrecognised tax losses arising in Hong Kong of approximately HK$45,686,000 (2010: HK$39,245,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has unrecognised tax losses arising in Mainland China of HK$294,239,000 (2010: HK$330,019,000) that will expire in one to five years for offsetting against future taxable profits. 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 PRC Corporate Income 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 for withholding taxes on dividends distributed by those subsidiaries, associates and a jointly-controlled entity and established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2011, except for withholding tax provided for under deferred tax liabilities, the aggregate amount of temporary differences associated with unremitted earnings that are subject to withholding taxes of the Group's subsidiaries, associates and a jointly-controlled entity in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$230,495,000 (2010: HK$175,996,000).

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

32. Share Capital

Shares

	2011 HK$'000	2010 HK$'000
Authorised: 8,000,000,000 (2010: 8,000,000,000) ordinary shares of HK$0.50 each	**4,000,000**	4,000,000
Issued and fully paid: 6,232,998,071 (2010: 6,230,898,071) ordinary shares of HK$0.50 each	**3,116,499**	3,115,449

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 2010	6,213,438,071	3,106,719	2,421,477	5,528,196
Share options exercised *(note (i))*	17,460,000	8,730	26,356	35,086
Release of share option reserve *(note (ii))*	–	–	8,728	8,728
At 31 December 2010 and 1 January 2011	**6,230,898,071**	**3,115,449**	**2,456,561**	**5,572,010**
Share options exercised *(note (i))*	**2,100,000**	**1,050**	**2,895**	**3,945**
Release of share option reserve *(note (ii))*	**–**	**–**	**953**	**953**
At 31 December 2011	**6,232,998,071**	**3,116,499**	**2,460,409**	**5,576,908**

Notes:

(i) The subscription rights attaching to 2,100,000 (2010: 17,460,000) share options were exercised at a subscription price of HK$1.88 (2010: from HK$1.88 to HK$3.405) per ordinary share, resulting in the issue of 2,100,000 (2010: 17,460,000) ordinary shares for a total consideration, before expenses, of HK$3,948,000 (2010: HK$35,112,000) and net of expenses, of HK$3,945,000 (2010: HK$35,086,000).

(ii) During the year, 2,100,000 (2010: 17,460,000) share options were exercised, resulting in the release of share option reserve of HK$953,000 (2010: HK$8,728,000) to the ordinary share premium amount.

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 that was 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 would be granted thereunder, but in all other respects, the provisions of the 2002 Scheme should remain in force, and all the then existing share options which have been granted prior to such termination should 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$5,000,000, 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 1,500,000 share options granted under the 2002 Scheme prior to its termination exercised during the year ended 31 December 2010 resulted in the issue of 1,500,000 ordinary shares and new share capital of HK$750,000 and ordinary share premium account of HK$5,842,000 after release of share options reserve, net of issue expenses, as detailed in note 32 to the financial statements.

Under the 2002 Scheme, no share options were granted, cancelled or lapsed during the year ended 31 December 2011. No share options under the 2002 Scheme were outstanding as at 31 December 2011 (2010: Nil).

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.

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$5,000,000, such grant of options by the board of directors must be approved by shareholders in a general meeting.

33. Share Option Scheme (continued)

2008 Scheme (continued)

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.

2,100,000 (2010: 15,960,000) share options granted under the 2008 Scheme were exercised in the year which resulted in the issue of 2,100,000 (2010: 15,960,000) ordinary shares, new share capital of HK$1,050,000 (2010: 7,980,000) and ordinary share premium amount of HK$3,848,000 after the release of share option reserve (2010: HK$29,242,000) net of issue expense, as detailed in note 32 to the financial statements.

During the year ended 31 December 2011, no share options were granted or cancelled. During the year ended 31 December 2011, 1,950,000 (2010: 5,540,000) share options were forfeited.

At 31 December 2011, the Company had 35,250,000 (2010: 39,300,000) share options outstanding under the 2008 Scheme, which represented approximately 0.57% (2010: 0.63%) of the 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 35,250,000 (2010: 39,300,000) additional ordinary shares and the increase in share capital of HK$17,625,000 (2010: HK$19,650,000) and share premium of HK$48,645,000 (2010: HK$54,234,000) (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 8.05% of the issued share capital of the Company as at the date of approval of these financial statements.

At the date of approval of these financial statements, the Company had 35,250,000 share options outstanding under the 2008 Scheme, which represented approximately 0.57% of the Company's shares in issue as at that date.

33. Share Option Scheme (continued)

2008 Scheme (continued)

Movements in share options under the Company's share option scheme during the year are as follows:

	2011 Weighted average exercise price HK$ per share	**2011** Number of options '000	2010 Weighted average exercise price HK$ per share	2010 Number of options '000
At 1 January	**1.88**	**39,300**	1.917	62,300
Exercised during the year	**1.88**	**(2,100)**	2.011	(17,460)
Forfeited during the year#	**1.88**	**(1,950)**	1.880	(5,540)
At 31 December	**1.88**	**35,250**	1.880	39,300

Such options held by an employee, Ms. Wang Xiaofeng and Mr. Zhai Zhiming forfeited upon the decease of the employee on 18 June 2011 and the resignation of Ms. Wang Xiaofeng and Mr. Zhai Zhiming as directors of the Company on 5 January 2010 and on 11 November 2010, respectively.

The weighted average share price at the date of exercise of the share options exercised during the year was HK$4.14 per share (2010: HK$4.038 per share).

