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, the development of properties for sale, investing in infrastructure and energy projects, water supply to Hong Kong, and Shenzhen and Dongguan in the mainland of the People's Republic of China (the "PRC" or "Mainland China"), hotel ownership and operations, hotel management and department stores operation.

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Minority interests represent the interest of outside shareholders in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK-Int 1	The Appropriate Accounting Policies for Infrastructure Facilities
HK-Int 2	The Appropriate Accounting Policies for Hotel Properties
HK-Int 4	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HKAS-Int 15	Operating Lease — Incentives
HKAS-Int 21	Income Taxes — Recovery of Revalued Non-depreciable Assets

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The adoption of HKASs 2, 7, 8, 10, 12 ,14, 18, 19, 20, 21, 23, 27, 28, 31, 33, 37, 38, HKFRS 5, HK-Int 1, and HKAS-Int 15 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, in prior years, the Group's share of tax attributable to associates and jointly-controlled entities was presented as a component of the Group's total tax charge in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates and jointly-controlled entities is presented net of the Group's share of tax attributable to associates and jointly controlled entities.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 16 — Property, Plant and Equipment and HK-Int 2 — The Appropriate Accounting Policies for Hotel Properties

In prior years, hotel properties were stated at their open market values, based on their existing use, on the basis of annual professional valuations. Movements in the values of the hotel properties were dealt with in the hotel property revaluation reserve, unless the applicable reserve balance was exhausted, in which case the decrease was charged to the income statement as incurred. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

The adoption of HKAS 16 and HK-Int 2 has resulted in a change in the accounting policy for the Group's hotel properties, which are no longer stated at revaluation and are now stated at cost less accumulated depreciation and any impairment losses.

The effects of the above changes are summarised in note 2.4 to the financial statements. The changes have been adopted retrospectively from the earliest period presented and comparative amounts have been restated.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(b) HKAS 17 — Leases and HK-Int 4 — Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses while properties under development were classified as non-current assets and stated at cost less any impairment losses.

Upon the adoption of HKAS 17 and HK-Int 4, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant, and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the property is in the course of development, the amortisation charge of the prepaid land lease payment is included as part of the costs of the property under development. In all other cases, the amortisation charge for the year is recognised in the income statement immediately. 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.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts for the year ended 31 December 2004 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land.

(c) HKAS 32 and HKAS 39 — Financial Instruments

(i) *Equity and debt investments*

In prior years, the Group classified its investment securities as long term other financial assets which were held for a continuing strategic or long term purpose, and were stated at cost less any impairment losses. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of HK$18,646,000 are designated as available-for-sale investments under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or loses being recognised as a separate component of equity until subsequent derecognition or impairment.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(c) HKAS 32 and HKAS 39 — Financial Instruments (continued)

(i) *Equity and debt investments (continued)*

In prior years, the Group classified its equity and debt investments which were not classified as investment securities as short term other financial assets and were stated at their fair values at the balance sheet date. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of HK$102,994,000 are also designated as available-for-sale investments under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition of impairment.

When the fair value of unlisted equity securities cannot be measured, such securities are stated at cost less any impairment losses.

The adoption of HKAS 39 has not resulted in any change in the measurement of these securities. Comparative amounts have been reclassified for presentation purposes.

(ii) *Convertible bonds (the "Convertible Bonds")*

In prior years, the Convertible Bonds were stated at cost. Upon the adoption of HKAS 32, the Convertible Bonds are split into liability and equity components. The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with HKAS 32, comparative amounts have been restated.

In prior years, the Company recorded an unsecured loan due to a subsidiary of HK$497,320,000, which were repayable in accordance with the terms and conditions of the Convertible Bonds. Upon the adoption of HKAS 32, this unsecured loan is split into liability and equity components accordingly. The effect of the above changes are summarised in note 19 to the financial statements.

(iii) *Derivative financial instruments — Interest rate swap agreements*

The Group uses interest rate swap agreements to hedge its risks associated with interest rate fluctuations. In prior years, these agreements were entered into for the purpose of hedging the Group's interest rate risk arising from certain floating-rate loans and borrowings. The interest rate differentials arising from these agreements were recognised in the income statement, in finance costs, on a cash basis, offsetting the effects of the hedged transactions.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(c) HKAS 32 and HKAS 39 — Financial Instruments (continued)

(iii) *Derivative financial instruments — Interest rate swap agreements (continued)*

Interest rate swap agreements held to hedge the interest rate risk are designated as cash flow hedges from 1 January 2005 and are recorded at fair value. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity, until the hedged transaction which is being hedged is itself recognised in the financial statements. The ineffective portion of the hedge (if any) is recognised immediately in the income statement.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(d) HKAS 40 — Investment Property

(i) *Accounting for changes in the fair values of investment properties*

In prior years, changes in the fair values of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, 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.

As the Group has no revaluation reserve in respect of its investment properties, on a portfolio basis, at 1 January 2005, this change in accounting policy has had no effect on the financial statements.

(ii) *Reclassification of properties leased to group companies of GDH Limited*

In prior years, the Group classified properties, or part of a property, which were let to and occupied by GDH Limited, the Company's immediate holding company, and its subsidiaries (collectively the "GDH Group") as fixed assets, which were stated at cost less accumulated depreciation and any impairment losses.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(d) HKAS 40 — Investment Property (continued)

(ii) *Reclassification of properties leased to group companies of GDH Limited (continued)*

Upon the adoption of HKAS 40, these leased properties are classified as investment properties, if they are held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of business. HKAS 40 states that only properties which are leased to group companies do not qualify as investment properties in the consolidated financial statements that included both the lessor and the lessee of these properties. Therefore, the properties leased to the GDH Group are now classified as investment properties in accordance with HKAS 40.

In accordance with the transitional provisions of HKAS 40, the opening balance of retained profits as at 1 January 2005 has been restated to reflect this change. The effects of the above changes are summarised in note 2.4 to the financial statements.

(e) HKFRS 2 — Share-based Payment

In prior years, no recognition and measurement of share-based transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(e) HKFRS 2 — Share-based Payment (continued)

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 December 2004 but had not yet vested as at 1 January 2005, the adoption of HKFRS 2 has had no impact on the retained profits as at 31 December 2003 and 2004. The Group has recognised the cost of options which were granted during the year in the current year's income statement in accordance with the revised accounting policy.

The effects of adopting HKFRS 2 are summarised in note 2.4 to the financial statements.

(f) HKFRS 3 — Business Combinations and HKAS 36 — Impairment of Assets

In prior years, goodwill and negative goodwill arising on acquisitions prior to 1 January 2001 were eliminated against/credited to the consolidated capital reserve in the year of acquisition and were not recognised in the consolidated income statement until disposal or impairment of the acquired businesses/entities.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

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

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill and to derecognise at 1 January 2005 the carrying amounts of negative goodwill (including that remaining in the consolidated capital reserve) against retained profits. Goodwill previously eliminated against the consolidated capital reserve remains eliminated against the consolidated capital reserve and is not recognised in the consolidated income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(f) HKFRS 3 — Business Combinations and HKAS 36 — Impairment of Assets (continued)

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

(g) HKAS-Int 21 — Income Taxes — Recovery of Revalued Non-depreciable Assets

In prior years, deferred tax arising on the revaluation of investment properties was recognised based on the tax rate that would be applicable upon the sale of the investment properties.

Upon the adoption of HKAS-Int 21, deferred tax arising on the revaluation of the Group's investment properties is determined depending on whether the properties will be recovered through use or through sale. The Group has determined that its investment properties will be recovered through use, and accordingly the profits tax rate has been applied to the calculation of deferred tax.

The effects of the above changes are summarised in note 2.4 to the financial statements. The change has been adopted retrospectively from the earliest period presented and comparative amounts have been restated.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 41	Agriculture
HKFRSs 1 & 6 Amendments	First-time adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

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

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

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

	Effect of adopting										
At 1 January 2005	HKAS 16# and HK-Int 2#	HKAS 17#	HKASs 32# and 39*	HKAS 32#	HKAS 39*	HKAS 39*	HKAS 40*	HKFRS 2*	HKFRS 3*	HKAS-Int 21#	
Effect of new policies (Increase/(decrease))	Hotel properties	Prepaid land lease payments	Equity and debt investments	Convertible Bonds	Derivative financial instruments not qualified as hedges	Cash flow hedges	Leased properties	Equity-settled share option arrangements	Negative goodwill	Deferred tax on revaluation of investment properties	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets											
Property, plant and equipment	(147,667)	(4,156,142)	—	—	—	—	(55,325)	—	—	—	(4,359,134)
Properties under development	—	(43,202)	—	—	—	—	—	—	—	—	(43,202)
Investment properties	—	—	—	—	—	—	57,500	—	—	—	57,500
Prepaid land lease payments	—	4,199,344	—	—	—	—	—	—	—	—	4,199,344
Negative goodwill	—	—	—	—	—	—	—	—	177,469	—	177,469
Other financial assets	—	—	(121,640)	—	—	—	—	—	—	—	(121,640)
Available-for-sale investments	—	—	121,640	—	—	—	—	—	—	—	121,640
											31,977
Liabilities/equity											
Derivative financial instruments	—	—	—	—	154,415	604,305	—	—	—	—	758,720
Interest-bearing bank and other borrowings	—	—	—	(55,153)	—	—	—	—	—	—	(55,153)
Deferred tax liabilities	(61,710)	—	—	—	—	—	—	—	—	(102,355)	(164,065)
Equity component of Convertible Bonds	—	—	—	67,291	—	—	—	—	—	—	67,291
Hedging reserve	—	—	—	—	—	(500,727)	—	—	—	—	(500,727)
Hotel property revaluation reserve	(12,182)	—	—	—	—	—	—	—	—	—	(12,182)
Exchange fluctuation reserve	(899)	—	—	—	—	—	—	—	—	—	(899)
Capital reserve	—	—	—	—	—	—	—	—	(1,652,608)	—	(1,652,608)
Retained profits	(66,589)	—	—	(12,138)	(127,948)	—	2,175	—	1,830,077	67,979	1,693,556
Minority interests	(6,287)	—	—	—	(26,467)	(103,578)	—	—	—	34,376	(101,956)
											31,977

* Adjustments taken effect prospectively from 1 January 2005

Adjustments/presentation taken effect retrospectively

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(a) Effect on the consolidated balance sheet (continued)

	Effect of adopting										
At 31 December 2005	HKAS 16 and HK-Int 2	HKAS 17	HKASs 32s and 39	HKAS 32	HKAS 39	HKAS 39	HKAS 40	HKFRS 2	HKFRS 3	HKAS-Int 21	
Effect of new policies (Increase/(decrease))	Hotel properties	Prepaid land lease payments	Equity and debt investments	Convertible Bonds	Derivative financial instruments not qualified as hedges	Cash flow hedges	Leased properties	Equity-settled share option arrangements	Goodwill/ negative goodwill	Deferred tax on revaluation of investment properties	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets											
Property, plant and equipment	(293,932)	(4,015,721)	—	—	—	—	(54,850)	—	—	—	(4,364,503)
Properties under development	—	(43,202)	—	—	—	—	—	—	—	—	(43,202)
Investment properties	—	—	—	—	—	—	57,500	—	—	—	57,500
Prepaid land lease payments	—	4,058,923	—	—	—	—	—	—	—	—	4,058,923
Goodwill	—	—	—	—	3,226	15,743	—	—	1,895	—	20,864
Negative goodwill	—	—	—	—	—	—	—	—	217,432	(9,656)	207,776
Other financial assets	—	—	(46,721)	—	—	—	—	—	—	—	(46,721)
Available-for-sale investments	—	—	46,721	—	—	—	—	—	—	—	46,721
											(62,642)
Liabilities/equity											
Derivative financial instruments	—	—	—	—	40,276	131,556	—	—	—	—	171,832
Deferred tax liabilities	(76,948)	—	—	—	—	—	—	—	—	(122,961)	(199,909)
Hedging reserve	—	—	—	—	—	(97,842)	—	—	—	—	(97,842)
Hotel property revaluation reserve	(21,896)	—	—	—	—	—	—	—	—	—	(21,896)
Exchange fluctuation reserve	1,011	—	—	—	—	—	—	—	—	1,830	2,841
Employee share option scheme	—	—	—	—	—	—	—	1,260	—	—	1,260
Capital reserve	—	—	—	—	—	—	—	—	(1,652,608)	—	(1,652,608)
Retained profits	(189,812)	—	—	—	(31,552)	—	2,650	(1,260)	1,871,935	81,227	1,733,188
Minority interests	(6,287)	—	—	—	(5,498)	(17,971)	—	—	—	30,248	492
											(62,642)

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(b) Effect on the balances of equity at 1 January 2004 and at 1 January 2005

	Effect of adopting							
	HKAS 16 and HK-Int 2	HKAS 32	HKAS 39	HKAS 39	HKAS 40	HKFRS 3	HKAS-Int 21	
Effect of new policies (Increase/ (decrease))	Hotel properties	Convertible Bonds	Derivative financial instruments not qualified as hedges	Cash flow hedges	Leased properties	Negative goodwill	Deferred tax on revaluation of investment properties	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2004								
Equity								
Equity component of Convertible Bonds	—	67,291	—	—	—	—	—	67,291
Exchange fluctuation reserve	(895)	—	—	—	—	—	—	(895)
Retained profits	57,751	—	—	—	—	—	185,424	243,175
Minority interests	(5,929)	—	—	—	—	—	73,024	67,095
								376,666
At 1 January 2005								
Equity								
Equity component of Convertible Bonds	—	67,291	—	—	—	—	—	67,291
Hedging reserve	—	—	—	(500,727)	—	—	—	(500,727)
Hotel property revaluation reserve	(12,182)	—	—	—	—	—	—	(12,182)
Exchange fluctuation reserve	(899)	—	—	—	—	—	—	(899)
Capital reserve	—	—	—	—	—	(1,652,608)	—	(1,652,608)
Retained profits	(66,589)	(12,138)	(127,948)	—	2,175	1,830,077	67,979	1,693,556
Minority interests	(6,287)	—	(26,467)	(103,578)	—	—	34,376	(101,956)
								(507,525)

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(c) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

	Effect of adopting										
Year ended 31 December 2005	**HKAS 1**	**HKAS 16 and HK-Int 2**	**HKAS 17**	**HKAS 32**	**HKAS 39**	**HKAS 39**	**HKAS 40**	**HKFRS 2**	**HKFRS 3**	**HKAS-Int 21**	
Effect of new policies Increase/(decrease) in profit	**Presentation**	**Hotel properties**	**Prepaid land lease payments**	**Convertible Bonds**	**Derivative financial instruments not qualified as hedges**	**Cash flow hedges**	**Leased properties**	**Employee share option scheme**	**Goodwill/ negative goodwill as income**	**Deferred tax on revaluation of investment properties**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost of sales	—	(36,807)	—	—	—	—	—	—	—	—	(36,807)
Other income and gains	—	—	—	—	74,536	—	—	—	39,963	—	114,499
Administrative expenses	—	—	—	—	—	—	475	(1,260)	1,895	—	1,110
Other operating income	—	(94,176)	—	—	—	—	—	—	—	—	(94,176)
Finance costs	—	—	—	(9,252)	39,603	—	—	—	—	—	30,351
Share of profits of jointly-controlled entities	(10,524)	—	—	—	—	—	—	—	—	—	(10,524)
Share of profits less losses of associates	(5,125)	—	—	—	—	—	—	—	—	—	(5,125)
Tax	15,649	7,760	—	—	—	—	—	—	—	18,776	42,185
Minority interests	—	—	—	—	(17,743)	—	—	—	—	(5,528)	(23,271)
Total increase/(decrease) in profit for the year attributable to equity holders of the parent	—	(123,223)	—	(9,252)	96,396	—	475	(1,260)	41,858	13,248	18,242
Increase/(decrease) in basic earnings per share (HK cents)	—	(2.15)	—	(0.16)	1.68	—	0.01	(0.02)	0.73	0.23	0.32
Increase/(decrease) in diluted earnings per share (HK cents)	—	(2.01)	—	—	1.57	—	0.01	(0.02)	0.68	0.22	0.45

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(c) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004 (continued)

Year ended 31 December 2004	Effect of adopting										
	HKAS 1	HKAS 16 and HK-Int 2	HKAS 17	HKAS 32	HKAS 39	HKAS 39	HKAS 40	HKFRS 2	HKFRS 3	HKAS-Int 21	
Effect of new policies Increase/(decrease) in profit	Presentation	Hotel properties	Prepaid land lease payments	Convertible Bonds	Derivative financial instruments not qualified as hedges	Cash flow hedges	Leased properties	Employee share option scheme	Goodwill/ negative goodwill as income	Deferred tax on revaluation of investment properties	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost of sales	—	(40,458)	—	—	—	—	—	—	—	—	(40,458)
Other operating income	—	(11,902)	—	—	—	—	—	—	—	—	(11,902)
Finance costs	—	—	—	(12,138)	—	—	—	—	—	—	(12,138)
Share of profits of jointly-controlled entities	(3,100)	—	—	—	—	—	—	—	—	—	(3,100)
Share of profits less losses of associates	(8,586)	—	—	—	—	—	—	—	—	—	(8,586)
Tax	11,686	(72,215)	—	—	—	—	—	—	—	(156,093)	(216,622)
Minority interests	—	235	—	—	—	—	—	—	—	38,648	38,883
Total increase/(decrease) in profit for the year attributable to equity holders of the parent	—	(124,340)	—	(12,138)	—	—	—	—	—	(117,445)	(253,923)
Decrease in basic earnings per share (HK cents)	—	(2.22)	—	(0.22)	—	—	—	—	—	(2.10)	(4.54)
Decrease in diluted earnings per share (HK cents)	—	(2.07)	—	—	—	—	—	—	—	(1.96)	(4.03)

2.5 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.