The exercise price and exercise period of the share options outstanding as at the end of the reporting period are as follows:

2011

Number of options '000	**Exercise price* HK$ per share**	**Exercise period (dd.mm.yyyy)**
4,980	**1.88**	**24-10-2010 to 23-04-2014**
15,135	**1.88**	**24-10-2011 to 23-04-2014**
5,045	**1.88**	**24-10-2012 to 23-04-2014**
10,090	**1.88**	**24-10-2013 to 23-04-2014**
35,250		

2010

Number of options '000	Exercise price* HK$ per share	Exercise period (dd.mm.yyyy)
7,080	1.88	24-10-2010 to 23-04-2014
16,110	1.88	24-10-2011 to 23-04-2014
5,370	1.88	24-10-2012 to 23-04-2014
10,740	1.88	24-10-2013 to 23-04-2014
39,300		

* *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.*

33. Share Option Scheme (continued)

2008 Scheme (continued)

The fair value of the share options granted during the year ended 31 December 2008 was HK$27,591,000, which the Group recognised a share option expense of HK$2,973,000 during the year ended 31 December 2011 (2010: HK$7,149,000).

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) The special reserve (the "Special Reserve") was set up as one of the undertakings (the "Undertaking") given to the High Court of the HKSAR by the Company in its capital reduction application in 2003, on 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 when the Undertaking became effective on 24 December 2003 (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 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 which is made by such subsidiary out of the profit available for distribution prior to the Effective Date or any dividend paid to the Company in respect of any liquidation of a subsidiary commencing prior to that date.

During the year ended 31 December 2011, the release of provision as determined above was HK$12,854,183 (2010: HK$5,979,299); and no profit was distributed from the Company's subsidiaries as determined above (2010: Nil), which resulted in an aggregate transfer from retained profits to the Special Reserve of the Group and the Company of HK$12,854,183 (2010: HK$5,979,299).

The Special Reserve shall not be treated as realised profits of the Company and shall, for so long as the Company shall remain a limited company, be treated as an undistributable reserve of the Company for the purpose of the Hong Kong Companies Ordinance. Further, the Special Reserve may be applied for the same purposes as an ordinary share premium account may lawfully be applied and the amount standing to the credit of the Special Reserve may be reduced by an amount equal to any increase, after the Effective Date, in the paid-up share capital or ordinary share premium account of the Company which results from an issue of shares (other than for the purposes of any redemption or purchase by the Company of its own shares) for cash or other consideration or by way of the capitalisation of distributable profits or reserves. The Company shall be at liberty to transfer the amount so reduced to the general reserves of the Company and the same shall become available for distribution.

During the year, the reduction of the Special Reserve and the capitalisation of the same amount to retained profits, resulting from the aggregate increase in paid-up share capital and ordinary share premium account due to the issue of the Company's ordinary shares (before any share issue expenses), amounted to HK$3,948,000 (2010: HK$5,979,299). 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.

34. Reserves (continued)

(a) Group (continued)

(i) (continued)

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 (2010: 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.

As at 31 December 2011, 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$3,948,000 (2010: HK$5,979,299); and (ii) the amount of non-permanent loss of Nil (2010: Nil) which has turned into a permanent loss for the year ended 31 December 2011.

The Limit, as adjusted, was HK$617,898,686 (2010: HK$621,846,686) and the amount standing to the credit of the Group's and the Company's Special Reserve was HK$8,906,183 (2010: Nil) as at 31 December 2011.

(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 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 2010		2,421,477	1,733,711	13,217	(14,813)	–	142,598	4,296,190
Share options exercised, net of issue expense	*32*	35,084	–	(8,728)	–	–	–	26,356
Equity-settled share option arrangements	*33*	–	–	7,149	–	–	–	7,149
Total comprehensive income for the year	*11*	–	–	–	–	–	897,099	897,099
Interim 2010 dividend paid	*12*	–	–	–	–	–	(310,697)	(310,697)
Proposed final 2010 dividend	*12*	–	–	–	–	–	(623,090)	(623,090)
Final 2009 dividend paid		–	–	–	–	–	(30)	(30)
Transfer from retained profits in accordance with the Undertaking	*34(a)(i)*	–	–	–	–	5,979	(5,979)	–
Transfer to retained profits upon issue of new ordinary shares during the year	*34(a)(i)*	–	–	–	–	(5,979)	5,979	–
At 31 December 2010		2,456,561	1,733,711	11,638	(14,813)	–	105,880	4,292,977

34. Reserves (continued)

(b) Company (continued)

	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 2011		2,456,561	1,733,711	11,638	(14,813)	–	105,880	4,292,977
Share options exercised, net of issue expense	32	3,848	–	(953)	–	–	–	2,895
Equity-settled share option arrangements	33	–	–	2,973	–	–	–	2,973
Total comprehensive income for the year	11	–	–	–	–	–	1,116,498	1,116,498
Interim 2011 dividend paid	12	–	–	–	–	–	(436,310)	(436,310)
Proposed final 2011 dividend	12	–	–	–	–	–	(685,630)	(685,630)
Transfer from retained profits in accordance with the Undertaking	34(a)(i)	–	–	–	–	12,854	(12,854)	–
Transfer to retained profits upon issue of new ordinary shares during the year	34(a)(i)	–	–	–	–	(3,948)	3,948	–
At 31 December 2011		2,460,409	1,733,711	13,658	(14,813)	8,906	91,532	4,293,403

35. Notes to the Consolidated Statement of Cash Flows

(a) Major non-cash transaction

During the year, the Group settled an amount of HK$118,200,000 (2010: HK$118,200,000) in relation to the Loan Facility by deducting it against the water revenue receivable from the government of the Hong Kong Special Administration Region. Details of the Loan Facility are set out in note 30 to the financial statements.

(b) Cash and cash equivalents

	2011 HK$'000	2010 HK$'000
Cash and cash equivalents as stated in the consolidated statement of financial position as at 31 December *(note 25)*	**3,542,958**	3,840,628
Non-pledged time deposits with original maturity of more than three months when acquired	**(478,127)**	(1,732,650)
Cash and cash equivalents as stated in the consolidated statement of cash flows as at 31 December	**3,064,831**	2,107,978

36. Operating Lease Arrangements

Group

(a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from one to fifteen years (2010: one to fifteen 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 2011, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2011 HK$'000	2010 HK$'000
Within one year	**703,543**	637,249
In the second to fifth years, inclusive	**891,009**	930,771
After five years	**465,405**	439,565
	2,059,957	2,007,585

36. Operating Lease Arrangements (continued)

(b) As lessee

The Group leases certain leasehold properties under operating lease arrangements. Leases for properties are negotiated for terms of one to twenty years (2010: one to fifteen years).

At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Within one year	**114,661**	15,453
In the second to fifth years, inclusive	**155,003**	64,607
After five years	**65,401**	96,739
	335,065	176,799

In addition to the operating lease arrangements as disclosed above, the Group leases certain leasehold properties for the department stores operations of subsidiaries of the Group. The rental charge amounting to HK$44,879,000 (2010: HK$32,625,000) is calculated with reference to the revenue generated by the subsidiaries of the Group.

The Company did not have significant operating lease arrangements as at the end of the reporting period (2010: Nil).

37. Commitments

In addition to the operating lease commitments detailed in note 36(b) above, the Group had the following commitments at the end of the reporting period:

	Group	
	2011	2010
	HK$'000	HK$'000
(a) Capital commitments in respect of property, plant and equipment, investment properties and intangible assets:		
Contracted for	**586,057**	599,635
Authorised, but not contracted for	**4,973,091**	4,597,969
	5,559,148	5,197,604
Capital commitments in respect of capital contribution payable to an associate:		
Authorised, but not contracted for	**–**	201,146
Commitments in respect of contribution payable to Target Companies:		
Authorised, but not contracted for	**385,919**	–
	5,945,067	5,398,750

At the end of the reporting period, the Company did not have any significant commitments.

(b) Pursuant to WaterCo's articles of association, Guangdong Holdings, which directly holds a 1% equity interest in WaterCo, is not entitled to receive any distributed profits of WaterCo for the first fifteen years of operation (the "Period"). 100% of the distributed profits for the Period shall be made to GH Water Holdings, its holding company holding 99% equity interest. Starting from the sixteenth year of WaterCo's operation, 1.01% of the distributed profits of WaterCo for the Period plus simple interest at a rate of 8% per annum on the unpaid amount of the distributed profits shall be made to Guangdong Holdings (collectively referred to as the "Deferred Dividend"). Once Guangdong Holdings has received the Deferred Dividend in full, all of the WaterCo's distributable profits are to be distributed to GH Water Holdings and Guangdong Holdings according to their respective equity interests in WaterCo for the remaining operating period.

38. Related Party Transactions

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group and the Company had the following significant transactions with related parties during the year.

(a) Transactions with related parties

	Notes	**2011 HK$'000**	2010 HK$'000
Hotel management and other services fees received from fellow subsidiaries	*(i)*	**(5,152)**	(6,001)
Rents received from Guangdong Holdings, GDH Limited and certain fellow subsidiaries	*(ii)*	**(7,470)**	(5,663)
Water distribution income received from a fellow subsidiary	*(iii)*	**(2,607)**	–
Dividends paid to GDH Limited and certain of its subsidiaries by GH Water Holdings	*(iv)*	**41,243**	29,983
Dividends paid to GDH Limited and certain of its subsidiaries by the Company	*(iv)*	**640,370**	414,290

Notes:

(i) Income received was charged in accordance with the terms of agreements entered into between the Group's subsidiary and the respective fellow subsidiaries.

(ii) Rents received was charged in accordance with the respective tenancy agreements.

(iii) Income received on the supply of untreated water for the period between 1 December 2011 and 31 December 2011 was charged in accordance with the terms of an agreement entered between the Group's subsidiary and the fellow subsidiary.

(iv) Dividends paid and payable were made pursuant to the dividend rates proposed and declared at the respective board of directors and shareholders' meetings.

38. Related Party Transactions (continued)

(b) Commitments with related parties

The Group entered into several tenancy agreements, as lessor, with Guangdong Holdings, the ultimate holding company, GDH Limited, the immediate holding company and certain fellow subsidiaries of the Group (collectively, the "GDH Group") for leasing out of several units in Hong Kong and PRC as office premises. The amount of total rents received from the GDH Group for the year is included in note 38(a) to the financial statements. Details of the Group's commitments with related parties are as follows:

(i) On 2 September 2010, Global Head Developments Limited ("Global Head"), and Guangdong Kingway Sales Limited ("Kingway Sales"), a fellow subsidiary of the Company, entered into a preliminary agreement, and on 25 November 2010, entered into a tenancy agreement in relation to the leasing out of Office A1 on 19th Floor of Guangdong Investment Tower ("GDI Tower") as office premises for a term of three years commencing from 1 September 2010 at a monthly rent of HK$60,794.50. The Group expects total rents receivable from Kingway Sales for the years ending 31 December 2012 and 31 December 2013 to be approximately HK$699,000 and HK$486,000, respectively.

(ii) On 31 January 2011, Global Head entered into a preliminary agreement with Guangdong Tannery Limited ("GD Tannery"), a fellow subsidiary of the Company, and, on 1 April 2011, entered into a tenancy agreement in relation to the leasing out of Office A2 on 19th Floor of GDI Tower as office premises for a term of three years commencing from 6 February 2011 at a monthly rent of HK$28,800. The Group expects total rents receivable from GD Tannery for the years ending 31 December 2012 to 31 December 2014 to be approximately HK$346,000, HK$346,000 and HK$34,000, respectively.

(iii) On 2 June 2011, Global Head and GDH Limited entered into a tenancy agreement in relation to the leasing out of 27th Floor of GDI Tower as office premises for a term of three years commencing from 2 June 2011 at a monthly rent of HK$201,058. The Group expects total rents receivable from GDH Limited for the years ending 31 December 2012 to 31 December 2014 to be approximately HK$2,413,000, HK$2,413,000 and HK$1,012,000, respectively.