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

Joint ventures

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

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

A joint venture is treated as:

(a) a subsidiary, if the Group, directly or indirectly, controls more than half of its voting power or issued share/registered capital or controls the composition of its board of directors;

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities

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

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated capital reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. 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 share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated capital reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

Contractual joint venture

A contractual joint venture refers to the rights and obligations stipulated in a contract for the development, jointly with independent third parties, of investment projects in Mainland China. Under the terms of such contracts, the Group does not hold any of the joint ventures' registered capital and the residual interests in the projects will be transferred to various parties at the end of the contractual period in accordance with the terms of the contracts. Such investments are stated at cost less accumulated amortisation, computed to write off the cost, less any residual value, of the contractual joint ventures over the underlying contract terms, and impairment losses.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

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

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

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

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.

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 cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Goodwill previously eliminated against the consolidated capital reserve

Prior to the adoption of SSAP 30 "Business Combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated capital reserve in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated capital reserve and is not recognised in profit or loss when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Excess over the cost of business combinations (applicable to business combinations for which the agreement date is on or after 1 January 2005)

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

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of 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 calculated as 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, unless the asset is carried at a revalued amount or is a financial asset, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued or financial asset.

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

Property, plant and equipment and depreciation

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

2.5 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%–3.39%
Leasehold land and buildings	2%–20%
Tunnels, dams, water mains and reservoirs	3.3%–10%
Plant and machinery	4%–25%
Furniture, fixtures and equipment	4%–32%
Leasehold improvements	Over the lease terms
Motor vehicles	6%–30%

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

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

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

Construction in progress

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

Toll Road

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

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

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

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If the 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 a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at the completion date and its previous carrying amount is recognised in the income statement.

Properties under development

Properties under development are stated at cost less any impairment losses.

Operating right

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

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

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

Investments and other financial assets

Applicable to the year ended 31 December 2004:

The Group classified its equity and debt investments, other than subsidiaries, associates and jointly-controlled entities, as long term and short term other financial assets.

Long term other financial assets

Long term other financial assets are unlisted equity securities, intended to be held for a continuing strategic or long term purpose, which are stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the income statement for the period in which it arises. When the circumstances and events which led to the impairments cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairment previously charged is credited to the income statement to the extent of the amounts previously charged.

Short term other financial assets

Short term other financial assets are equity and debt investments not classified as long term other financial assets, which are stated at their fair values estimated by the directors at the balance sheet date, on an individual investment basis.

The gains or losses arising from changes in the fair values of such securities are credited or charged to the income statement in the period in which they arise.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase 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 did not designate any financial assets as financial assets at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity and debt securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Fair value

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

Impairment of financial assets (applicable to the year ended 31 December 2005)

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed 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, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (applicable to the year ended 31 December 2005) (continued)

Assets carried at cost

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss.

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

Derecognition of financial assets (applicable to the year ended 31 December 2005)

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (applicable to the year ended 31 December 2005) (continued)

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

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Convertible Bonds

The component of Convertible Bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the Convertible Bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

When the Convertible Bonds are converted, the net carrying amount of the liability component as at the date of conversion and the equity component will be credited to the Company's share capital and share premium account, where appropriate.

The dilutive effect of outstanding Convertible Bonds is reflected in the computation of earnings per share.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

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 profit or loss.

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

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

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

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

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; or

- 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 forecast transaction.

A hedge of the interest rate risk of a future commitment is accounted for as a cash flow hedge.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities (applicable to the year ended 31 December 2005) (continued)

Hedges which meet the strict criteria for hedge accounting are accounted for as cash flow hedges. Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity 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 or when a forecast sale or purchase occurs.

If the forecast transaction is no longer expected to occur, the amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

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 work in progress and manufactured finished goods, comprises direct materials, direct labour, and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

2.5 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 balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

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

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

Borrowing costs

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

Dividends

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

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

2.5 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 are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

For the purpose of the consolidated cash flow statement, the cash flows of subsidiaries, jointly-controlled entities and associates operating in Mainland China and overseas 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, associates and jointly-controlled entities which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Government grants

Government grants in relation to subsidies for interest expenses for borrowings that are related to the Phase IV Renovation Project (as defined in note 17 to the financial statements) are recognised in profit or loss as a deduction of interest expenses. A government grant is recognised when it is received and that the Group will comply with all conditions attaching to it.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Black-Scholes model, further details of which are given in note 38 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to those equity-settled awards granted on or after 1 January 2005. The Group has no equity-settled award granted after 7 November 2002 but had not vested on 1 January 2005.

Retirement benefits schemes

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

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

Revenue recognition

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

(a) from the sale of goods, investment properties, property, plant and equipment, and available-for-sale investments (collectively "goods and investments"), 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 and investments sold;

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

(c) from the sale of water, based on the actual volume of water supplied, or when the actual volume of water supplied to Hong Kong is less than the agreed volume of water supplied, revenue is recognised according to the agreed volume;

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

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

(f) toll revenue, net of business tax, on a cash receipt basis;

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

(ii) *Classification between investment properties and owner-occupied properties (continued)*

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

(iv) *Deferred tax assets*

Deferred tax assets are recognised for unused tax losses carried forward to the extent it is probable (i.e. more likely than not) that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgement regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the carry forward tax losses, the asset balance will be reduced and charged to the income statement.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

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

(i) *Estimation of fair value of investment properties and recoverable amounts of properties under development and construction in progress*

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

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

(ii) *Estimation of total budgeted costs and costs to completion for properties under development*

Total budgeted costs for properties under development comprise (i) prepaid land lease payments, (ii) building costs, and (iii) any other direct costs attributable to the development of the properties. In estimating the total budgeted costs for properties under development, management makes reference to information such as (i) current offers from contractors and suppliers, (ii) recent offers agreed with contractors and suppliers, and (iii) professional estimation on construction and material costs.

(iii) *Fair value of derivative instrument*

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(iv) *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.

(v) *Impairment of assets or goodwill*

The Group determines whether an asset or 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 asset or goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the asset or cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made. More details of impairment test of goodwill are set out in note 18 to the financial statements.

4. SEGMENT INFORMATION

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

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

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

(ii) The property development segment engages in the development of residential properties in Mainland China.

(iii) The toll roads and bridges segment invests in various road and bridge projects in Mainland China;

(iv) The water distribution segment operates a water supply project in Mainland China supplying natural water to Hong Kong, Dongguan and Shenzhen;

(v) The electric power generation segment operates coal-fire power plants supplying electricity in the Guangdong Province, Mainland China;

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

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

(viii) The "others" segment provides credit facilities in Hong Kong, and engages in providing corporate services to other segments.

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

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

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2005 and 2004.

Group

	Property Investment		Property Development		Toll Roads and Bridges	
	2005 HK$'000	2004 HK$'000 (Restated)	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000 (Restated)
Segment revenue:						
Sales to external customers	340,449	322,341	—	—	12,234	9,868
Intersegment sales	75,133	66,109	—	—	—	—
Other revenue from external sources (note)	64,354	16,192	112	2,518	7,190	25,010
Other revenue from intersegment (note)	—	—	—	—	—	—
Exchange gains/(losses), net	53	(107)	—	—	1,682	750
Total	479,989	404,535	112	2,518	21,106	35,628
Segment results	411,862	283,107	(1,010)	12,216	10,224	2,900
Interest income						
Unallocated other operating income, net						
Other unallocated gains						
Finance costs						
Share of profits less losses of:						
Jointly-controlled entities	—	—	—	—	66,023	33,886
Associates	—	—	—	—	17,000	2,715
Profit before tax						
Tax						
Profit for the year						

Note: Excluding exchange gains/(losses), net

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Water Distribution		Electric Power Generation		Hotel Operations and Management	
	2005 HK$'000	2004 HK$'000 (Restated)	2005 HK$'000	2004 HK$'000 (Restated)	2005 HK$'000	2004 HK$'000 (Restated)
Segment revenue:						
Sales to external customers	3,192,988	3,118,627	403,526	534,250	254,466	218,989
Intersegment sales	—	—	—	—	—	—
Other revenue from external sources (note)	—	2,093	1,297	—	1,299	2,401
Other revenue from intersegment (note)	—	—	—	—	—	—
Exchange gains/(losses), net	(40,754)	(3,185)	125	(34)	5,399	610
Total	3,152,234	3,117,535	404,948	534,216	261,164	222,000
Segment results	1,691,468	1,596,244	2,104	(31,742)	64,664	40,429
Interest income						
Unallocated other operating income, net						
Other unallocated gains						
Finance costs						
Share of profits less losses of:						
Jointly-controlled entities	—	—	—	—	—	—
Associates	—	—	21,420	41,945	—	—
Profit before tax						
Tax						
Profit for the year						

Note: Excluding exchange gains/(losses), net

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Department Stores		Others		Eliminations		Consolidated	
	2005 HK$'000	2004 HK$'000 (Restated)	2005 HK$'000	2004 HK$'000 (Restated)	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000 (Restated)
Segment revenue:								
Sales to external customers	1,045,495	905,052	—	—	—	—	5,249,158	5,109,127
Intersegment sales	—	—	—	—	(75,133)	(66,109)	—	—
Other revenue from external sources (note)	10,929	5,403	7,236	8,190	—	—	92,417	61,807
Other revenue from intersegment (note)	—	—	3,655	5,891	(3,655)	(5,891)	—	—
Exchange gains/(losses), net	254	(23)	6,676	538	—	(5)	(26,565)	(1,456)
Total	1,056,678	910,432	17,567	14,619	(78,788)	(72,005)	5,315,010	5,169,478
Segment results	75,567	58,845	(11,387)	(23,230)	—	(5)	2,243,492	1,938,764
Interest income							49,918	14,032
Unallocated other operating income, net							274	4,923
Other unallocated gains							84,124	—
Finance costs							(754,076)	(798,172)
Share of profits less losses of:								
Jointly-controlled entities	—	—	—	—			66,023	33,886
Associates	—	—	—	—			38,420	44,660
Profit before tax							1,728,175	1,238,093
Tax							(218,163)	(159,235)
Profit for the year							1,510,012	1,078,858

Note: Excluding exchange gains/(losses), net

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Property Investment		Property Development		Toll Roads and Bridges		Water Distribution		Electric Power Generation	
	2005 HK$'000	2004 HK$'000 (Restated)	2005 HK$'000	2004 HK$'000 (Restated)	2005 HK$'000	2004 HK$'000 (Restated)	2005 HK$'000	2004 HK$'000 (Restated)	2005 HK$'000	2004 HK$'000 (Restated)
Segment assets	**3,869,304**	3,379,797	**81,818**	55,182	**170,128**	164,316	**21,376,182**	21,988,789	**593,830**	470,717
Interests in associates	**—**	—	**—**	—	**59,824**	42,824	**—**	—	**394,590**	382,350
Interests in jointly-controlled entities	**—**	—	**—**	—	**917,756**	1,014,362	**—**	—	**—**	—
Contractual joint venture	**—**	—	**—**	—	**—**	—	**—**	—	**46,569**	—
Unallocated assets										
Total assets										
Segment liabilities	**281,329**	260,478	**7,121**	3,002	**64,576**	70,217	**2,278,959**	2,403,850	**431,163**	251,176
Unallocated liabilities										
Total liabilities										
Other segment information:										
Depreciation and amortisation	**3,740**	5,673	**—**	—	**6,558**	6,202	**918,750**	995,154	**40,714**	47,741
Changes in fair value of derivative financial instruments not qualified as hedge	**—**	—	**—**	—	**—**	—	**114,139**	—	**—**	—
Impairment losses recognised in the income statement	**—**	25,176	**—**	—	**401**	23,993	**—**	—	**289**	64,512
Impairment losses reversed in the income statement	**(6,828)**	—	**—**	(9,902)	**—**	(24,800)	**—**	—	**—**	—
Other non-cash expenses/ (income), net	**64,109**	(38,214)	**—**	—	**—**	—	**212**	(302)	**3,200**	—
Capital expenditure	**131,957**	47,820	**10,755**	—	**409**	323	**7,750**	13,478	**59,166**	24,728

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Hotel Operations and Management		Department Stores		Others		Eliminations		Consolidated	
	2005 HK$'000	2004 HK$'000 (Restated)	2005 HK$'000	2004 HK$'000 (Restated)	2005 HK$'000	2004 HK$'000 (Restated)	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000 (Restated)
Segment assets	1,769,000	1,724,806	413,067	265,979	765,334	700,721	—	—	29,038,663	28,750,307
Interests in associates	—	—	29,001	27,505	—	—	—	—	483,415	452,679
Interests in jointly-controlled entities	—	—	—	—	—	—	—	—	917,756	1,014,362
Contractual joint venture	—	—	—	—	—	—	—	—	46,569	—
Unallocated assets									62,716	137,771
Total assets									30,549,119	30,355,119
Segment liabilities	43,994	36,721	322,894	250,821	43,979	43,524	—	—	3,474,015	3,319,789
Unallocated liabilities									13,994,114	15,115,420
Total liabilities									17,468,129	18,435,209
Other segment information:										
Depreciation and amortisation	57,305	54,132	25,571	22,398	65	1,812	—	—	1,052,703	1,133,112
Changes in fair value of derivative financial instruments not qualified as hedge	—	—	—	—	—	—	—	—	114,139	—
Impairment losses recognised in the income statement	—	—	—	—	—	—	—	—	690	113,681
Impairment losses reversed in the income statement	—	—	—	—	—	—	—	—	(6,828)	(34,702)
Other non-cash expenses/ (income), net	(1)	9	—	—	9,208	6,858	—	—	76,728	(31,649)
Capital expenditure	37,612	29,498	12,530	—	59	1	—	—	260,238	115,848

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain asset and capital expenditure information for the Group's geographical segments for the years ended 31 December 2005 and 2004.