(iv) On 19 August 2009, Global Head and GDH Limited entered into a preliminary agreement, and, on 30 December 2009, entered into a tenancy agreement in relation to the leasing out of 26th Floor, Office B1 on 29th Floor and Offices A and B on 30th Floor of GDI Tower as office premises for a term of three years commencing from 20 August 2009 at a monthly rent of HK$384,180. On 2 June 2011, Global Head entered into a supplemental agreement with GDH Limited in relation to the leasing out of an additional area known as Office A1 on 30th Floor of GDI Tower for a term commencing from 2 June 2011 to 19 August 2012 at a monthly rent of HK$43,674. The Group expects total rents receivable from GDH Limited for the year ending 31 December 2012 to be approximately HK$3,257,000.

(v) On 30 September 2011, GD Teem and Guangdong Holdings, entered into a tenancy agreement in relation to the leasing out of the premises on 42nd and 45th Floors of Teem Tower as office premises for the period from 1 October 2011 to 30 September 2014 at a monthly rent of RMB86,247 for the period from 1 October 2011 to 31 December 2011, at RMB603,727 for the month of 1 to 31 January 2012 and at a monthly rent of RMB862,467 for the period from 1 February 2012 to 30 September 2014. The Group expects total rents receivable from Guangdong Holdings for the years ending 31 December 2012 to 31 December 2014 to be approximately HK$12,447,000, HK$12,766,000 and HK$9,575,000, respectively.

38. Related Party Transactions (continued)

(c) Outstanding balances with related parties

		Group		Company	
		2011	2010	**2011**	2010
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Balances due from:					
Immediate holding company	*(i)*	**1,142**	–	**–**	–
Fellow subsidiaries	*(i)*	**674**	155	**–**	–
A fellow subsidiary	*(ii)*	**2,668**	–	**–**	–
An associate	*(i)*	**6,503**	6,195	**–**	–
Balances due to:					
Immediate holding company	*(i)*	**(2,502)**	(5,045)	**(321)**	(214)
Fellow subsidiaries	*(i)*	**(912)**	(4,485)	**–**	–
A jointly-controlled entity	*(i)*	**(29,276)**	(17,628)	**–**	–
Ultimate holding company	*(iii)*	**(3,278)**	–	**–**	–

Notes:

(i) The balances due are unsecured, non-interest-bearing and have no specific terms of repayment.

(ii) The balance is unsecured, non-interest-bearing and repayable within 30 days.

(iii) As at 31 December 2011, included in the other liabilities are amounts of HK$2,534,000 which is the rental related deposit received from the ultimate holding company and HK$744,000 which is the rental received in advance.

(d) Compensation of key management personnel of the Group

	2011	2010
	HK$'000	HK$'000
Short term employee benefits	**6,413**	6,172
Post-employment benefits	**457**	442
Equity-settled share option expense	**2,074**	5,405
Total compensation paid to key management personnel	**8,944**	12,019

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

39. Connected Transactions and Continuing Connected Transactions

In addition to the disclosures detailed elsewhere in these financial statements, the Group's connected transactions and the continuing connected transactions conducted during the year disclosed in accordance with Chapter 14A of the Listing Rules are as follows:

Connected transactions

(a) Establishment of 廣州天河城投資有限公司 (Guangzhou Tianhecheng Investment Co., Ltd.) ("Tianhecheng Investco")

On 14 October 2011, GD Teem, a 76.09% owned subsidiary of the Group, and 廣東粵海投資開發有限公司 (Guangdong Yuehai Investment Development Co., Ltd.) ("Yuehai Investment"), a 51% indirect non wholly-owned subsidiary of Guangdong Holdings, entered into the Articles of Association (the "Articles") and the joint venture contract (the "JV Contract") in relation to the establishment of Tianhecheng Investco. Tianhecheng Investco will be principally engaged in investment and development of properties in the PRC (the "Business").

Pursuant to the Articles and the JV Contract, each of GD Teem and Yuehai Investment subscribed (the "Subscription") for the registered capital of Tianhecheng Investco in cash as to RMB240 million and RMB160 million, respectively (representing 60% and 40% of the registered capital of Tianhecheng Investco, respectively). After the completion of the Subscription, Tianhecheng Investco became a subsidiary of GD Teem. It is estimated that an aggregate of RMB2,000 million will be required for the purpose of the Business and apart from the abovesaid registered capital, any further capital requirement of Tianhecheng Investco for the same will be provided by borrowings from third parties, pro-rata capital contributions or shareholders' loan by the parties to be determined by the parties according to the terms of the JV Contract.

Since Guangdong Holdings is the ultimate holding company of the Company, and hence a connected person of the Company. Yuehai Investment, being an indirect subsidiary of Guangdong Holdings, is also a connected person of the Company. Tianhecheng Investco, which is held as to 60% and 40%, respectively, by GD Teem and Yuehai Investment, is also a connected person of the Company. Accordingly, the relevant Subscription by GD Teem constituted a connected transaction of the Company. Further details of the establishment of Tianhecheng Investco are included in the Company's announcement on 14 October 2011.

(b) Acquisition of a 40% equity interest in each of the Target Companies (as defined below)

On 28 November 2011, GD Teem entered into a conditional equity transfer agreement (the "Agreement") with Guangdong Holdings, pursuant to which, GD Teem agreed to acquire from Guangdong Holdings a 40% equity interest in each of 廣東三誠經濟發展有限公司 (Guangdong Sancheng Economic Development Company Limited) ("Guangdong Sancheng"), 廣州金東源房地產開發有限公司 (Guangzhou Jindongyuan Real Estate Development Company Limited) ("Guangzhou Jindongyuan") and 廣州天源投資管理有限公司 (Guangzhou Tianyuan Investment Management Company Limited) ("Guangzhou Tianyuan"), collectively the Target Companies (the "Acquisition"). These Target Companies are property holding companies directly or indirectly holding developed properties or property projects under development in Guangzhou, PRC. Guangdong Holdings acquired a 100% equity interest in each of the Target Companies through a public auction directed by a People's Court in the PRC on 23 November 2011.

39. Connected Transactions and Continuing Connected Transactions (continued)

Connected transactions (continued)

(b) Acquisition of a 40% equity interest in each of the Target Companies (continued)

Pursuant to the Agreement, the consideration payable by GD Teem in respect of the Acquisition is an amount equivalent to 40% of all of the costs (including the tender price, commission fee paid to auction agencies, fees paid to a commercial bank for issuing a performance bond for Guangdong Holdings' participation in the auction and related taxes) incurred by Guangdong Holdings in the tender which amounted to approximately RMB135 million (equivalent to approximately HK$166 million).

In relation to the Acquisition, GD Teem is also required to provide up to a total of RMB2,325 million (equivalent to approximately HK$2,868 million), representing 40% of the amount required by the Target Companies to repay the outstanding loans plus accrued interests to Bank of Communications, and partly as contributions (in the proportion of 40%) to resolve any valid third party claims or litigation instituted against, and other liabilities of, or in connection with, the Target Companies (including such liabilities and responsibilities as stated in the auction notice to be handled by the successful tenderer) and the liabilities included in the adjusted accounts of the Target Companies as of 31 October 2011.

The Agreement provides that the consideration payable by GD Teem together with the amount of shareholders' loans to be provided by GD Teem to the Target Companies and the contributions to the other claims and liabilities of, or in connection with, the Target Companies to be responsible by GD Teem will not, in the aggregate, exceed RMB2,460 million.

As the Target Companies holds certain property projects under development, it is expected that the Target Companies may raise funds to pay for the development costs by way of bank loans or shareholders' loans or capital from Guangdong Holdings and GD Teem. Accordingly, it is expected that Guangdong Holdings and GD Teem may be required to provide further assistance in the form of shareholders' loans to and/or capital injection into the Target Companies, in proportion to their respective interest in the Target Companies to assist the Target Companies to finance part of the construction costs. The Company currently expects that GD Teem may be required to provide the further assistance in the approximate aggregate amount of up to RMB415 million (equivalent to approximately HK$512 million).

Guangdong Holdings has agreed that, if the charges in favour of the Bank of Communications and the court's seizure orders in relation to the properties held by the Target Companies could not be finally released within six months from the completion of the Acquisition, GD Teem has a right to request to cancel the transfer of interest of the relevant Target Companies and have the consideration paid by GD Teem and the shareholder's loans provided by GD Teem refunded by Guangdong Holdings to GD Teem.

Guangdong Holdings, the Company's ultimate holding company, holds through its subsidiaries, an approximately 60.48% interest in the Company as of the date of entering into the Agreement, and is therefore a connected person of the Company. By reference to the consideration, the proportional share of the shareholders' loans and further assistance to be injected in the Target Companies, the Acquisition constitutes a discloseable and connected transaction of the Company under the Listing Rules, and is subject to reporting, announcement and independent shareholders' approval requirements. Further details on the Acquisition are included in the Company's announcement on 28 November 2011 and the Company's circular dated 12 December 2011.

39. Connected Transactions and Continuing Connected Transactions (continued)

Connected transactions (continued)

(b) Acquisition of a 40% equity interest in each of the Target Companies (continued)

An extraordinary general meeting of the Company was held on 30 December 2011, whereby an ordinary resolution to approve the Acquisition and the provision of further financial assistance mentioned above was duly passed by the independent shareholders of the Company.

As at 31 December 2011, an amount of RMB135 million was paid by GD Teem to Guangdong Holdings for the transfer of equity interest in the Target Companies by Guangdong Holdings to GD Teem. In addition, an amount of RMB2,013 million was paid to Guangdong Holdings, representing a 40% share of the shareholders' loans made to the Target Companies by Guangdong Holdings, in form of entrusted loans (the "Entrusted Loans") through a PRC Bank. The Entrusted Loans are interest-bearing at 7.216% per annum, secured by the properties held by the Target Companies, and are repayable on 20 December 2012. In connection to the amount made, Guangdong Holdings has assigned all the rights and obligations relating to 40% of the Entrusted Loans to GD Teem through various assignment agreements.

As at the date of approval of these financial statements, the Acquisition is still in progress.

(c) Acquisition of equity interest in Golden River Chain Limited ("Golden River") and its subsidiaries (collectively known as the "Golden River Group")

On 20 October 2009, the Company, Chun Wai Consultants Limited ("Chun Wai") (which is a wholly-owned subsidiary of GDH Limited) and GDH Limited entered into an agreement, under which, the Company agreed to acquire the entire issued share capital (the "Sale Share") of Golden River, a wholly-owned subsidiary of Chun Wai, and the shareholder's loan due from Golden River to Chun Wai (the "Sale Loan"). GDH Limited agreed to guarantee the obligations of Chun Wai thereunder.

Golden River had an indirect equity interest of 25% 廣東粵電靖海發電有限公司 (Guangdong Yudean Jinghai Power Generation Co., Ltd.) ("Yudean Jinghai"), which owns and operates a coal-fired power plant with two 600 MW power generators located in Huilai Town, Jieyang City, Guangdong Province. The consideration for the Sale Share and the Sale Loan were HK$84,289,000 and HK$515,711,000, respectively, and were paid by the Company in cash on 4 January 2010 upon the completion of the transaction. In addition, pursuant to the agreement, the Company was to make further capital contribution of RMB342 million to Yudean Jinghai, of which RMB171 million (approximately HK$196 million) was made during the year ended 31 December 2010 and the remaining RMB171 million (approximately HK$206 million) was made during the year ended 31 December 2011.