Group

	Hong Kong		Mainland China		Others		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)		(Restated)						(Restated)
Segment revenue:										
Sales to external customers	160,925	139,936	5,088,233	4,969,191	—	—	—	—	5,249,158	5,109,127
Other segment information:										
Segment assets	2,576,613	2,458,316	26,462,050	26,291,991	—	—	—	—	29,038,663	28,750,307
Capital expenditure	12,500	19,649	247,738	96,199	—	—	—	—	260,238	115,848

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2005 HK$'000	2004 HK$'000
Revenue		
Sale of water and electricity	3,596,514	3,652,877
Sale of goods	1,045,495	905,052
Hotel and rental income	594,915	541,330
Toll revenue	12,234	9,868
	5,249,158	5,109,127
Other income		
Interest income	49,918	14,032
Excess over the cost of business combinations (note 40)/negative goodwill recognised as income (note 18)	57,911	14,700
Dividend income from available-for-sale investments	274	4,923
Others	31,334	21,463
	139,437	55,118
Gains		
Changes in fair value of derivative financial instruments not qualified as hedges, net	74,536	—
Gain on disposal of available-for-sale investments	9,588	—
Others	3,173	844
	87,297	844
	226,734	55,962

6. PROFIT BEFORE TAX

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

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Cost of inventories sold*		**1,120,688**	1,051,618
Depreciation	14	**412,478**	426,579
Recognition of prepaid land lease payments		**143,518**	143,563
Amortisation of deferred expenses*		**3,420**	37
Amortisation of the operating right*	24	**493,287**	493,287
Amortisation of prepaid rental*		**—**	69,646
Minimum lease payments under operating leases in respect of land and buildings		**2,118**	370
Auditors' remuneration		**3,702**	3,088
Employee benefits expense (excluding directors' remuneration — note 8)			
Wages and salaries		**260,647**	225,237
Pension scheme contributions		**19,098**	17,081
Less: Forfeited contributions		**(82)**	(725)
Net pension scheme contributions#		**19,016**	16,356
		279,663	241,593
Gross rental income from investment properties		**(353,638)**	(224,127)
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		**1,939**	6,024
Net rental income from investment properties		**(351,699)**	(218,103)

6. PROFIT BEFORE TAX (continued)

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

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Gross rental income from land and buildings		**(30,327)**	(29,957)
Direct operating expenses		**1,027**	982
Net rental income from land and buildings		**(29,300)**	(28,975)
Foreign exchange differences, net		**26,565**	1,456
Amortisation of goodwill^	18	**—**	259
Changes in fair value of investment properties^	16	**(67,309)**	(38,214)
Impairment of items of property, plant and equipment^	14	**289**	113,681
Provision for/(write-back of provision for) impairment of interests in jointly-controlled entities^		**401**	(24,800)
Write-back of provision for impairment of a contractual joint venture^	22	**(54,752)**	—
Write-back of provision for impairment of prepaid land lease payments^		**—**	(9,902)
Write-back of provision for an amount due from a fellow subsidiary^		**(1,910)**	(573)
Loss on disposal of items of property, plant and equipment, net^		**4,437**	16,805
Write-back of provision for inventories^		**(211)**	(293)
Provision for/(write-back of provision for) bad and doubtful debts^		**(3,933)**	6,858

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

As at 31 December 2004 and 2005, there were no material forfeited pension scheme contributions outstanding and available to reduce the Group's pension scheme contributions in future years.

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

7. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Interest on bank loans and other borrowings wholly repayable:		
Within five years*	**115,459**	76,763
Over five years**	**449,388**	298,077
	564,847	374,840
Finance charges on cash flow hedges, net	**169,581**	—
Finance charges incurred on interest rate swap agreements, net	**—**	423,332
Other finance costs	**19,648**	—
Total finance costs for the year	**754,076**	798,172

* Included interest on Convertible Bonds (as defined in note 2.2 to financial statements) of HK$7,222,000 (2004: straight bonds of HK$4,550,000 and Convertible Bonds of HK$9,973,000) and amortisation on Convertible Bonds of HK$9,252,000 (2004 (restated): HK$12,138,000).

** Net of government grants of HK$60,250,000 (2004: HK$62,571,000) in respect of subsidies for interest expense arising from bank loans borrowed by the Group for the purpose of Phase IV Renovation Project (as defined in note 17 to the financial statements). There are no unfulfilled conditions or contingencies relating to these grants.

8. DIRECTORS' REMUNERATION

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

	Group	
	2005	2004
	HK$'000	HK$'000
Fees:		
Executive directors	**—**	—
Independent non-executive directors	**600**	600
Non-executive director	**200**	200
	800	800
Other emoluments:		
Salaries, allowances and benefits in kind	**1,881**	3,469
Performance related bonuses	**1,570**	1,795
Employee share option benefits	**1,260**	—
Pension scheme contributions	**522**	798
Less: Forfeited contributions	**—**	—
Net pension scheme contributions	**522**	798
Total directors' remuneration	**6,033**	6,862

During the year, a director was granted share options in respect of his services to the Group under the share option scheme of the Company, further details of which are set out in note 38 to the financial statements. The fair value of such options, which has been charged to the income statement, was determined as at the date of grant and was included in the above directors' remuneration disclosures.

8. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

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

	2005 HK$'000	2004 HK$'000
CHAN Cho Chak, John	200	200
Dr. The Honourable LI Kwok Po, David	200	200
FUNG Daniel R.	200	200
	600	600

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

(b) Executive directors and Non-executive directors

	Fees HK$'000	Salaries, allowances, and benefits in kind HK$'000	Performance related bonuses HK$'000	Employee share option benefits HK$'000	Net pension scheme contributions HK$'000	Total remuneration HK$'000
2005						
Executive directors:						
WU Jiesi	—	—	—	—	—	—
LI Wenyue	—	351	600	—	187	1,138
ZHANG Hui	—	399	950	—	275	1,624
FUNG Sing Hong, Stephen	—	1,131	20	1,260	60	2,471
	—	1,881	1,570	1,260	522	5,233
Non-executive directors:						
CHENG Mo Chi, Moses	200	—	—	—	—	200
LI Wai Keung	—	—	—	—	—	—
WANG Xiaofeng	—	—	—	—	—	—
XU Wenfang	—	—	—	—	—	—
GU Shunan	—	—	—	—	—	—
	200	1,881	1,570	1,260	522	5,433

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and Non-executive directors (continued)

	Fees HK$'000	Salaries, allowances, and benefits in kind HK$'000	Performance related bonuses HK$'000	Employee share option benefits HK$'000	Net pension scheme contributions HK$'000	Total remuneration HK$'000
2004						
Executive directors:						
WU Jiesi	—	—	—	—	—	—
LI Wenyue	—	922	525	—	358	1,805
ZHANG Hui	—	543	630	—	199	1,372
FUNG Sing Hong, Stephen	—	—	—	—	—	—
WANG Man Kwan, Paul	—	1,553	90	—	60	1,703
YU Lai	—	451	550	—	181	1,182
	—	3,469	1,795	—	798	6,062
Non-executive directors:						
CHENG Mo Chi, Moses	200	—	—	—	—	200
YE Xuquan	—	—	—	—	—	—
ZHANG Yaping	—	—	—	—	—	—
ZHAI Zhiming	—	—	—	—	—	—
GU Shunan	—	—	—	—	—	—
LI Wai Keung	—	—	—	—	—	—
WANG Xiaofeng	—	—	—	—	—	—
XU Wenfang	—	—	—	—	—	—
	200	3,469	1,795	—	798	6,262

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included two (2004: three) directors. Details of the remuneration of the other three (2004: two) non-director, highest paid employees for the year are as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Salaries, allowances and other benefits in kind	**2,133**	1,771
Bonuses paid and payable	**1,770**	650
Pension scheme contributions	**407**	208
	4,310	2,629

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

	Number of employees	
	2005	2004
HK$1,000,001–HK$1,500,000	**2**	2
HK$1,500,001–HK$2,000,000	**1**	—
	3	2

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable in Mainland China and elsewhere have been calculated at the rates of tax prevailing in those places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

	2005 HK$'000	2004 HK$'000 (Restated)
Group:		
Current — Hong Kong		
Charge for the year	1,625	139
Overprovision in prior years	(210)	—
Current — Mainland China		
Charge for the year	166,848	129,107
Underprovision in prior years	1,547	2,629
Deferred (note 36)	48,353	27,360
Total tax charge for the year	218,163	159,235

10. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries 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:

	2005					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	261,937		1,466,238		1,728,175	
Tax at the statutory tax rates	45,839	17.5	483,859	33.0	529,698	30.7
Lower tax rate for specific provinces or local authority and as a result of tax holidays	—	—	(265,015)	(18.1)	(265,015)	(15.3)
Adjustments in respect of current tax of previous periods	(210)	(0.1)	1,547	0.1	1,337	—
Profits and losses attributable to jointly-controlled entities and associates	(17,080)	(6.5)	(1,027)	(0.1)	(18,107)	(1.1)
Income not subject to tax	(27,903)	(10.7)	(67,182)	(4.6)	(95,085)	(5.5)
Expenses not deductible for tax	21,309	8.2	21,373	1.5	42,682	2.5
Tax losses utilised from previous periods	(23,581)	(9.0)	(1,881)	(0.1)	(25,462)	(1.5)
Tax losses for the year not recognised	1,804	0.7	9,574	0.7	11,378	0.7
Others	100	—	36,637	2.5	36,737	2.1
Tax charge at the Group's effective rate	278	0.1	217,885	14.9	218,163	12.6

10. TAX (continued)

	2004					
	Hong Kong		Mainland China		Total	
	HK$'000 (Restated)	%	HK$'000 (Restated)	%	HK$'000 (Restated)	%
Profit before tax (restated)	108,144		1,129,949		1,238,093	
Tax at the statutory tax rates	18,925	17.5	372,883	33.0	391,808	31.6
Lower tax rate for specific provinces or local authority and as a result of tax holidays	—	—	(201,745)	(17.9)	(201,745)	(16.3)
Adjustments in respect of current tax of previous periods	—	—	2,629	0.2	2,629	0.2
Profits and losses attributable to jointly-controlled entities and associates	(10,775)	(10.0)	(5,599)	(0.4)	(16,374)	(1.3)
Income not subject to tax	(36,196)	(33.5)	(46,419)	(4.1)	(82,615)	(6.7)
Expenses not deductible for tax	52,312	48.4	12,875	1.1	65,187	5.3
Tax losses utilised from previous periods	(3,485)	(3.2)	—	—	(3,485)	(0.2)
Tax losses for the year not recognised	3,446	3.2	531	—	3,977	0.3
Others	88	0.1	(235)	—	(147)	—
Tax charge at the Group's effective rate	24,315	22.5	134,920	11.9	159,235	12.9

The share of tax attributable to jointly-controlled entities and associates amounting to HK$10,524,000 (2004: HK$3,100,000) (note 20) and HK$5,125,000 (2004: HK$8,586,000), respectively, is included in "Share of profits of jointly-controlled entities" and "Share of profits less losses of associates" on the face of the consolidated income statement.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company, was HK$776,250,000 (2004 (restated): HK$840,890,000) (note 39(b)).

12. DIVIDENDS

	2005 HK$'000	2004 HK$'000
Interim — 4.0 HK cents (2004: 2.5 HK cents) per Ordinary Share	236,367	136,997
Proposed final — 5.0 HK cents (2004: 3.5 HK cents) per Ordinary Share	301,001	194,990
	537,368	331,987

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

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

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

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

	2005 HK$'000	2004 HK$'000 (Restated)
Earnings:		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	1,303,495	895,776
Interest on Convertible Bonds (note 7)	16,474	22,111
Profit attributable to ordinary equity holders of the parent before interest on Convertible Bonds for the purpose of diluted earnings per share	1,319,969	917,887

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

	Number of shares	
	2005	2004
Number of shares:		
Weighted average number of Ordinary Shares in issue	**5,681,046,620**	5,438,492,014
Effect of Additional Shares (as defined in note 39(a)(ii)) to be issued arising from the Acquisition from the date after all necessary conditions have been satisfied	**64,010,959**	160,389,041
For the purpose of basic earnings per share	**5,745,057,579**	5,598,881,055
Weighted average number of Ordinary Shares in issue	**5,681,046,620**	5,438,492,014
Effect of dilution — weighted average number of Ordinary Shares that would have been issued:		
On deemed exercise of all share options with dilutive effects at no consideration	**190,944,549**	124,733,865
On deemed conversion of the Convertible Bonds	**199,575,879**	268,801,460
For Additional Shares arising from the Acquisition deemed to be issued from the beginning of year	**64,010,959**	160,389,041
For the purpose of diluted earnings per share	**6,135,578,007**	5,992,416,380

The effect of the 66,000,000 (2004: 330,000,000) Additional Shares to be issued has been incorporated in the computation of the basic and diluted earnings per share for the year ended 31 December 2005. These Additional Shares to be issued were part of the consideration for the acquisition of an 81% interest in GH Water Supply (Holdings) Limited ("GH Holdings") in 2000 (the "Acquisition") and were subject to the performance of 廣東粵港供水有限公司 (Guangdong Yue Gang Water Supply Company Limited) ("WaterCo"), a subsidiary of GH Holdings, meeting the milestones set out in an earnout agreement entered into in connection with the Acquisition. Further details of this obligation are set out in the shareholders' circular of the Company in respect of the Acquisition dated 15 September 2000 (the "Acquisition Circular") and note 39(a)(ii) to the financial statements.

The share options expiring on 19 April 2010 (2004: share options expiring on 6 May 2009) had an anti-dilutive effect on the basic earnings per share and have not been included in the diluted earnings per share calculation for the year ended 31 December 2005.