39. Connected Transactions and Continuing Connected Transactions (continued)

Continuing connected transactions

(a) Hotel Management Agreements

(i) On 16 December 2010, 粵海國際酒店管理（中國）有限公司 (Guangdong International Hotel Management (China) Limited) ("GIHM (China)"), an indirect wholly-owned subsidiary of the Company, and Take Win Investment Limited, an indirect wholly-owned subsidiary of GDH Limited, the immediate holding company of the Company, entered into a management service agreement in relation to the management of 上海粵海酒店 (Guangdong Hotel (Shanghai)) ("GD Hotel Shanghai") by GIHM (China) for the period from 1 January 2011 to 31 December 2013 for a consideration of 2% on total operating income plus 6% on gross operating profits ("GOP") generated by GD Hotel Shanghai;

(ii) On 16 December 2010, GIHM (China) and 深圳市東深投資控股有限公司 (Shenzhen Dongshen Investment Holding Company Limited) ("Shenzhen Dongshen"), a wholly-owned subsidiary of Guangdong Holdings which holds a 100% interest in GDH Limited, entered into a management service agreement in relation to the management of 東莞金湖粵海酒店 (Golden Lake Guangdong Hotel) ("GD Hotel Golden Lake") by GIHM (China) for the period from 1 January 2011 to 31 December 2013 for a consideration of 2% on total operating income plus 2% on GOP of GD Hotel Golden Lake; subject to fulfillment of performance targets;

(iii) On 16 December 2010, GIHM (China) and Shenzhen Dongshen entered into a management service agreement in relation to the management of 深圳市東深投資控股有限公司粵海之星酒店 (GDH Inn Hotel (Donghu)) ("GDH Inn Hotel") by GIHM (China) for the period from 1 January 2011 to 31 December 2013 for a consideration of 2% on total operating income plus 2% on GOP of GDH Inn Hotel; subject to fulfillment of performance targets; and

(iv) On 16 December 2010, GIHM (China) and Kwong Leung Hing (H.K.) Properties Company Limited, an indirect wholly-owned subsidiary of GDH Limited, entered into a management service agreement in relation to the management of 河南省粵海酒店 (Guangdong Hotel (Henan)) ("GD Hotel Henan") by GIHM (China) for the period from 1 January 2011 to 31 December 2013 for a consideration of 2% on total operating income plus 6% on GOP of GD Hotel Henan.

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

During the year ended 31 December 2011, the total income arising from the hotel management and other services rendered to the above fellow subsidiaries in accordance with the terms of the Hotel Management Agreements amounted to HK$5,152,000 (2010: HK$6,001,000).

39. Connected Transactions and Continuing Connected Transactions (continued)

Continuing connected transactions (continued)

(b) Tenancy agreements

(i) On 2 September 2010, Global Head, a subsidiary of the Company, and Kingway Sales, a wholly-owned subsidiary of Kingway Brewery Holdings Limited, a 73.82% owned subsidiary of GDH Limited and a fellow subsidiary of the Company, entered into a preliminary agreement, and on 25 November 2010, entered into a tenancy agreement in relation to the leasing out of Office A1 on 19th Floor of GDI Tower as office premises for a term of three years commencing from 1 September 2010 at a monthly rent of HK$60,794.50;

(ii) On 5 February 2009, Global Head and GD Tannery, a 71.34% owned subsidiary of GDH Limited and a fellow subsidiary of the Company, entered into a preliminary agreement, and, on 5 October 2009, entered into a tenancy agreement in relation to the leasing out of Office A2 on 19th Floor of GDI Tower as office premises for a term of two years commencing from 6 February 2009 at a monthly rent of HK$28,160. On 31 January 2011, Global Head entered into a preliminary agreement with GD Tannery, and, on 1 April 2011, entered into a tenancy agreement for a further term of three years commencing from 6 February 2011 at a monthly rent of HK$28,800;

(iii) On 2 June 2011, Global Head and GDH Limited entered into a tenancy agreement in relation to the leasing out of 27th Floor of GDI Tower as office premises for a term of three years commencing from 2 June 2011 at a monthly rent of HK$201,058;

(iv) On 19 August 2009, Global Head and GDH Limited entered into a preliminary agreement, and, on 30 December 2009, entered into a tenancy agreement in relation to the leasing out of 26th Floor, Office B1 on 29th Floor and Offices A and B on 30th Floor of GDI Tower as office premises for a term of three years commencing from 20 August 2009 at a monthly rent of HK$384,180. On 2 June 2011, Global Head entered into a supplemental agreement with GDH Limited in relation to the leasing out of an additional area known as Office A1 on 30th Floor of GDI Tower for a term commencing from 2 June 2011 to 19 August 2012 at a monthly rent of HK$43,674;

The above tenancy agreements were collectively known as the "GDI Tower Agreements".

(v) On 30 September 2011, GD Teem, a subsidiary of the Company, and Guangdong Holdings, the ultimate holding company of the Company, entered into a tenancy agreement (the "East Tower Agreement") in relation to the leasing out of the premises on 42nd and 45th Floors of Teem Tower as office premises for the period from 1 October 2011 to 30 September 2014 at a monthly rent of RMB86,247 for the period from 1 October 2011 to 31 December 2011, at RMB603,727 for the month of 1 to 31 January 2012 and at a monthly rent of RMB862,467 for the period from 1 February 2012 to 30 September 2014;

During the year ended 31 December 2011, the total rents received on the GDI Tower Agreements and the East Tower Agreement from GDH Limited and certain fellow subsidiaries and Guangdong Holdings, in accordance with the terms of the tenancy agreements amounted to HK$7,158,000 (2010: HK$5,663,000) and HK$312,000 (2010: Nil), respectively.

39. Connected Transactions and Continuing Connected Transactions (continued)

Continuing connected transactions (continued)

(c) Changping Agreement

On 10 January 2011, WaterCo, a subsidiary of the Company, entered into the an agreement (the "Changping Agreement") with 東莞市常平鎮自來水公司 (Dongguan City Changping Town Water Company) ("Changping Water") pursuant to which WaterCo agreed to supply untreated water to Changping Water for a period commencing on 1 January 2011 and expiring on 31 December 2012, subject to renewal by agreement of both parties prior to the expiration of the term.

廣東粵海水務股份有限公司 (Guangdong Yue Hai Water Industries Joint Stock Company Limited) ("Guangdong Water Co") is an indirect wholly-owned subsidiary of Guangdong Holdings. Following the completion of a conditional equity purchase agreement entered into between Guangdong Water Co and an independent third party in connection with the sale and purchase of a 100% interest in the equity capital of Changping Water, on 1 December 2011, Guangdong Water Co became the holder of a 100% interest in the equity capital of Changping Water. Changping Water therefore became a connected person of the Company pursuant to the Listing Rules as it became an associate of Guangdong Holdings.

During the year ended 31 December 2011, the total income arising from the provision of water to the above fellow subsidiary in accordance with the terms of the Changping Agreement amounted to HK$26,035,000 (2010: Nil).

The board of directors of the Company including all the independent non-executive directors have reviewed the continuing connected transactions set out above and have unanimously confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from 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 auditors were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits and Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the HKICPA. The Company's auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

40. Pledge of Assets

At 31 December 2011, none of the Group's property, plant and equipment, investment properties, intangible assets, and bank deposits was pledged to secure the interest-bearing bank borrowings, and the general banking facilities granted to the Group (2010: Nil).

41. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2011

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 investments HK$'000	Total HK$'000
Available-for-sale investments	–	–	25	25
Financial assets included in receivables, prepayments and deposits	–	3,154,735	–	3,154,735
Due from an associate	–	6,503	–	6,503
Derivative financial instruments	64,453	–	–	64,453
Cash and cash equivalents	–	3,542,958	–	3,542,958
	64,453	6,704,196	25	6,768,674

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 and accruals	–	(2,459,055)	–	(2,459,055)
Derivative financial instruments	(142,991)	–	(122,482)	(265,473)
Due to non-controlling shareholders of subsidiaries	–	(317,919)	–	(317,919)
Interest-bearing bank borrowings	–	(3,830,606)	–	(3,830,606)
	(142,991)	(6,607,580)	(122,482)	(6,873,053)

41. Financial Instruments by Category (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows (continued):

2010

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 investments HK$'000	Total HK$'000
Available-for-sale investments	–	–	23	23
Financial assets included in receivables, prepayments and deposits	–	546,331	–	546,331
Due from an associate	–	6,195	–	6,195
Derivative financial instruments	122,958	–	–	122,958
Cash and cash equivalents	–	3,840,628	–	3,840,628
	122,958	4,393,154	23	4,516,135

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 and accruals	–	(1,963,125)	–	(1,963,125)
Derivative financial instruments	(291,358)	–	(228,410)	(519,768)
Due to non-controlling shareholders of subsidiaries	–	(406,743)	–	(406,743)
Interest-bearing bank borrowings	–	(3,942,249)	–	(3,942,249)
	(291,358)	(6,312,117)	(228,410)	(6,831,885)

41. Financial Instruments by Category (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows (continued):

Financial assets

	Company Loans and receivables 2011 HK$'000	Company Loans and receivables 2010 HK$'000
Due from subsidiaries	**4,263,141**	4,402,397
Financial assets included in receivables, prepayments and deposits	**3,967**	33,556
Cash and cash equivalents	**532,731**	733,395
	4,799,839	5,169,348

Financial liabilities

	Financial liabilities at amortised cost HK$'000	Financial liabilities at amortised cost HK$'000
Due to subsidiaries	**(117,106)**	(70,933)
Interest-bearing bank borrowings	**(608,606)**	(400,000)
Financial liabilities included in payables and accruals	**(6,734)**	(6,366)
	(732,446)	(477,299)

42. Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

42. Fair Value Hierarchy (continued)

Group

Assets measured at fair value as at 31 December 2011:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial instruments	–	64,453	–	64,453

Liabilities measured at fair value as at 31 December 2011:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial instruments	–	265,473	–	265,473

Assets measured at fair value as at 31 December 2010:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial instruments	–	122,958	–	122,958

Liabilities measured at fair value as at 31 December 2010:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial instruments	–	519,768	–	519,768

43. 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 2011, the Group had interest rate swap agreements with an aggregate notional contract amount of HK$2,950 million (2010: HK$2,950 million) which qualified as hedges. The swap agreements will mature in 2012 matching the maturity of the Refinancing Facilities and have fixed swap interest rates ranging from 4.43% to 4.70% (2010: 4.43% to 4.70%) per annum.

The net fair value of these interest rate swap agreements entered into (including those not qualified as hedges) at 31 December 2011 was HK$201,020,000 (2010: HK$396,810,000). 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.

43. Financial Risk Management Objectives and Policies (continued)

(i) Interest rate risk (continued)

Derivative financial instruments

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity HK$'000
2011			
Increase in HIBOR	**50**	**11,648**	**13,940**
Decrease in HIBOR	**(10)**	**(2,330)**	**(2,788)**
2010			
Increase in HIBOR	50	23,788	28,559
Decrease in HIBOR	(10)	(4,758)	(5,712)

Interest-bearing bank borrowings

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
United States dollar bank loan			
2011			
Increase in LIBOR	**100**	**(6,240)**	**–**
Decrease in LIBOR	**(10)**	**624**	**–**
Hong Kong dollar bank loans			
2010			
Increase in HIBOR	100	(5,000)	–
Decrease in HIBOR	(10)	500	–

* *Excluding retained profits*

Note: No sensitivity analysis performed on Hong Kong dollar bank loans with a floating interest rate without entering into interest rate swap agreements as at 31 December 2011 and United States dollar bank loan as at 31 December 2010 as there were no such bank loans existed as at the respective dates.

43. 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 were 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 end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group'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
2011			
If the Hong Kong dollar weakens against the RMB	**3**	**(22,777)**	**–**
If the Hong Kong dollar strengthens against the RMB	**(1)**	**7,592**	**–**
2010			
If the Hong Kong dollar weakens against the RMB	3	(13,852)	–
If the Hong Kong dollar strengthens against the RMB	(1)	4,617	–

* *Excluding retained profits*

(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, other receivables and deposits, available-for-sale investments, 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.