14. PROPERTY, PLANT AND EQUIPMENT

Group — 2005

	Hotel properties HK$'000 (Restated)	Land and buildings HK$'000 (Restated)	Tunnels, dams, water mains and reservoirs HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Toll road HK$'000	Construction in progress HK$'000	Total HK$'000 (Restated)
At 1 January 2005:										
Cost	915,685	948,364	4,910,295	1,723,277	234,103	115,665	22,264	224,539	491,118	9,585,310
Accumulated depreciation and impairment	(221,216)	(176,671)	(349,294)	(532,141)	(201,231)	(88,604)	(16,326)	(66,671)	(9,687)	(1,661,841)
Net carrying value, as restated	694,469	771,693	4,561,001	1,191,136	32,872	27,061	5,938	157,868	481,431	7,923,469
At 1 January 2005, net of accumulated depreciation and impairment										
Restated before opening balance adjustments	694,469	827,018	4,561,001	1,191,136	32,872	27,061	5,938	157,868	481,431	7,978,794
Opening balance adjustments	—	(55,325)	—	—	—	—	—	—	—	(55,325)
As restated	694,469	771,693	4,561,001	1,191,136	32,872	27,061	5,938	157,868	481,431	7,923,469
Additions	610	2,080	410	14,705	14,727	37,136	1,451	—	178,647	249,766
Disposals and write-offs	(47)	(3,019)	(104)	(1,448)	(4,697)	—	(21)	—	—	(9,336)
Impairment (note 6)	—	—	—	(289)	—	—	—	—	—	(289)
Depreciation provided during the year (note 6)	(22,607)	(38,155)	(177,897)	(146,343)	(8,931)	(9,896)	(2,378)	(6,271)	—	(412,478)
Transfers	—	72,411	857	49,765	—	973	—	—	(124,006)	—
Transfer to investment properties (note 16)	—	(62,869)	—	—	—	—	—	—	—	(62,869)
Exchange realignment	13,420	974	—	3,354	503	293	104	3,811	12,127	34,586
At 31 December 2005, net of accumulated depreciation and impairment	685,845	743,115	4,384,267	1,110,880	34,474	55,567	5,094	155,408	548,199	7,722,849
At 31 December 2005										
Cost	929,508	958,714	4,911,368	1,789,575	238,145	108,455	23,794	228,350	557,886	9,745,795
Accumulated depreciation and impairment	(243,663)	(215,599)	(527,101)	(678,695)	(203,671)	(52,888)	(18,700)	(72,942)	(9,687)	(2,022,946)
Net carrying value	685,845	743,115	4,384,267	1,110,880	34,474	55,567	5,094	155,408	548,199	7,722,849

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group — 2004

	Hotel properties HK$'000 (Restated)	Land and buildings HK$'000 (Restated)	Tunnels, dams, water mains and reservoirs HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Toll road HK$'000	Construction in progress HK$'000	Total HK$'000 (Restated)
At 1 January 2004:										
Cost	915,299	1,303,711	4,911,402	1,722,344	250,974	91,889	22,702	224,252	444,581	9,887,154
Accumulated depreciation and impairment	(196,828)	(472,163)	(171,953)	(328,340)	(213,453)	(80,260)	(15,523)	(36,493)	(9,687)	(1,524,700)
Net carrying value, as restated	718,471	831,548	4,739,449	1,394,004	37,521	11,629	7,179	187,759	434,894	8,362,454
At 1 January 2004, net of accumulated depreciation and impairment:										
As previously reported	1,698,640	4,226,002	4,739,449	1,394,004	37,521	11,629	7,179	187,759	434,894	12,737,077
Effect of adopting HKAS 16, HKAS 17, and HK-Int 2 (notes 2.2(a) and (b))	(980,169)	(3,394,454)	—	—	—	—	—	—	—	(4,374,623)
As restated	718,471	831,548	4,739,449	1,394,004	37,521	11,629	7,179	187,759	434,894	8,362,454
Additions	423	9,372	325	24,810	5,744	24,164	1,489	—	48,179	114,506
Disposals and write-offs	—	(9,119)	(1,135)	(6,810)	(898)	(8)	(638)	—	—	(18,608)
Impairment (note 6)	—	(25,176)	—	(64,512)	—	—	—	(23,993)	—	(113,681)
Depreciation provided during the year (note 6)	(24,392)	(39,182)	(177,859)	(157,840)	(10,184)	(8,893)	(2,091)	(6,138)	—	(426,579)
Transfers	—	—	221	1,059	721	158	—	—	(2,159)	—
Transfer from investment properties, net (note 16)	—	59,217	—	—	—	—	—	—	—	59,217
Exchange realignment	(33)	358	—	425	(32)	11	(1)	240	517	1,485
At 31 December 2004, net of accumulated depreciation and impairment, as restated	694,469	827,018	4,561,001	1,191,136	32,872	27,061	5,938	157,868	481,431	7,978,794
At 31 December 2004										
Cost	915,685	1,079,621	4,910,295	1,723,277	234,103	115,665	22,264	224,539	491,118	9,716,567
Accumulated depreciation and impairment	(221,216)	(252,603)	(349,294)	(532,141)	(201,231)	(88,604)	(16,326)	(66,671)	(9,687)	(1,737,773)
Net carrying value, as restated	694,469	827,018	4,561,001	1,191,136	32,872	27,061	5,938	157,868	481,431	7,978,794

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

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

	Hotel properties		Land and buildings	
	2005 HK$'000	2004 HK$'000 (Restated)	2005 HK$'000	2004 HK$'000 (Restated)
Long term leases in Hong Kong	137,003	141,352	99,013	141,979
Medium term leases in Hong Kong	98,052	102,835	49,504	70,988
Medium term leases in Mainland China	450,790	450,282	396,230	614,051
Short term leases in Mainland China	—	—	198,368	—
	685,845	694,469	743,115	827,018

Company

	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2005				
At 1 January 2005, net of accumulated depreciation	37	110	—	147
Additions	60	—	—	60
Depreciation provided during the year	(18)	(48)	—	(66)
At 31 December 2005, net of accumulated depreciation	79	62	—	141
At 31 December 2005:				
Cost	11,311	8,526	612	20,449
Accumulated depreciation	(11,232)	(8,464)	(612)	(20,308)
Net carrying amount	79	62	—	141

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company (continued)

	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2004				
At 1 January 2004:				
Cost	11,332	8,526	612	20,470
Accumulated depreciation	(10,880)	(7,020)	(612)	(18,512)
Net carrying amount	452	1,506	—	1,958
At 1 January 2004, net of accumulated depreciation	452	1,506	—	1,958
Additions	1	—	—	1
Depreciation provided during the year	(416)	(1,396)	—	(1,812)
At 31 December 2004, net of accumulated depreciation	37	110	—	147
At 31 December 2004:				
Cost	11,333	8,526	612	20,471
Accumulated depreciation	(11,296)	(8,416)	(612)	(20,324)
Net carrying amount	37	110	—	147

15. PROPERTIES UNDER DEVELOPMENT

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Carrying amount at 1 January		
As previously reported	**47,833**	47,043
Effect of adopting HKAS 17 (note 2.2(b))	**(43,202)**	(43,202)
As restated	**4,631**	3,841
Additions	**10,472**	756
Exchange realignment	**239**	34
Carrying amount at 31 December	**15,342**	4,631

16. INVESTMENT PROPERTIES

	Group	
	2005	2004
	HK$'000	HK$'000
Carrying amount at 1 January		
As previously reported	**2,085,292**	2,106,139
Effect of adopting HKAS 40 (note 2.2(d))	**57,500**	—
As restated	**2,142,792**	2,106,139
Net gain from fair value adjustments credited to the income statement (note 6)	**67,309**	38,214
Transfer from/(to) owner-occupied properties, net (note 14)	**62,869**	(59,217)
Disposals	**—**	(1,500)
Exchange realignment	**29,715**	1,656
Carrying amount at 31 December	**2,302,685**	2,085,292

16. INVESTMENT PROPERTIES (continued)

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

	2005 HK$'000	2004 HK$'000
Long term leases in Hong Kong	464,900	351,200
Medium term leases in Mainland China	1,837,785	1,734,092
	2,302,685	2,085,292

The Group's investment properties were revalued on 31 December 2005 by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, at an aggregate amount of HK$2,302,685,000 on an open market, existing use basis. The investment properties are leased to third parties and the GDH Group under operating leases, further summary details of which are included in note 43(a) to the financial statements.

Further particulars of the Group's investment properties are included on page 188.

17. PREPAID LAND LEASE PAYMENTS

At 31 December 2005, certain temporary land use rights certificates for the existing water supply operation issued from the Shenzhen and Dongguan Land Authorities were received. The procedures for the conversion from temporary land use rights certificates previously obtained in 2000 to formal land use rights certificates as at 31 December 2005 are in progress. For land related to Dongshen Water Supply Phase IV Renovation Project (the "Phase IV Renovation Project"), which comprises certain newly constructed and improved water supply related facilities of the Group, the application for land use rights certificates has been commenced and these land use rights certificates have not yet been issued by the relevant offices of the Land Authority in the PRC as at the balance sheet date. Notwithstanding this, the directors are of the opinion that the Group has obtained beneficial title to these assets as at 31 December 2005 and the land use rights certificates can be received.

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

	2005 HK$'000	2004 HK$'000 (Restated)
Long term leases in Hong Kong	**500,814**	504,936
Long term leases in Mainland China	**44,881**	43,203
Medium term leases in Hong Kong	**266,064**	274,006
Medium term leases in Mainland China	**3,247,164**	3,377,199
	4,058,923	4,199,344

18. GOODWILL AND NEGATIVE GOODWILL

Group

	Goodwill HK$'000	Negative goodwill HK$'000
At 1 January 2005:		
Cost as previously reported	2,253	(225,091)
Effect of adopting HKFRS 3 (note 2.2(f))	(854)	225,091
Cost as restated	1,399	—
Accumulated amortisation as previously reported	(854)	47,622
Effect of adopting HKFRS 3 (note 2.2(f))	854	(47,622)
Accumulated amortisation as restated	—	—
Net carrying amount	1,399	—
Cost at 1 January 2005, as restated	1,399	—
Acquisition of minority interests (note 40)	137,947	—
Cost at 31 December 2005	139,346	—
At 31 December 2005:		
Cost and net carrying amount	139,346	—

18. GOODWILL AND NEGATIVE GOODWILL (continued)

Group

	Goodwill HK$'000	**Negative goodwill** HK$'000
At 1 January 2004:		
Cost	1,192	(154,286)
Accumulated amortisation	(595)	32,922
Net carrying amount	597	(121,364)
Cost at 1 January 2004, net of accumulated amortisation	597	(121,364)
Acquisition of minority interests (note 40)	1,061	(70,805)
Amortisation provided during the year (note 6)	(259)	—
Recognised as income during the year (note 5)	—	14,700
At 31 December 2004	1,399	(177,469)
At 31 December 2004:		
Cost	2,253	(225,091)
Accumulated amortisation	(854)	47,622
Net carrying amount	1,399	(177,469)

In 2004, goodwill not previously eliminated against the consolidated capital reserve was amortised on the straight-line basis over its estimated useful life of 25 years.

As further detailed in note 2.2(f) to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001, to remain eliminated against the consolidated capital reserve.

18. GOODWILL AND NEGATIVE GOODWILL (continued)

The amounts of the goodwill and negative goodwill remaining in the consolidated capital reserve as at 1 January 2005, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, are as follows:

	Group	
	Goodwill eliminated against consolidated capital reserve	**Negative goodwill credited to consolidated capital reserve**
	HK$'000	HK$'000
31 December 2005		
At 1 January 2005		
Cost as previously reported	367,599	(1,652,608)
Effect of adopting HKFRS 3 (note 2.2(f))	—	1,652,608
	367,599	—
Accumulated impairment	(63,896)	—
Net carrying amount at 1 January 2005 and 31 December 2005	303,703	—
31 December 2004		
Cost at 1 January 2004 and 31 December 2004, net of accumulated impairment	303,703	(1,652,608)
At 31 December 2004		
Cost	367,599	(1,652,608)
Accumulated impairment	(63,896)	—
Net carrying amount	303,703	(1,652,608)

Impairment testing of goodwill and the operating right

Goodwill acquired through business combinations and the operating right, as further detailed in note 24 to the financial statements, are related principally to water supply cash-generating unit for impairment testing.

18. GOODWILL AND NEGATIVE GOODWILL (continued)

Impairment testing of goodwill and the operating right (continued)

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% (2004: 7%). The cash flows of the water supply cash-generating unit depend principally on the pricing and volume of the water supply to Hong Kong and Shenzhen and Dongguan. The cash flow projections have been prepared based on the actual results of the water supply cash-generating unit for the year ended 31 December 2005. Based on the approved cash flow projections, the directors believe that any reasonably possible change in the key assumptions on which the recoverable amount of the water supply cash-generating unit is based would not cause the carrying amount of goodwill and the operating right to exceed their recoverable amounts.

The carrying amount of goodwill allocated to the water supply cash-generating units was HK$138,988,000 (2004: HK$1,041,000) as at 31 December 2005.

19. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Unlisted investments, at cost	**5,415,725**	4,980,603
Due from subsidiaries	**4,681,511**	4,618,516
Due to subsidiaries	**(843,545)**	(882,134)
	9,253,691	8,716,985
Provision for impairment	**(1,869,048)**	(2,160,562)
	7,384,643	6,556,423
Portion classified as current assets	**—**	(185,950)
	7,384,643	6,370,473

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

19. INTERESTS IN SUBSIDIARIES (continued)

Included in the amounts due from subsidiaries are: (i) unsecured loans in an aggregate amount of HK$463,673,000 (2004: HK$441,502,000), which bear interest at the Hong Kong Dollar Prime Rate (the "Prime Rate") plus 1% to fixed rates of 4.17% to 9% (2004: Prime Rate plus 1% to fixed rates of 4.17% to 9%) per annum and are repayable within five years; and (ii) an unsecured loan of HK$400,000,000 (2004: Nil) which bears interest at the Prime Rate minus 1.5% and has no specific terms of repayment.

Included in the amounts due from subsidiaries as at 31 December 2004 was also an unsecured entrusted loan of RMB198,000,000 (HK$185,950,000) which bore interest at the designated rates as published by the People's Bank of China from time to time and was fully settled during the current year. The entrusted loan was advanced indirectly from the Company and the Company's ultimate holding company to a subsidiary through a bank with a deposit in the same respective amounts being placed by the Company and the Company's ultimate holding company.

Included in the amounts due to subsidiaries as at 31 December 2004 was an unsecured loan stated at amortised cost of HK$430,029,000 (restated) which bore interest at an effective interest of 5.1% per annum and was fully settled during the current year.

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

Particulars of the principal subsidiaries are as follows:

Company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Global Head Developments Limited	British Virgin Islands/Hong Kong	US$1	100%	—	Property investment
Fill Success Investments Limited	Hong Kong	HK$2 ordinary HK$2 non-voting deferred	—	100%	Hotel ownership
GH Water Supply (Holdings) Limited ("GH Holdings")*	Cayman Islands/ Mainland China	HK$1,000,000 ordinary HK$100 Class A special shares HK$10 Class B special shares	86.34%	—	Investment holding

19. INTERESTS IN SUBSIDIARIES (continued)

Company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
廣東天貿(集團)股份有限公司 (Guang Dong Teem (Holdings) Ltd.) ("GD Teem")(1)	Mainland China	RMB840,000,000	11.51%	75.40%	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 (Formerly Guangdong (International) Hotel Management Limited)	Hong Kong	HK$10,000,000	100%	—	Hotel management
GDI Finance (Cayman) 2003 Limited ("GDI Cayman")	Cayman Islands/ Hong Kong	US$1	100%	—	Provision of finance to the Group
Guangdong Nan Fang (Holdings) Co. Ltd.	British Virgin Islands/Mainland China	US$10,000	56.34%	—	Property investment
Guangdong Power (International) Limited	British Virgin Islands/Hong Kong	US$44,078,850	51%	—	Investment holding
Guangdong Properties Holdings Limited	Hong Kong	HK$2	100%	—	Investment holding
廣東天河城百貨有限公司 (Guangdong Teemall Department Stores Ltd.)(4)	Mainland China	RMB8,000,000	—	84.74%	Department stores operations
廣東粵港供水有限公司 (Guangdong Yue Gang Water Supply Company Limited)(2)*	Mainland China	HK$6,116,000,000	—	85.48%	Water supply business
Guangdong Yingde Highway Ltd.(2)	Mainland China	RMB93,200,000	—	70%	Highway operations

19. INTERESTS IN SUBSIDIARIES (continued)

Company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
惠陽粵海房產發展有限公司 (Hui Yang Yue Hai Real Estate Development Ltd.)(2)	Mainland China	RMB75,000,000	—	80%	Property development
Sen International Ventures Corporation (Hong Kong) Limited	Hong Kong	HK$2	—	100%	Hotel operations
Shaoguan Power Plant (D) Ltd.(1)#	Mainland China	US$51,500,000	—	45.9%	Power plant operations
深圳粵海酒店企業有限公司 (Shenzhen Guangdong Hotel Enterprise Ltd.)(2)	Mainland China	HK$114,787,016	99%	—	Hotel ownership and operations
Yue Hai Hotel, Zhuhai(3)	Mainland China	US$10,000,000	—	100%	Hotel ownership and operations
Yue Sheng Finance Limited	Hong Kong	HK$2	100%	—	Finance and investment
Zhongshan Power (Hong Kong) Limited	Hong Kong	HK$100	95%	—	Investment holding

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

\# A subsidiary indirectly controlled by the Group.

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.

During the years ended 31 December 2004 and 2005, the Group acquired additional interests in GH Holding and GD Teem from minority interests. Further details of these acquisitions are included in note 40 to the financial statements.

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

20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2005	2004
	HK$'000	HK$'000
Share of net assets	**877,316**	936,611
Due from jointly-controlled entities (note 45(b))	**40,440**	112,951
	917,756	1,049,562
Provision for impairment	**—**	(35,200)
	917,756	1,014,362

Except for the balance of HK$38,189,000 (2004: HK$38,636,000) which bears interest at the London Inter Bank Offered Rates (the "LIBOR") (2004: the LIBOR) per annum, the amounts due from jointly-controlled entities are unsecured, interest-free and have no specific terms of repayment. The carrying amounts of the amounts due from jointly-controlled entities approximate to their fair values.

Particulars of the jointly-controlled entities are as follows:

Company	Place of incorporation/ registration and operations	Percentage of attributable equity interest held by the Group	Principal activities
Guangdong Transport Investment (BVI) Company Limited ("GTI")	British Virgin Islands/Mainland China	51%	Investments in highway and bridge projects
Xin Yue Qinglian Company Limited	British Virgin Islands	51%	Dormant

20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

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

	2005 HK$'000	2004 HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Non-current assets	901,741	1,093,257
Current assets	20,330	43,327
Current liabilities	(3,048)	(1,585)
Non-current liabilities	(41,707)	(198,388)
Net assets	877,316	936,611
Share of the jointly-controlled entities' results:		
Turnover	—	—
Share of profits less losses of jointly-controlled entities	84,824	89,982
Total revenue	84,824	89,982
Total expenses	(8,277)	(52,996)
Tax (note 10)	(10,524)	(3,100)
Profit after tax	66,023	33,886

21. INTERESTS IN ASSOCIATES

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Unlisted investments, at cost	—	—	115,062	115,062
Share of net assets	462,599	456,665	—	—
Due from associates	23,881	—	22,931	—
Due to associates	(3,065)	(3,986)	—	—
	483,415	452,679	137,993	115,062

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

21. INTERESTS IN ASSOCIATES (continued)

Particulars of the principal associates, which are corporations, at 31 December 2005, are as follows:

Company	Nominal value of issued ordinary/ registered share capital	Place of incorporation/ registration and operations	Percentage of attributable equity interest held by Company	Group	Principal activities
Guangdong Jusco Teem Stores Co. Ltd.	RMB51,700,000	Mainland China	—	26.39%	Department stores operation
Guangdong Power Investment Limited	US$30,068,220	British Virgin Islands/Hong Kong	49%	49%	Investment holding
廣東省韶關粵江發電有限責任公司 (Guangdong Shaoguan Yue Jiang Power Supply Limited) ("Yue Jiang")#	RMB770,000,000	Mainland China	—	11.48%	Power plant operations
廣東番禺大橋有限公司 (Guangdong Pan Yu Bridge Company Limited) ("GD Pan Yu Bridge")*	RMB270,000,000	Mainland China	—	20%	Toll bridge operations

* In 2004, the Group acquired a 20% interest in GD Pan Yu Bridge through the acquisition of a 100% interest in Guangdong Asset Management (BVI) No. 3 Limited ("GAM 3"). Further details of the transaction are included in note 40 to the financial statements.

An associate which the Group has indirect significant influence

The above table lists the associates of the Group 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 associates would, in the opinion of the directors, result in particulars of excessive length.

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

	2005 HK$'000	2004 HK$'000
Assets	4,150,627	3,616,268
Liabilities	(2,593,957)	(2,141,588)
Revenues	2,514,685	1,766,742
Profit	151,709	139,292

22. CONTRACTUAL JOINT VENTURE

	Group	
	2005	2004
	HK$'000	HK$'000
Unlisted investments, at cost	**271,152**	271,152
Due from a contractual joint venture	**62,044**	70,227
	333,196	341,379
Provision for impairment	**(286,627)**	(341,379)
At 31 December	**46,569**	—

This represented the Group's cost of investment of approximately HK$271 million in 中山火力發電廠 ("Zhongshan Power Plant") which is located in Zhongshan, Mainland China. The tenure of this contractual joint venture will expire in 2013.

As at the balance sheet date, a bank loan of US$6 million (HK$46.8 million) (2004: US$10 million (HK$78 million)) has been drawn by Zhongshan Power Plant. The bank loan is secured by all land, buildings and equipment of Zhongshan Power Plant and is also guaranteed by the Company (note 47).

Subsequent to the balance sheet date, agreement has been reached with the Chinese joint venture partner to completely overhaul the terms of the joint venture agreement and accordingly, Zhongshan Power Plant will become a subsidiary of the Company. Due to the improved operating results of Zhongshan Power Plant during the year, the Group has written back a provision of HK$54,752,000 previously made.

23. AVAILABLE-FOR-SALE INVESTMENTS/OTHER FINANCIAL ASSETS

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Unlisted equity investment, at cost*	**96,325**	96,325
Less: Provision for impairment	**(77,679)**	(77,679)
Net carrying value	**18,646**	18,646
Unlisted equity investment, at fair value	**19**	19
Unlisted debt investment, at fair value	**28,056**	102,975
Total available-for-sale investments	**46,721**	121,640
Portion classified as current assets	**(28,075)**	(102,994)
Non-current portion	**18,646**	18,646

* The unlisted equity investment consists of a 24.5% interest in Pak Kong Transco Limited, a company established in Mainland China with an investment in the Pak Kong Bridges in Qingyuan, Mainland China. In the opinion of the directors, the Group does not exercise significant influence over the financial and operating policies of Pak Kong Transco Limited and accordingly, this investment has not been equity accounted for as an associate.

The above equity and debt investments were designated as available-for-sale financial assets on 1 January 2005. The equity investments have no fixed maturity date or coupon rate and the debt investment is to be mature within one year for a range of fixed coupon rates.

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

24. OPERATING RIGHT

	Group	
	2005	2004
	HK$'000	HK$'000
Cost at 1 January and 31 December	**14,798,611**	14,798,611
Accumulated amortisation:		
At 1 January	**2,156,949**	1,663,662
Provided during the year (note 6)	**493,287**	493,287
At 31 December	**2,650,236**	2,156,949
Net carrying amount at 31 December	**12,148,375**	12,641,662

Prior to the Acquisition, WaterCo acquired the operating right from Yue Gang Investment to operate a water supply business, which supplies natural water to Hong Kong and Shenzhen and Dongguan in Mainland China, 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 Hong Kong 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 and WaterCo (the "Concession Agreement"). Upon dissolution of WaterCo after the expiration of the operating period, WaterCo is required, at its cost and expense and without compensation, to return all of the assets to the Guangdong Provincial Government.

25. OTHER LONG TERM ASSETS

	Group	
	2005	2004
	HK$'000	HK$'000
Prepayment for land use rights	**2,370**	2,370
Other deferred expenses	**1,797**	121
	4,167	2,491

26. INVENTORIES

	Group	
	2005 HK$'000	2004 HK$'000
Raw materials	10,113	6,944
Finished goods	39,030	36,656
	49,143	43,600

27. RECEIVABLES, PREPAYMENTS AND DEPOSITS

		Group		Company	
	Notes	2005 HK$'000	2004 HK$'000 (Restated)	2005 HK$'000	2004 HK$'000 (Restated)
Trade receivables, net		288,303	172,130	—	—
Other receivables, prepayments and deposits		167,383	131,575	3,650	9,295
Due from the ultimate holding company	45(b)	77	—	—	—
Due from the immediate holding company	45(b)	114	1,941	—	105
Due from fellow subsidiaries	45(b)	3,158	2,987	33	32
		459,035	308,633	3,683	9,432

The Group's trade receivables, net of provisions, are due from the Group's customers. The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 30 days to 180 days of issue. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management. The Group's trade receivables relate principally to the water supply business and the Group has a certain concentration of credit risk as 53% (2004: 21%) of the total trade receivables were due from the Group's largest customer.

27. RECEIVABLES, PREPAYMENTS AND DEPOSITS (continued)

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

	Group	
	2005	2004
	HK'000	HK$'000
Within 3 months	**287,148**	171,424
3 months to 6 months	**336**	276
6 months to 1 year	**178**	201
More than 1 year	**11,126**	10,705
	298,788	182,606
Less: Provision for doubtful debts	**(10,485)**	(10,476)
	288,303	172,130

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

28. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND BANK BALANCES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances (notes (a) and (b))	**782,169**	569,805	**65,012**	16,161
Time deposits (note (b))	**1,331,875**	1,072,883	**671,042**	655,816
Trust account (note (c))	**25,778**	25,509	**—**	—
	2,139,822	1,668,197	**736,054**	671,977
Less: Restricted cash and bank balances (note (c))	**(25,778)**	(25,509)	**—**	—
Cash and cash equivalents at 31 December (note (d) and note 41(b))	**2,114,044**	1,642,688	**736,054**	671,977

28. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND BANK BALANCES (continued)

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 2005, cash and bank balances retained for such purpose amounted to HK$74,123,000 (2004: HK$6,512,000).

(b) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and more than three months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The carrying amounts of the cash and cash equivalents and the restricted cash and bank balance approximate to their fair values.

(c) Pursuant to the Undertaking as defined in note 39(a)(i) to the financial statements, in December 2003, the Company set up a separate bank account with a local reputable bank in the name of Guangdong Investment (Nominees) Limited, as trustee and designated such bank account as "Guangdong Investment Limited Capital Reduction Trust Account" (the "Trust Account"). A sum of HK$34,000,000 was deposited into the Trust Account in accordance with the terms of the trust deed in the form approved by the court (the "Trust Deed"). Unless and until all amounts due to those creditors of the Company who would be entitled to prove in a notional winding-up of the Company were one to commence on 24 December 2003 ("the Effective Date") and who have not consented to the proposed reduction shall have been paid or satisfied or otherwise extinguished, or such creditors shall subsequently give their consent, or any period of limitation shall have expired, the Company shall retain to the credit of the Trust Account a sum in cash equal to the amount due to such non-consenting creditors for the time being unpaid. As at 31 December 2005, the amount standing to the credit of the Trust Account was HK$25,778,000 (2004: HK$25,509,000). The Trust Account shall be maintained for a period of six years from the Effective Date or such shorter period as provided under the Trust Deed. The Trust Account balance was classified as restricted cash and bank balances.

(d) At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$1,322,706,000 (2004: HK$917,508,000). 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.

29. PAYABLES, ACCRUALS AND OTHER LIABILITIES

		Group		Company	
		2005	2004	**2005**	2004
		HK$'000	HK$'000	**HK$'000**	HK$'000
	Notes		(Restated)		(Restated)
Trade payables		**132,137**	114,223	**—**	—
Accruals and other liabilities		**1,002,165**	660,214	**38,079**	36,149
Due to fellow subsidiaries	45(b)	**6,110**	2,548	**—**	—
Due to the immediate holding company	45(b)	**938**	1,046	**33**	—
Due to the ultimate holding company	45(b)	**1,778**	2,113	**941**	135
		1,143,128	780,144	**39,053**	36,284

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

	Group	
	2005	2004
	HK$'000	HK$'000
Within 3 months	**124,405**	107,155
3 months to 6 months	**1,924**	4,257
6 months to 1 year	**506**	499
More than 1 year	**5,302**	2,312
	132,137	114,223

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

30. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2005	2004
	HK$'000	HK$'000
Interest rate swap agreements at 31 December	**171,832**	—

The Group entered into certain interest rate swap agreements to hedge the interest rate risk, arising from the Refinancing Facility A and the Refinancing Facility B (collectively, the "Refinancing Facilities") as detailed in note 32 to the financial statements.

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

Cash flow hedges

At 31 December 2005, the Group had interest rate swap agreements with a total notional amount of HK$7,700 million (1 January 2005: HK$9,200 million), designated and qualified as hedges in respect of the Group's Refinancing Facilities, whereby the Group receives interest at a variable rate of the Hong Kong Inter Bank Offered Rates (the "HIBOR") per annum and pays interest at a range of fixed rates per annum on the notional amounts. The swap agreements converted the interest obligation arising from the Refinancing Facilities from floating rate of the HIBOR to a range of fixed interest rates per annum for the period from the effective dates of respective contracts to various maturity dates from 2008 to 2012.

The terms of these swap agreements have been negotiated to match the terms of the Refinancing Facilities. The cash flow hedges of the Refinancing Facilities were assessed to be highly effective and a net gain of HK$402,885,000 was included in the hedging reserve as follows:

	2005
	HK$'000
Total fair value gains included in the hedging reserve	**303,168**
Fair value losses transferred from the hedging reserve and recognised in the income statement (note 7)	**169,581**
Net gains on cash flow hedges	**472,749**
Portion shared by minority interests	**(69,864)**
Net gains attributable to the equity holders of the parent for the year ended 31 December 2005	**402,885**

30. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Derivatives not qualified for hedge accounting

At 31 December 2005, the Group had interest rate swap agreements with a notional principal of HK$2,200 million (1 January 2005: HK$2,500 million) which did not meet the criteria for hedge accounting. The net changes in the fair value of these derivatives not qualified for hedge accounting amounting to HK$74,536,000 (note 5) were credited to the income statement during the year.

Amounts payable under the swap guarantee in respect of the interest rate swap agreements are senior in right of payment to the Refinancing Facilities and the Tranche B Credit as detailed in notes 32 and 34 to the financial statements, respectively.

31. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	Effective interest rate	Maturity	Group 2005 HK$'000	Group 2004 HK$'000 (Restated)
Current					
Bank loans — secured	32	1.43%–6.28%*	2006	45,660	41,742
Non-current					
Bank loans — secured	32	1.43%–6.28%*	2007–2017	11,879,524	12,912,060
Convertible Bonds	33	5.1%	2008	—	442,167
The Tranche B Credit	34	8.0%	2010	1,231,284	1,231,284
				13,110,808	14,585,511
				13,156,468	14,627,253

* Includes the effects of cash flow hedges of the related interest rate swap agreements as further detailed in note 30 to the financial statements.

Other interest rate information:

	2005 Fixed rate HK$'000	2005 Floating rate HK$'000	2004 Fixed rate HK$'000 (Restated)	2004 Floating rate HK$'000
Bank loans — secured	—	11,925,184	—	12,953,802
Convertible Bonds	—	—	442,167	—
The Tranche B Credit	1,231,284	—	1,231,284	—

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

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

The fair value of interest-bearing bank and other borrowings is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments, except for the Tranche B Credit (note 34). In view of specific terms and size of the Tranche B Credit, the directors consider an interest rate of 8% adopted in discounting such borrowings for the estimation of its fair value to be appropriate.

The fair value of the liability portion of the Group's Convertible Bonds was estimated at the issuance date using an equivalent market interest rate for a similar convertible bond.

32. BANK LOANS — SECURED

The maturities of the secured bank loans are analysed into:

		Group	
		2005	2004
	Note	**HK$'000**	HK$'000
Within one year or on demand		**45,660**	41,742
In the second year		**263,145**	537,590
In the third to fifth years, inclusive		**2,155,054**	2,158,500
Over five years		**9,461,325**	10,215,970
		11,925,184	12,953,802
Less: Portion classified as current liabilities	31	**(45,660)**	(41,742)
Non-current portion	31	**11,879,524**	12,912,060

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

As at 31 December 2005, included in the Group's bank loans was an outstanding bank loan of HK$9,765 million (2004: HK$10,731 million) drawn under the Refinancing Facility A which bears interest at 3-month HIBOR plus 0.6% (2004: 3-month HIBOR plus 1.339%) per annum and is repayable in 18 consecutive instalments within 10 years commencing from December 2003.