43. 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 end of the reporting period, based on the contractual undiscounted payments, is as follows:

Year ended 31 December 2011	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Financial liabilities included in payables and accruals	720,246	1,341,193	207,171	190,445	–	2,459,055
Derivative financial Instruments, net	–	–	205,912	–	–	205,912
Due to non-controlling shareholders of subsidiaries	–	–	317,919	–	–	317,919
Interest-bearing bank borrowings	–	–	2,530,129	1,250,289	166,943	3,947,361
	720,246	1,341,193	3,261,131	1,440,734	166,943	6,930,247

Year ended 31 December 2010	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Financial liabilities included in payables and accruals	548,527	969,671	178,849	266,078	–	1,963,125
Derivative financial Instruments, net	–	–	229,824	208,404	–	438,228
Due to non-controlling shareholders of subsidiaries	–	–	401,770	4,973	–	406,743
Interest-bearing bank borrowings	–	–	740,541	2,950,865	333,856	4,025,262
	548,527	969,671	1,550,984	3,430,320	333,856	6,833,358

43. Financial Risk Management Objectives and Policies (continued)

Capital management

The primary objectives of the Group's capital management are 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 2011 and 2010.

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 amounts due to non-controlling shareholders of subsidiaries, interest-bearing bank borrowings, less cash and cash equivalents. Adjusted capital includes equity attributable to the owners of the Company less the hedging reserve.

	2011 **HK$'000**	2010 HK$'000
Due to non-controlling shareholders of subsidiaries	**317,919**	406,743
Interest-bearing bank borrowings	**3,830,606**	3,942,249
Less: Cash and cash equivalents	**(3,542,958)**	(3,840,628)
Net debt	**605,567**	508,364
Equity attributable to owners of the Company	**21,598,678**	19,116,501
Hedging reserve	**88,007**	183,595
Total adjusted capital	**21,686,685**	19,300,096
Net debt to adjusted capital ratio	**3%**	3%

44. Events after the Reporting Period

(a) Acquisition of 68% equity interests in Wanye

On 10 January 2012, Tianhecheng Investco, an indirect non wholly-owned subsidiary of the Company, received a notification issued by 廣州產權交易所 (Guangzhou Enterprises Mergers and Acquisitions Services) ("GEMAS") that the bid for a 68% equity interest in 廣州市萬亞投資管理有限公司 (Guangzhou City Wanye Investment Management Company Limited) ("Wanye") from 廣州市番禺資訊技術投資發展有限公司 (Guangzhou City Panyu Information Technology Investment Development Company Limited ("SOE Vendor") in the auction was successful. As a result, Tianhecheng Investco and the SOE Vendor entered into a co-operation agreement and articles in relation to Wanye (collectively, the "Cooperation Agreement").

Wanye is a company established in the PRC holding a land parcel situated at 中國廣州市番禺區南村鎮里仁洞村迎賓路東側 (the east to Yingbin Road, Lirendong Village, Nancun Zhen, Panyu District, Guangzhou City, the PRC) (the "Land"). The provisional fair value of the Land was RMB1,425,000,000.

The total consideration paid by the Group will be RMB1,944,000,000. The consideration is payable as to RMB50 million (before deduction of an auction fee in the amount of RMB 2 million) deposited to GEMAS on 30 December 2011 and recorded as purchase deposit by the Group at 31 December 2011, RMB156,400,000 (including the abovementioned deposit) as contribution to the registered capital of Wanye to be settled within five business days after the date of the Cooperation Agreement, RMB1,635,600,000 as contribution to Wanye to be settled by instalment within 5 years from the date of the Cooperation Agreement, and RMB150 million as 50% share of the land premium to be payable by Wanye.

The transaction was completed on 12 March 2012, upon which Wanye is accounted for as a 68% owned subsidiary of Tianhecheng Investco.

Further details on the investment are included in the Company's announcement on 10 January 2012.

44. Events after the Reporting Period (continued)

(b) Acquisition of Water Processing Plant in China

On 8 February 2012, Guangdong Water Group (H.K.) Limited ("HK Water Co"), a wholly-owned subsidiary of the Company, and Guangdong Water Co, a wholly-owned subsidiary of Guangdong Holdings, collectively, the "Purchasers" signed a transaction confirmation (成交確認書) with 廣州南沙基礎設施投資有限公司 (Guangzhou Nansha Infrastructure Investment Limited) and 廣州南沙工化投資有限公司 (Guangzhou Nansha Industry Investment Limited) (as vendors) and GEMAS confirming that the bid by the Purchasers on the same day for the acquisition of a 60% equity interest in 廣州臨海水務有限公司 (Guangzhou Coastal Water Limited (now known as Nansha GDH Water Co., Ltd.)) ("Project Co") in an auction was successful. HK Water Co and Guangdong Water Co severally acquired 49% and 11%, respectively of the registered capital of Project Co.

Project Co is a company established in the PRC and is principally engaged in the construction, operation and maintenance of water supply facilities and the supply of water to Nansha District, Guangzhou.

The consideration for the acquisition of 49% of the registered capital of Project Co by HK Water Co is approximately RMB120.56 million in cash. HK Water Co also intends to inject additional capital (an aggregate amount of approximately RMB173.45 million), provide shareholders' loan (an aggregate amount of approximately RMB249.63 million) to, and act as guarantor (for approximately RMB510 million of Project Co's loans) for, Project Co.

The transaction was completed on 8 March 2012, upon which Project Co is accounted for as a 49% owned associate of the Group.

The Group is assessing the fair value of assets and liabilities of the acquired business and it is impracticable to disclose the financial effects at this stage.

Further details on the investment are included in the Company's announcement on 8 February 2012.

45. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 19 March 2012.

DETAILS OF MAJOR PROPERTIES HELD BY THE GROUP

31 December 2011

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
Sheraton Guangzhou Hotel No. 208 Tianhe Road Tianhe District Guangzhou Guangdong Province Mainland China	N/A	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

Details of Property, Plant and Equipment (continued)

Property	Lot No.	Category of lease	Use
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 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	76.09%	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 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	100%	Medium term	Shopping mall
At the junction of Heping Road and Chifeng Dao Heping District Tianjin Mainland China	76.09%	Medium term	Property under development

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

Guangdong Investment Limited
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