32. BANK LOANS — SECURED (continued)

As at 31 December 2005, included in the Group's bank loans was another outstanding bank loan of HK$800 million (2004: HK$800 million) drawn under the Refinancing Facility B which bears interest at 3-month or 6-month HIBOR plus 0.6% (2004: 3-month or 6-month HIBOR plus 1%) per annum with the first repayment due in 2013.

Under an amendment agreement entered into by the Group dated 17 November 2005, the interest rates of the Refinancing Facility A and the Refinancing Facility B were revised to 3-month HIBOR plus 0.6% per annum and 3-month or 6-month HIBOR plus 0.6% per annum, respectively, with effect from 20 November 2005.

At 31 December 2005, the Company had certain outstanding interest rate swaps to convert the interest of a total notional principal of HK$9,900 million (2004: HK$11,700 million) from floating rate of HIBOR to a range of fixed interest rates or floating rate of LIBOR for the respective period up to various maturity dates ranging from 2008 to 2012. Amounts payable under the swap guarantee in respect of these interest swaps are senior in right of payment to the Tranche B Credit, Refinancing Facility A and Refinancing Facility B.

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

The remaining bank loans of HK$1,360,184,000 (2004: HK$1,422,802,000) are denominated in RMB and secured by a charge over the designated debt service accounts for the Phase IV Renovation Project. These loans are repayable over eight years in eight equal annual consecutive instalments. The first repayment date was 22 August 2004. They bear interest at an annual rate equal to 90% of the interest rate for over 5-year term loans published by the People's Bank of China.

33. CONVERTIBLE BONDS

In December 2003, GDI Cayman issued the HK$497,320,000 2% five-year Convertible Bonds to GDH Limited at the issue price of HK$497,320,000, as partial consideration for the cancellation of all of the Company's then preference shares.

The Convertible Bonds bore interest at the rate of 2.0% per annum, payable semi-annually in arrears and the Convertible Bonds were converted at the option of their holders into 268,801,460 fully paid Ordinary Shares of HK$0.5 each of the Company during the year at a conversion price of HK$1.85 per share.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

33. CONVERTIBLE BONDS (continued)

The net proceeds from the issue of the Convertible Bonds have been split between the liability and equity components, as follows:

	Group	
	2005 HK$'000	2004 HK$'000 (Restated)
Nominal value of Convertible Bonds issued in the prior year	—	497,320
Equity component	—	(67,291)
Liability component at the issuance date	—	430,029
Interest expense	—	22,111
Interest paid	—	(9,973)
Liability component at 31 December (note 31)	—	442,167

34. THE TRANCHE B CREDIT

The Tranche B Credit, which was issued by GH Holdings, is Hong Kong dollar-denominated with an original principal amount of HK$5,448,300,000. It bears interest at a rate of 8% (2004: 8%) per annum and is repayable in full in 2010. Amounts of HK$4,217,016,000 of the Tranche B Credit were repaid in prior years. As at 31 December 2005, the outstanding amount of the Tranche B Credit amounted to HK$1,231,284,000 (2004: HK$1,231,284,000) (note 31).

The Tranche B Credit is guaranteed by WaterCo on a subordinated basis and secured by the pledge of the water revenue of WaterCo under the Hong Kong Water Supply Agreement entered into by the Guangdong Provincial Government and the Government of the HKSAR, which has been assigned to WaterCo under the Concession Agreement.

As at 31 December 2005, GDH Limited and certain of its subsidiaries held HK$76,262,000 (2004: HK$76,262,000) of the Tranche B Credit.

35. NON-INTEREST-BEARING RECEIPT IN ADVANCE

	Group	
	2005	2004
	HK$'000	HK$'000
Carrying amount at 1 January	**2,127,600**	2,245,800
Recognised as revenue in the income statement	**(118,200)**	(118,200)
Carrying amount at 31 December	**2,009,400**	2,127,600
Less: Portion classified as current liabilities	**(118,200)**	(118,200)
Non-current portion	**1,891,200**	2,009,400

In a prior year, the Government of the HKSAR granted a loan facility with a principal amount of HK$2,364 million (the "Loan Facility") to the Guangdong Provincial Government 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 Guangdong Provincial Government as a non-interest-bearing receipt in advance, through the deduction of future water revenue to be received by the Group from the Government of the HKSAR, by an annual amount of HK$118,200,000 for 20 years commencing from December 2003.

36. DEFERRED TAX

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

Deferred tax liabilities

Group

	2005			
	Accelerated tax depreciation and amortisation HK$'000	Revaluation of properties HK$'000	Others HK$'000	Total HK$'000
At 1 January 2005, as restated	317,830	219,239	(9,956)	527,113
Deferred tax charged to the income statement during the year (note 10)	30,642	22,693	—	53,335
Exchange differences	6,285	5,484	—	11,769
Gross deferred tax liabilities at 31 December 2005	354,757	247,416	(9,956)	592,217

Deferred tax assets

Group

	2005		
	Decelerated tax depreciation HK$'000	Losses available for offset against future taxable profit HK$'000	Total HK$'000
At 1 January 2005	(835)	(3,727)	(4,562)
Deferred tax credited to the income statement during the year, net (note 10)	—	(4,982)	(4,982)
Exchange differences	(19)	—	(19)
Gross deferred tax assets at 31 December 2005	(854)	(8,709)	(9,563)
Net deferred tax liabilities at 31 December 2005			582,654

36. DEFERRED TAX (continued)

Deferred tax liabilities

Group

	2004			
	Accelerated tax depreciation and amortisation HK$'000	Revaluation of properties HK$'000	Others HK$'000	Total HK$'000
At 1 January 2004				
As previously reported	344,629	547,193	(9,915)	881,907
Effect of adopting HKAS 16, HK-Int 2 and HKAS-Int 21	(28,801)	(355,488)	—	(384,289)
As restated	315,828	191,705	(9,915)	497,618
Deferred tax charged to the income statement during the year (note 10), as restated	805	27,534	(41)	28,298
Exchange differences	1,197	—	—	1,197
Gross deferred tax liabilities at 31 December 2004, as restated	317,830	219,239	(9,956)	527,113

Deferred tax assets

Group

	2004		
	Decelerated tax depreciation HK$'000	Losses available for offset against future taxable profit HK$'000	Total HK$'000
At 1 January 2004	(828)	(2,789)	(3,617)
Deferred tax credited to the income statement during the year (note 10)	—	(938)	(938)
Exchange differences	(7)	—	(7)
Gross deferred tax assets at 31 December 2004	(835)	(3,727)	(4,562)
Net deferred tax liabilities at 31 December 2004, as restated			522,551

36. DEFERRED TAX (continued)

The Group has tax losses of approximately HK$652,000,000 (2004: HK$805,000,000) arising in Hong Kong and Mainland China that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as the directors considered that it is not probable that sufficient taxable profit will be available against which the unused tax losses can be utilised by the Group.

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or jointly-controlled entities as the Group has no liability to additional tax should such amounts be remitted.

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

37. SHARE CAPITAL

Shares

	2005	2004
	HK$'000	HK$'000
Authorised:		
8,000,000,000 (2004: 8,000,000,000) ordinary shares of HK$0.50 each ("Ordinary Shares")	**4,000,000**	4,000,000
Issued and fully paid:		
6,017,518,071 (2004: 5,561,612,672) Ordinary Shares	**3,008,759**	2,780,806

37. SHARE CAPITAL (continued)

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

	Notes	Number of Ordinary Shares in issue	Issued share capital HK$'000	Ordinary Share premium account HK$'000	Total HK$'000
At 1 January 2004		5,244,522,672	2,622,261	1,730,646	4,352,907
Issue of the Additional Shares	39(a)(ii)	264,000,000	132,000	110,880	242,880
Share options exercised	(ii)	53,090,000	26,545	16,190	42,735
At 31 December 2004 and 1 January 2005		5,561,612,672	2,780,806	1,857,716	4,638,522
Issue of the Additional Shares	39(a)(ii)	66,000,000	33,000	27,720	60,720
Conversion of Convertible Bonds	(i)	268,801,460	134,401	362,882	497,283
Share options exercised	(ii)	121,103,939	60,552	49,887	110,439
At 31 December 2005		6,017,518,071	3,008,759	2,298,205	5,306,964

Notes:

(i) The Convertible Bonds were converted by their holders into 268,801,460 Ordinary Shares, giving rise to share premium of HK$362,882,000.

(ii) The subscription rights attaching to 121,103,939 (2004: 53,090,000) share options were exercised at subscription prices ranging from HK$0.5312 to HK$1.59 (2004: from HK$0.5312 to HK$1.59) per Ordinary Share, resulting in the issue of 121,103,939 (2004: 53,090,000) Ordinary Shares for a total consideration, net of expenses, of HK$110,439,000 (2004: HK$42,735,000).

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 38 to the financial statements.

38. SHARE OPTION SCHEME

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

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

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

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

38. SHARE OPTION SCHEME (continued)

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

The exercise price of the share options is determinable by the directors, but must not be less than the highest of (i) the closing price of the Company's Ordinary Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of the share options, which must be a business day; (ii) the average closing price of the Company's Ordinary Shares as stated in the Stock Exchange's daily quotation sheet 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 do not confer rights on the holders to dividends or to vote in shareholders' meetings.

The 121,103,939 share options exercised during the year resulted in the issue of 121,103,939 Ordinary Shares of the Company and new share capital of HK$60,552,000 and share premium of HK$49,887,000 (after issue expenses), as detailed in note 37 to the financial statements.

At 31 December 2005, the number of Ordinary Shares issuable under share options granted under the GDI Scheme was 267,020,000 (2004: 389,123,939), which represented approximately 4.4% (2004: 7.0%) of the Company's Ordinary Shares in issue as at that date.

The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 267,020,000 Ordinary Shares of the Company and increase share capital of HK$133,510,000 and share premium of HK$165,610,000 (before issue expenses).

Subsequent to the balance sheet date, on 10 March 2006, a total of 3,400,000 share options were granted to certain employees of the Company in respect of their services to the Group in the forthcoming year. These share options will vest on 10 June 2006 and have an exercise price of HK$3.405 per share and an exercise period ranging from 11 June 2006 to 10 June 2011. The closing price of the company's shares at the date of grant was HK$3.275 per share.

Subsequent to the balance sheet date, a total of 2,500,000 share options were exercised, which resulted in the issue of 2,500,000 Ordinary Shares of the Company.

Subsequent to the balance sheet date, a total of 2,000,000 shares options were cancelled.

At the date of approval of these financial statements, the Company had 265,920,000 share options outstanding under the GDI Scheme, which represented approximately 4.4% of the Company's shares in issue as at that date.

38. SHARE OPTION SCHEME (continued)

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

	Number of share options								Price of the Company's Ordinary Shares***		
Name or category of participants	At 1 January 2005	Granted during the year##	Cancelled/ lapsed during the year	Exercised during the year	At 31 December 2005	Date of grant of share options* (DD.MM.YYYY)	Exercise period of share options (both dates inclusive)# (DD.MM.YYYY)	Exercise price of share options** HK$	At grant date of options HK$	Immediately before the exercise date HK$	At exercise date of options HK$
Directors											
LI Wenyue	7,000,000	—	—	—	7,000,000	10.08.2001	11.02.2002 to 10.02.2007	0.5312	0.66	—	—
	9,000,000	—	—	—	9,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81	—	—
	6,000,000	—	—	—	6,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	—	—
	3,000,000	—	—	—	3,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	—	—
	3,000,000	—	—	—	3,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	—	—
	2,500,000	—	—	—	2,500,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	—	—
ZHANG Hui	5,000,000	—	—	—	5,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	—	—
	3,000,000	—	—	—	3,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	—	—
	3,000,000	—	—	—	3,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	—	—
	2,500,000	—	—	—	2,500,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	—	—
CHAN Cho Chak,	1,000,000	—	—	—	1,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	—	—
John	1,000,000	—	—	—	1,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	—	—
	1,000,000	—	—	—	1,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	—	—
	450,000	—	—	—	450,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	—	—
LI Kwok Po,	1,000,000	—	—	(1,000,000)	—	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	2.70	2.675
David	1,000,000	—	—	(1,000,000)	—	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	2.70	2.675
	1,000,000	—	—	—	1,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	—	—
	450,000	—	—	—	450,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	—	—
FUNG, Daniel R.	1,000,000	—	—	(1,000,000)	—	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	2.55	2.45
	1,000,000	—	—	—	1,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	—	—
	1,000,000	—	—	—	1,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	—	—
	450,000	—	—	—	450,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	—	—
CHENG Mo Chi,	1,000,000	—	—	—	1,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	—	—
Moses	1,000,000	—	—	—	1,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	—	—
	1,000,000	—	—	—	1,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	—	—
	450,000	—	—	—	450,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	—	—
LI Wai Keung	700,000	—	—	—	700,000	01.11.2001	02.05.2002 to 01.05.2007	0.74	0.73	—	—
	1,500,000	—	—	—	1,500,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81	—	—
	1,500,000	—	—	—	1,500,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	—	—
	1,500,000	—	—	—	1,500,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	—	—
	1,500,000	—	—	—	1,500,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	—	—
	1,000,000	—	—	—	1,000,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	—	—
FUNG Sing Hong, Stephen	—	1,500,000	—	—	1,500,000	19.01.2005	20.04.2005 to 19.04.2010	2.575	2.60	—	—
WANG Xiaofeng	1,000,000	—	—	—	1,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81	—	—
	1,000,000	—	—	—	1,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	—	—
	1,000,000	—	—	—	1,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	—	—
	1,000,000	—	—	—	1,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	—	—
	650,000	—	—	—	650,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	—	—
	70,150,000	1,500,000	—	(3,000,000)	68,650,000						

38. SHARE OPTION SCHEME (continued)

	Number of share options								Price of the Company's Ordinary Shares***		
Name or category of participants	At 1 January 2005	Granted during the year##	Cancelled/ lapsed during the year	Exercised during the year	At 31 December 2005	Date of grant of share options*	Exercise period of share options (both dates inclusive)#	Exercise price of share options**	At grant date of options	Immediately before the exercise date	At exercise date of options
						(DD.MM.YYYY)	(DD.MM.YYYY)	HK$	HK$	HK$	HK$
Others											
Former directors	19,000,000	—	—	—	19,000,000	10.08.2001	11.02.2002 to 10.02.2007	0.5312	0.66	—	—
(Note)	18,000,000	—	—	—	18,000,000	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81	—	—
	18,000,000	—	—	(6,000,000)	12,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	2.20	2.175
	8,000,000	—	—	(3,000,000)	5,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	2.20	2.175
	10,000,000	—	—	(5,000,000)	5,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	2.31	2.33
	2,500,000	—	—	(2,500,000)	—	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	2.20	2.175
Employees	30,000,000	—	—	(30,000,000)	—	10.08.2001	11.02.2002 to 10.02.2007	0.5312	0.66	2.88	2.93
	7,250,000	—	—	(7,250,000)	—	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81	2.24	2.20
	57,200,000	—	(800,000)	(13,500,000)	42,900,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	2.50	2.50
	28,570,000	—	(800,000)	(5,970,000)	21,800,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	2.29	2.28
	39,600,000	—	(900,000)	(6,700,000)	32,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	2.59	2.57
	49,460,000	—	—	(6,790,000)	42,670,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	2.30	2.29
Consultant	31,393,939	—	—	(31,393,939)	—	03.06.2002	21.12.2002 to 03.06.2007	0.816	0.81	2.49	2.46
	318,973,939	—	(2,500,000)	(118,103,939)	198,370,000						
Total	389,123,939	1,500,000	(2,500,000)	(121,103,939)	267,020,000						

Notes:

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

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

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

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

The price of the Company's Ordinary Shares disclosed "At exercise date of options" is the closing price on the Stock Exchange on that day.

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

\#\# HK$1.00 is payable by the grantee on acceptance of the offer in respect of the options granted on 19 January 2005.

Note: As at 1 January 2005, WU Jiesi and GU Shunan, directors of the Company who resigned during the year, had a total of 15,500,000 share options. These share options were reclassified and included in the "Former directors" category in the above movement schedule.

38. SHARE OPTION SCHEME (continued)

The fair value of the share options granted during the year was HK$1,260,000, which were recognised as an expense in the consolidated income statement for a director's services received during the year (2004: Nil).

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2005:

Expected dividend yield (%)	2.33
Expected volatility (%)	41.80
Risk-free interest rate* (%)	2.85
Expected life of option (year)	5.0
Weighted average share price (HK$)	2.575

* Being the approximate yield of a 5-year Exchange Fund Note traded at the date of grant.

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

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

39. 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 60 to 63 of the financial statements.

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

39. RESERVES (continued)

(a) Group (continued)

(i) (continued)

During the year ended 31 December 2005, the release of provision as determined above was HK$224,265,712 (2004: HK$69,658,782); and the profit distributed from the Company's subsidiaries as determined above was HK$1,178,626 (2004: HK$369,193,144), resulting in an aggregate transfer from retained profits to the Special Reserve of the Group and the Company of HK$225,444,338 (2004: HK$438,851,926).

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

During the year, the reduction in the Special Reserve and capitalisation of the same amount to retained profits, which resulted from the increase in paid-up share capital and share premium account due to the issue of the Company's Ordinary Shares, before any share issue expenses, amounted to HK$498,389,037 (2004: HK$285,627,760).

The amount credited to the Special Reserve shall not at any time exceed HK$2,984,676,517 (the "Limit"). The Limit may be reduced by the amount of any increase, after the Effective Date, in the paid-up share capital or share premium account of the Company which results from 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, the amount of a non-permanent loss which was turned into a permanent loss of the Group and the Company was HK$864,953,608 (2004: HK$8,536,644).

39. RESERVES (continued)

(a) Group (continued)

(i) (continued)

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 2005, 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$668,476,555 (2004: HK$285,627,760); and (ii) the amount of a non-permanent loss of HK$864,953,608 (2004: HK$8,536,644) which was turned into a permanent loss for the year ended 31 December 2005.

The Limit, as adjusted, was HK$1,149,369,950 (2004: HK$2,682,800,113) and the amount standing to the credit of the Group's and the Company's Special Reserve was nil (2004: HK$272,945,698) as at 31 December 2005.

(ii) As part of the consideration for the Acquisition of GH Holdings (as referred to in note 13 to the financial statements), the Company issued 2.3 billion Ordinary Shares (the "Consideration Shares") to GDH Limited and is committed to further issue 66 million Ordinary Shares (the "Additional Shares") for each year of the five years commencing from 22 December 2000 (the "Earnout Period") to GDH Limited subject to the performance of WaterCo meeting the milestones as set out in the Earnout Agreement. Further details of this obligation are set out in the Acquisition Circular.

Since WaterCo already met the performance milestones under the Earnout Agreement in prior years, the Company has an obligation to issue a total of 330 million Additional Shares to GDH Limited in accordance with the Earnout Agreement.

As further explained in the Acquisition Circular, following the negotiation with GDH Limited, the Company's board of directors (the "Board") had determined the issue price of each of the Additional Shares which might be issued to be HK$1.20 which is the same as the issue price for each of the Consideration Shares issued to GDH Limited upon the completion of the Acquisition. The issue price of HK$1.20 as aforesaid (the "Circular Price") which was determined by reference to, in particular, the value of the Dongshen Water Supply Project was considered by both the independent financial adviser advising on the Acquisition and the Board (including the independent non-executive directors) to be fair and reasonable and was approved by the shareholders of the Company in a general meeting on 19 October 2000. Further details of the Circular Price determination and the valuation of Dongshen Water Supply Project were set out in the Acquisition Circular.

39. RESERVES (continued)

(a) Group (continued)

(ii) (continued)

As a result of SSAP 30 becoming effective and applicable for the year ended 31 December 2001, the Group and the Company are required to record each of the Additional Shares as shares that are to be issued at the prevailing market price of HK$0.92 per Ordinary Share on the date of the completion of the Acquisition (the "Market Price") instead of the Circular Price which also was the price adopted for the recording of the issue of all the Consideration Shares in 2000. Accordingly, an amount of HK$303,600,000 (being the value of the aforesaid 330 million Additional Shares to be issued at the Market Price) was credited to the Group's and the Company's reserves as "Ordinary Shares To Be Issued" to reflect the respective obligation of the Group and the Company in respect of those 330 million Additional Shares to be issued by a reduction in the Group's capital reserve on the acquisition of GH Holdings and an increase in the Company's investment cost in GH Holdings both of the same amount as certain contingencies that would affect the amount of the Group's and the Company's purchase consideration for GH Holdings have become probable. It is solely because of the requirements under SSAP 30 that the above accounting treatment becomes necessary. All the rights and obligations under the Earnout Agreement remain unchanged. The compliance by the Company with all the obligations under the Earnout Agreement to be observed and performed on its part also remains unaffected.

During the year, the remaining 66,000,000 Additional Shares were issued, resulting in a reduction in the "Ordinary Shares To Be Issued" reserve by HK$60,720,000 and an increase in issued shares and the Ordinary Share premium account by HK$33,000,000 and HK$27,720,000, respectively.

(iii) The share option reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share-based payments.

(iv) 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.

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

39. RESERVES (continued)

(b) Company

	Notes	Ordinary Share premium account HK$'000	Ordinary Shares to be issued HK$'000 (note 39(a)(ii))	Equity component of Convertible Bonds HK$'000 (Restated)	Capital reserve HK$'000	Share option reserve HK$'000 (note 39(a)(iii))	Exchange fluctuation reserve HK$'000	Special reserve HK$'000 (note 39(a)(i))	Retained profits HK$'000 (Restated)	Total HK$'000 (Restated)
At 1 January 2004										
As previously reported		1,730,646	303,600	—	1,733,711	—	(14,813)	119,721	7,712	3,880,577
Effect of adopting HKASs 32 and 39 (note 2.2(c)(ii))		—	—	67,291	—	—	—	—	—	67,291
As restated		1,730,646	303,600	67,291	1,733,711	—	(14,813)	119,721	7,712	3,947,868
Issue of the Additional Shares	39(a)(ii)	110,880	(242,880)	—	—	—	—	—	—	(132,000)
Share options exercised, net of issue expenses	37	16,190	—	—	—	—	—	—	—	16,190
Profit for the year (as restated)	11	—	—	—	—	—	—	—	840,890	840,890
Interim 2004 dividend paid	12	—	—	—	—	—	—	—	(136,997)	(136,997)
Proposed final 2004 dividend	12	—	—	—	—	—	—	—	(194,990)	(194,990)
Transfer from retained profits during the year in accordance with the Undertaking	39(a)(i)	—	—	—	—	—	—	438,852	(438,852)	—
Transfer to retained profits upon issue of new Ordinary Shares during the year	39(a)(i)	—	—	—	—	—	—	(285,628)	285,628	—
At 31 December 2004		1,857,716	60,720	67,291	1,733,711	—	(14,813)	272,945	363,391	4,340,961

39. RESERVES (continued)

(b) Company (continued)

	Notes	Ordinary Share premium account HK$'000	Ordinary Shares to be issued HK$'000 (note 39(a)(ii))	Equity component of Convertible Bonds HK$'000 (Restated)	Capital reserve HK$'000	Share option reserve HK$'000 (note 39(a)(iii))	Exchange fluctuation reserve HK$'000	Special reserve HK$'000 (note 39(a)(i))	Retained profits HK$'000 (Restated)	Total HK$'000 (Restated)
At 1 January 2005										
As previously reported		1,857,716	60,720	—	1,733,711	—	(14,813)	272,945	375,529	4,285,808
Effect of adopting HKASs 32 and 39 (note 2.2(c)(ii))		—	—	67,291	—	—	—	—	(12,138)	55,153
As restated		1,857,716	60,720	67,291	1,733,711	—	(14,813)	272,945	363,391	4,340,961
Issue of the Additional Shares	39(a)(ii)	27,720	(60,720)	—	—	—	—	—	—	(33,000)
Issue of new shares on conversion of Convertible Bonds	37	362,882	—	(67,291)	—	—	—	—	21,427	317,018
Share options exercised, net of issue expenses	37	49,887	—	—	—	—	—	—	—	49,887
Equity-settled share option arrangements	38	—	—	—	—	1,260	—	—	—	1,260
Profit for the year	11	—	—	—	—	—	—	—	776,250	776,250
Interim 2005 dividend paid	12	—	—	—	—	—	—	—	(236,367)	(236,367)
Proposed final 2005 dividend	12	—	—	—	—	—	—	—	(301,001)	(301,001)
Final 2004 dividend paid		—	—	—	—	—	—	—	(1,307)	(1,307)
Transfer from retained profits during the year in accordance with the Undertaking	39(a)(i)	—	—	—	—	—	—	225,444	(225,444)	—
Transfer to retained profits upon issue of new Ordinary Shares during the year	39(a)(i)	—	—	—	—	—	—	(498,389)	498,389	—
At 31 December 2005		2,298,205	—	—	1,733,711	1,260	(14,813)	—	895,338	4,913,701

40. BUSINESS COMBINATIONS EFFECTED DURING THE YEAR

During the year ended 31 December 2005, the Company acquired (i) an aggregate additional 3.48% equity interest in GH Holdings at a total cash consideration of HK$330,921,000, and (ii) an aggregate additional 6.82% effective equity interest in GD Teem at a total cash consideration of HK$104,201,000, from the minority shareholders of the respective subsidiaries. As a result of these acquisitions, the Group increased its holdings in (i) GH Holdings from 82.86% at 31 December 2004 to 86.34% at 31 December 2005, resulting in a total positive goodwill of approximately HK$137,947,000 (note 18), and (ii) GD Teem from 68.58% at 31 December 2004 to 75.40% at 31 December 2005, resulting in an excess over the cost of business combinations of approximately HK$57,911,000 (note 5).

40. BUSINESS COMBINATIONS EFFECTED DURING THE YEAR (continued)

During the year ended 31 December 2004, the Company acquired (i) an aggregate additional interest of 0.20% in GH Holdings at total cash consideration of HK$11,396,000, which resulted in goodwill and negative goodwill of HK$1,061,000 (note 18) and HK$427,000 (note 18), respectively, and (ii) an aggregate additional 5.81% effective interest in GD Teem, at a total cash consideration of HK$51,073,000, which resulted in a negative goodwill of HK$59,334,000 (note 18). As a result of these acquisitions, the Group increased its holdings in (i) GH Holdings from 82.66% at 31 December 2003 to 82.86% at 31 December 2004, and (ii) GD Teem from 62.77% at 31 December 2003 to 68.58% at 31 December 2004.

Further details of these subsidiaries are set out in note 19 to the financial statements.

In October 2004, the Group acquired a 100% equity interest in GAM 3 from a fellow subsidiary of the Company. GAM 3 has a 20% interest in an associate, GD Pan Yu Bridge, which engaged in toll bridge operations. Further details of the transaction are set out as follows:

The fair values of the identifiable assets and liabilities of GAM 3 as at the date of acquisition and the goodwill arising were as follows:

	Fair value	**Carrying amount**
	HK$'000	HK$'000
Interest in an associate	40,109	40,109
Accruals and other payables	(5)	(5)
	40,104	40,104
Negative goodwill on acquisition (note 18)	(11,044)	
Satisfied by cash and the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	29,060	

The purchase consideration for the acquisition was in form of cash and was fully paid in November 2004.

Since its acquisition, GAM 3 contributed no turnover and the consolidated profit for the year contributed to the Group for the year ended 31 December 2004 was not material. Had the combination taken place at the beginning of 2004, the impact on the revenue from continuing operations of the Group and the profit of the Group for that year would not be material.

41. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

(i) During the year ended 31 December 2005, the Group settled the non-interest-bearing receipt in advance of an amount of HK$118,200,000 (2004: HK$118,200,000) by offsetting it against the water revenue receivable of WaterCo. Details of the non-interest-bearing receipt in advance are set out in note 35 to the financial statements.

(ii) During the year ended 31 December 2005, an associate of the Group declared dividend of HK$22,932,000 to the Group during the year, which remains outstanding and are included in the Group's amounts due from associates as at 31 December 2005.

(b) Cash and cash equivalents

	2005 HK$'000	2004 HK$'000
Cash and cash equivalents for the purpose of the consolidated balance sheet as at 31 December (note 28)	**2,114,044**	1,642,688
Non-pledged time deposits with original maturity of more than three months when acquired	**(490,443)**	(75,131)
Cash and cash equivalents for the purpose of the consolidated cash flow statement as at 31 December	**1,623,601**	1,567,557

42. COMMITMENTS

In addition to the operating lease commitments detailed in note 43(b), the Group had the following commitments at the balance sheet date:

	Group	
	2005 HK$'000	2004 HK$'000
(a) Capital commitments in respect of property, plant and equipment:		
Contracted for	**136,292**	155,150
Authorised, but not contracted for	**1,211,065**	672,309
	1,347,357	827,459

42. COMMITMENTS (continued)

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

(c) The Company, for a consideration of US$16.76 million, entered into a conditional sale and purchase agreement on 13 February 2001 to dispose of its entire 95% interest in Zhongshan Power (Hong Kong) Limited ("ZPHK") and its shareholders' loans to ZPHK. As part of the consideration, the compensation for the discontinuation of certain guaranteed profits in an amount of US$2.97 million was received in August 2001. In addition, as a condition precedent to the completion of the sale, Zhongshan Power Plant, the contractual joint venture held by ZPHK, is required to fully repay all its indebtedness to Yue Sheng Finance Limited, the Company's wholly-owned subsidiary, together with interest, in respect of which the loan principal of US$17.5 million was received in January 2003.

The Group has reached an agreement with the Chinese partner of Zhongshan Power Plant to completely overhaul the terms of the contractual joint venture agreement, and the supplement contractual joint venture agreement was formally signed in January 2006. (Please refer to note 50(i) for details).

43. OPERATING LEASE ARRANGEMENTS

Group

(a) *As lessor*

The Group leases its investment properties (note 16 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to eleven years (2004: one to ten 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.

43. OPERATING LEASE ARRANGEMENTS (continued)

Group (continued)

(a) *As lessor (continued)*

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

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**285,077**	266,848
In the second to fifth years, inclusive	**334,035**	259,072
After five years	**20,159**	11,212
	639,271	537,132

In addition to the operating lease arrangement and future minimum lease receivables as disclosed above, the Group leases certain leasehold properties to Yue Jiang, an associate of the Group, and a third party in Mainland China for the storage and handling of coal and coal ashes. The annual rental income is calculated with reference to the number of units of electricity generated by Yue Jiang and the actual utilisation of the venue, with leases negotiated for terms of five years (2004: Nil).

(b) *As lessee*

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of one to fourteen years (2004: one year).

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

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**7,038**	117
In the second to fifth years, inclusive	**27,567**	—
After five years	**44,067**	—
	78,672	117

43. OPERATING LEASE ARRANGEMENTS (continued)

Group (continued)

(b) *As lessee (continued)*

In addition to the operating lease commitments as disclosed above, the Group leases certain leasehold properties from Yue Jiang for the storage and handling of coal and coal ashes for the Group's electric power generation operation. The annual rental expenses are calculated with reference to the number of units of electricity generated by Shaoguan Power Plant (D) Ltd., a subsidiary of the Group, and the relevant costs incurred by Yue Jiang.

The Company did not have significant operating lease arrangements at the balance sheet date (2004: Nil).

44. DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

The amounts due to minority shareholders of subsidiaries as at the balance sheet date are unsecured, interest-free and are analysed as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Non-interest-bearing borrowings:		
Current portion	**324,498**	288,032
Non-current portion	**29,115**	34,512
	353,613	322,544

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

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year or no fixed terms of repayment	**324,498**	288,032
In the second year	**6,214**	6,070
In the third to fifth years, inclusive	**18,641**	18,210
After five years	**4,260**	10,232
	353,613	322,544

The balances due to minority shareholders of subsidiaries as at 31 December 2005 are unsecured and non-interest-bearing. The carrying amounts of the amounts due approximate to their fair values.

45. RELATED PARTY TRANSACTIONS

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

(a) Transactions with related parties

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Dividend income received from an associate	(i)	**(22,932)**	—
Rental income from:			
GDH Limited and certain of its subsidiaries	(ii)	**(2,929)**	(3,424)
An associate	(iii)	**(938)**	—
Interest income from a contractual joint venture	(iv)	**(7,491)**	(224)
Management fees from:			
A contractual joint venture	(v)	**(1,416)**	(4,285)
A jointly-controlled entity	(vi)	**(400)**	(1,726)
A fellow subsidiary	(vii)	**(760)**	(376)
Hotel management fees received from fellow subsidiaries	(viii)	**(2,305)**	(3,194)
Property management service fees paid to a fellow subsidiary	(ix)	**1,292**	1,268
Interest expense to:			
GDH Limited and certain of its subsidiaries	(x)	**13,461**	20,643
Yue Gang Investment	(xi)	**15**	41
General computer and SAP financial system maintenance service fees paid to GDH Limited	(xii)	**561**	765
Finance lease charge paid to a fellow subsidiary	(xiii)	**33**	102
Rental expense paid to an associate	(xiv)	**3,651**	8,912

45. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Notes:

(i) During the year, the Company recorded dividend income of HK$22,932,000 (2004: Nil) from an associate and the amount was included in the amount due from an associate at 31 December 2005.

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

(iii) The rental income arose from the letting of certain leasehold land and buildings of the Group to an associate for the storage and handling of coal and coal ashes in accordance with the tenancy agreements.

(iv) The interest income related to (a) an unsecured loan advanced by the Group to a contractual joint venture, which carried a fixed rate of 3.8% (2004: 3.8%) per annum and was repaid during the year; and (b) an unsecured loan advanced by a wholly-owned subsidiary of the Group to the contractual joint venture. In respect of that loan, the loan principal had already been repaid in full in previous years but certain interest which has now been agreed to be charged at a fixed rate of 7.56% has remained outstanding. The relevant portion of that outstanding interest that had been received during the year was credited to the Group's results as interest income.

(v) The management fee income arose from the accounting and administrative services provided by the Group to a contractual joint venture. The fee charged is calculated with reference to the revenue of the contractual joint venture earned in the year. The arrangement has been terminated since May 2005.

(vi) The management fee income arose from the administrative services provided by the Group to a jointly-controlled entity. The fee charged is based on the actual costs incurred by the Group during the year.

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

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

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

(x) The interest expense arose from (a) the Tranche B Credit of HK$76,262,000 as at 31 December 2005 (2004: HK$76,262,000) provided by GDH Limited; (b) the Convertible Bonds issued by the Group to GDH Limited, the par value of the outstanding amount of which was HK$497,320,000 (2004: HK$497,320,000), and (c) loans, totalling RMB6,124,000 (2004: RMB1,342,000), provided to the Group by a fellow subsidiary.

The interest expense for the year ended 31 December 2004 included interest expense of HK$4,550,000 also arising from the straight bonds with a par value of HK$497,320,000 issued by the Group to GDH Limited. The straight bonds had been fully redeemed by the Group in June 2004.

45. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Notes: (continued)

(xi) The interest expense arises from an entrusted loan of RMB2,000,000 advanced by Yue Gang Investment to WaterCo was charged at designated rates as published by the People's Bank of China from time to time. The entrusted loan was fully repaid during the year.

(xii) GDH Limited provided the Group with certain general computer and SAP financial system maintenance services commencing from May 2003 in accordance with the agreement between the Group and GDH Limited.

(xiii) The charge arose from the leasing of a motor vehicle by the Company's fellow subsidiaries to the Group in accordance with the agreement entered into between the Group and the fellow subsidiary.

(xiv) The rental expense arose from leasing of certain leasehold properties by Yue Jiang, an associate of the Group, to the Group for storage and handling of coal and coal ashes for the Group's electric power generation operation. The rentals were calculated with reference to the number of units of electricity generated by the Group's subsidiary and the relevant costs incurred by Yue Jiang.

(xv) In June 2002, the Company engaged AMRI Financial Group Limited ("AMRI") for the provision of consultancy services in a project at an aggregate consideration of the grant of 31,393,939 share options of the Company. According to the service contract, additional fees may be paid where the outcome of the project exceeds an agreed target. A director of the Company's immediate holding company is also a director and shareholder of AMRI. Each share option granted to AMRI is exercisable to subscribe for an Ordinary Share at an exercise price of HK$0.816 commencing from the date of successful completion of the project to 3 June 2007. The project was completed in 2002 and all the remaining share options were exercised during the year.

(xvi) During the year, of the cash distribution made by GH Holdings to all its shareholders in accordance with their respective shareholdings in GH Holdings, the total of HK$19,851,000 (2004: HK$33,585,000) was paid or payable to GDH Limited and certain of its subsidiaries as shareholders of GH Holdings.

(xvii) During the year, the Company paid dividends, in aggregate, of HK$267,546,000 to GDH Limited and certain of its subsidiaries as the Company's shareholders. The dividend payment is made to all shareholders of the Company in accordance with their respective shareholdings in the Company.

45. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties

	Notes	Group 2005 HK$'000	Group 2004 HK$'000	Company 2005 HK$'000	Company 2004 HK$'000
Balances due from:					
Ultimate holding company	(i)	77	—	—	—
Immediate holding company	(ii)	114	1,941	—	105
Fellow subsidiaries	(iii)	3,158	2,987	33	32
Jointly-controlled entities	(iv)	40,440	112,951	—	—
Associates	(v)	23,881	—	22,931	—
Contractual joint venture	(vi)	62,044	70,227	—	—
Balances due to:					
Ultimate holding company	(i)	(1,778)	(2,113)	(941)	(135)
Immediate holding company	(ii)	(938)	(1,046)	(33)	—
Fellow subsidiaries	(iii)	(6,110)	(2,548)	—	—
Associates	(v)	(3,065)	(3,986)	—	—

Notes:

(i) At 31 December 2004, included in the amount due to the ultimate holding company was an entrusted loan amounting to RMB2,000,000 (approximately equivalent to HK$1,878,000) which was unsecured, bore interest at the designated rates as published by the People's Bank of China from time to time and was repayable within one year. The entrusted loan was settled in the current year. The remaining balances with the ultimate holding company are unsecured, non-interest-bearing and have no fixed terms of repayment. The carrying amounts of the amounts due approximate to their fair values.

(ii) The balances with the immediate holding company are unsecured, interest-free, and have no fixed terms of repayment. The carrying amounts of the amounts due approximate to their fair values.

(iii) The balances with fellow subsidiaries are unsecured, non-interest-bearing and have no fixed terms of repayment, except for loans from a fellow subsidiary, in aggregate, of RMB6,124,000 (2004: RMB1,342,000) which bear interest at rates ranging from 4.17% to 4.5% (2004: 4.5%) per annum and are repayable from 3 months to 16 months (2004: within three months). The carrying amounts of the amounts due approximate to their fair values.

45. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties (continued)

Notes: (continued)

(iv) Except for the balance of HK$38,189,000 (2004: HK$38,636,000) which bears interest at the LIBOR (2004: the LIBOR) per annum, amounts due of HK$70,227,000 from the jointly-controlled entities are unsecured, non-interest-bearing and have no fixed terms of repayment. The carrying amounts of the amounts due approximate to their fair value.

(v) The balances with associates are unsecured, non-interest-bearing, and have no fixed terms of repayment. The carrying amounts of the amounts due approximate to their fair values.

(vi) The amount due from a contractual joint venture is unsecured, non-interest-bearing and has no fixed terms of repayment. The amount of HK$70,227,000 due was fully provided for in prior years. During the current year, a provision for impairment of HK$54,752,000 was written back (note 22).

(c) Compensation of key management personnel of the Group

	2005 HK$'000	2004 HK$'000
Short term employee benefits	4,251	6,064
Post-employment benefits	522	798
Share-based payments	1,260	—
Total compensation paid to key management personnel	6,033	6,862

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

46. CONNECTED TRANSACTIONS

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

(a) As at 31 December 2005, outstanding advances of HK$241,979,000 (2004: HK$234,535,000) were made by the Company to Nan Fang Holdings, a 56.34% owned subsidiary of the Company, to finance its working capital. Included in the amount due from Nan Fang Holdings is an unsecured loan of HK$81,184,000 (2004: HK$81,184,000) which bears interest at a rate of 9% (2004: 9%) per annum and is repayable on demand. The remaining balance of HK$160,795,000 (2004: HK$153,351,000) is unsecured, non-interest-bearing and has no specific terms of repayment.

46. CONNECTED TRANSACTIONS (continued)

(b) The Company made an advance to Zhongshan Power (Hong Kong) Limited ("ZPHK"), a 95% owned subsidiary of the Company, to finance its investment in a contractual joint venture. At the balance sheet date, the outstanding balance of HK$162,705,000 (2004: HK$162,672,000) was unsecured, non-interest-bearing and had no fixed terms of repayment. In 2001, the Company and a minority shareholder of ZPHK entered into a conditional agreement in respect of the Company's disposal of its entire interest in ZPHK (the "Disposal"). Pursuant to the agreement, ZPHK's amount due to the Company will be assigned to a minority shareholder of ZPHK as this forms part of the terms and conditions for the Disposal. However, the completion of the transaction did not take place. Subsequent to the balance sheet date, on 6 January 2006, the agreement was terminated in its entirety, and the Group obtained the control of the contractual joint venture which has become a subsidiary of the Group.

(c) The Company's wholly-owned subsidiary made a loan to Zhongshan Power Plant, a contractual joint venture of ZPHK, to finance its expansion of the power plant project. As a condition precedent for the disposal of the Company's interest in ZPHK, details of which are set out in (b) above, the aforesaid indebtedness of the Zhongshan Power Plant due to the Group had to be repaid in full together with interest.

Although the aforesaid loan to Zhongshan Power Plant was fully repaid in January 2003, the outstanding loan interest has not been settled and full provision had been made in prior years. Subsequent to the balance sheet date, it has been agreed for the outstanding loan interest to be charged at a fixed rate of 7.56% per annum. Part of that outstanding loan interest was received in November 2005.

(d) In May 2004, the Company and Yue Gang Investment, pursuant to an entrusted loan agreement, advanced unsecured loans of RMB198,000,000 and RMB2,000,000 respectively to WaterCo, the Group's non-wholly-owned subsidiary to finance its working capital. The loans to WaterCo bear interest at an annual rate equal to the average of the 90% of interest rate for over 5-year term loans and the interest rate of 1-year fixed deposits as published by The People's Bank of China, and were repaid in full in May 2005. Please also refer to note 19 to the financial statement for further details.

(e) (i) The Group and a fellow subsidiary of the Group advanced unsecured loans of RMB5,368,000 (2004: RMB5,368,000) and RMB1,342,000 (2004: RMB1,342,000) respectively to Hui Yang Yue Hai Real Estate Development Ltd. ("Hui Yang"), the Group's non-wholly-owned subsidiary, to finance its working capital. The loans to Hui Yang bear interest at a fixed rate of 4.5% (2004: 4.5%) per annum and are repayable in 2005.

(ii) The Group and a fellow subsidiary of the Group further advanced unsecured loans of HK$18,300,000 and RMB4,782,000 respectively to Hui Yang, to finance its working capital. The loans to Hui Yang bear interest at a fixed rate of 4.17% per annum and are repayable in 2007.

47. CONTINGENT LIABILITIES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantee given to a subsidiary for repayment of the Convertible Bonds (note 33)	**—**	—	**—**	497,320
Guarantee given in respect of a bank loan of the Group's contractual joint venture (note 22)	**46,800**	78,000	**46,800**	78,000
	46,800	78,000	**46,800**	575,320

48. PLEDGE OF ASSETS

At 31 December 2005, none of the Group's property, plant and equipment, investment properties and bank deposits were pledged to secure the interest-bearing bank and other borrowings, and the general banking facilities granted to the Group (2004: Nil).

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank and other borrowings, the Tranche B Credit, the Convertible Bonds, 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 source of finance.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board 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 2.5 to the financial statements.

(i) Cash flow 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.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Cash flow interest rate risk (continued)

The Group's policy is to manage its interest cost using an appropriate mix of fixed and floating rate borrowings. To hedge the cash flow interest rate risk, 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 32 to the financial statements.

At 31 December 2005, the Group had interest rate swap agreements with an aggregate notional contract amount of HK$7.7 billion (2004: HK$9.2 billion) which qualified as hedges. The swap agreements will mature over the next seven years (2004: eight years) matching the maturity of the Refinancing Facilities and have fixed swap interest rates ranging from 3.54% to 4.94% (2004: 3.54% to 4.94%) per annum.

The net fair value of these interest rate swap agreements entered into (including those not qualified as hedges) at 31 December 2005 was HK$171,832,000 (1 January 2005: HK$758,720,000). These amounts are recognised as derivative financial instruments in the consolidated financial statements.

(ii) Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from revenue or expenses of operating units in currencies other than the units' functional currency. The Group's monetary assets, financing and transactions are principally denominated in RMB and HK$. The Group is exposed to the foreign exchange risk arising from changes in the exchange rate of HK$ against RMB. Considering that there is insignificant fluctuation in the exchange rate between HK$ and RMB, the Group believes its exposure to exchange rate risk is nominal. 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.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iii) Credit risk

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

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

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

(iv) Liquidity risk

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

50. POST BALANCE SHEET EVENTS

(i) As more particularly set out in note 22, subsequent to the balance sheet date, agreement has been reached with the Chinese joint venture partner of Zhongshan Power Plant to completely overhaul the terms of the joint venture agreement. At the same time, the conditional sale and purchase agreement which the Company entered into in 2001 for the disposal of its entire interest in ZPHK, the completion of which transaction never took place, had also been terminated in its entirety. Going forward, Zhongshan Power Plant will be a subsidiary of the Company. Moreover, as it is one of the terms of the termination of the aforesaid conditional sale and purchase that all the moneys received by the Group pursuant to or in connection with that agreement is to be forfeited to the Group, the amount of US$2.97 million that has been received by the Group in the past will be credited as an income to the Group in 2006.

50. POST BALANCE SHEET EVENTS (continued)

(ii) Subsequent to the balance sheet date, in March 2006, the Company, under the terms of the shareholders' agreement of GH Holdings, exercised its first right of refusal in respect of certain shares in GH Holdings which certain existing holders wished to transfer, to acquire an aggregate of 1.03% interest in GH Holdings at a total consideration of approximately HK$124,874,000. As a result of these acquisitions, the Group increased its holdings in GH Holdings from 86.34% at the balance sheet date to 87.37%, resulting in a positive goodwill of approximately HK$67,360,000.

(iii) Subsequent to the balance sheet date on 13 April 2006, the Government of the HKSAR (the "Hong Kong Government") announced that it has concluded negotiations with the Guangdong Provincial Government in respect of the ongoing water supply arrangements to Hong Kong. According to that announcement, the annual expenditure to the Hong Kong Government for the water purchase for each of the three years from 2006 to 2008 is fixed at HK$2,494.8 million.

51. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

52. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 13 April 2006.