Notes to Financial Statements

31 December 2006

1. CORPORATE INFORMATION

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

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

GDH Limited is the parent company of the Group. In the opinion of the directors, the ultimate holding company of the Group is 廣東粵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 (the "HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, derivative financial instruments and certain equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 "The Effects of Changes in Foreign Exchange Rates"

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms a part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 27 "Consolidated and Separate Financial Statements"

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of the consolidated financial statements as described in note 2.4 "Summary of significant accounting policies" below.

(c) HKAS 39 "Financial Instruments: Recognition and Measurement"

(i) *Amendment for financial guarantee contracts*

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue". The adoption of this amendment has had no material impact on these financial statements.

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

(c) HKAS 39 "Financial Instruments: Recognition and Measurement" (continued)

(ii) *Amendment for the fair value option*

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the consolidated income statement. The Group had not previously used this option, and hence the amendment has had no effect on these financial statements.

(iii) *Amendment for cash flow hedge accounting of forecast intragroup transactions*

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(d) HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease"

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. The Group has determined based on this interpretation that certain arrangements of the Group contained leases and accordingly, the Group has treated them in accordance with HKAS 17 "Leases". However, the adoption of this interpretation has had no material impact on these financial statements.

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

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

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies"
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

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

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 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

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

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures. The Group has already commenced an assessment of the impact of the other new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

A joint venture is treated as:

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

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

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

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

Jointly-controlled entities

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

The Group's 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

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

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

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

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 the cash-generating unit retained.

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

Goodwill previously eliminated against consolidated capital reserve

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Excess over the cost of business combinations

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

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is 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 in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued 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 and certain financial assets 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, 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.

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;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

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

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

Property, plant and equipment and depreciation

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

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

Hotel properties	2.30%–3.39%
Leasehold land and buildings	2%–20%
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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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.

Investment properties

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

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

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

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating right

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

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

Operating leases

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

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

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

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

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

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial assets

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

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.

Fair value

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

Impairment of financial assets

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

Assets carried at amortised cost

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

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

Assets carried at cost

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

Available-for-sale financial assets

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

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

Derecognition of financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (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.

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

Financial liabilities including trade and other payables, an amount due to minority shareholders of subsidiaries and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

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

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

Derecognition of financial liabilities

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

- in respect of deductible temporary differences associated with interests in subsidiaries, associates and 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

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

Government grants

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

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

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

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

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

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

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

Retirement benefits schemes

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

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

(c) from the sale of water:

(i) revenue from the sale of water to Dongguan and Shenzhen is recognised according to the actual volume of water supplied; and

(ii) revenue from the sale of water to Hong Kong Special Administrative Region ("HKSAR"):

Year ended 31 December 2005

Revenue from the sale of water was based on the actual volume of water supplied, or when the actual volume of water supplied to HKSAR is less than the agreed volume of water supplied, revenue is recognised according to the agreed volume.

Year ended 31 December 2006

In April 2006, the Government of the HKSAR entered into a new agreement with the Guangdong Provincial Government (the "Agreement") for the supply of water to HKSAR for the three years from 2006 to 2008. Pursuant to the Agreement, for the three years from 2006 to 2008, the revenue from the supply of water to HKSAR is agreed at a fixed amount for each year regardless of the volume of water supplied. Revenue from sale of water is recognised according to the annual fixed amount pursuant to the Agreement.

(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.

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

(iii) *Impairment of assets*

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

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

(i) *Estimation of fair value of investment properties and recoverable amounts of 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 financial instruments*

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

(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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(v) *Impairment of assets, goodwill or operating right*
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 and the operating right are set out in note 18 to the financial statements.

(vi) *Deferred tax assets*
Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2006 was HK$21.52 million (2005: HK$8.71 million). The amount of unrecognised tax losses at 31 December 2006 was HK$462 million (2005: HK$745 million). Further details are contained in note 36 to the financial statements.

4. SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

4. SEGMENT INFORMATION (continued)

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

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

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

Group

	Property Investment and Development		Toll Roads and Bridges		Water Distribution	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Segment revenue:						
Sales to external customers	**428,786**	340,449	**15,313**	12,234	**3,225,939**	3,192,988
Intersegment sales	**81,179**	75,133	**—**	—	**—**	—
Other revenue from external sources (note)	**14,304**	64,466	**2,968**	7,190	**—**	—
Other revenue from intersegment (note)	**—**	—	**—**	—	**—**	—
Exchange gains/(losses), net	**(705)**	53	**(1,555)**	1,682	**(28,716)**	(40,754)
Total	**523,564**	480,101	**16,726**	21,106	**3,197,223**	3,152,234
Segment results	**450,296**	410,852	**(1,114)**	10,224	**1,740,120**	1,691,468
Interest income						
Unallocated other operating income/(expenses), net						
Other unallocated gains, net						
Finance costs						
Share of profits less losses of:						
Jointly-controlled entities	**—**	—	**66,858**	66,023	**—**	—
Associates	**—**	—	**13,804**	17,000	**—**	—
Profit before tax						
Tax						
Profit for the year						

Note: Excluding exchange gains/(losses), net

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4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Electric Power Generation		Hotel Operations and Management		Department Stores	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Segment revenue:						
Sales to external customers	**814,083**	403,526	**304,306**	254,466	**1,267,904**	1,045,495
Intersegment sales	**—**	—	**—**	—	**—**	—
Other revenue from external sources (note)	**8,821**	1,297	**675**	1,299	**14,802**	10,929
Other revenue from intersegment (note)	**—**	—	**—**	—	**—**	—
Exchange gains/(losses), net	**3,772**	125	**834**	5,399	**888**	254
Total	**826,676**	404,948	**305,815**	261,164	**1,283,594**	1,056,678
Segment results	**140,893**	2,104	**86,632**	64,664	**90,702**	75,567
Interest income						
Unallocated other operating income/ (expenses), net						
Other unallocated gains, net						
Finance costs						
Share of profits less losses of:						
Jointly-controlled entities	**—**	—	**—**	—	**—**	—
Associates	**29,583**	21,420	**—**	—	**10,786**	—
Profit before tax						
Tax						
Profit for the year						

Note: Excluding exchange gains/(losses), net

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Others		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to external customers	**—**	—	**—**	—	**6,056,331**	5,249,158
Intersegment sales	**—**	—	**(81,179)**	(75,133)	**—**	—
Other revenue from external sources (note)	**24,731**	7,236	**—**	—	**66,301**	92,417
Other revenue from intersegment (note)	**2,721**	3,655	**(2,721)**	(3,655)	**—**	—
Exchange gains/(losses), net	**6,329**	6,676	**—**	—	**(19,153)**	(26,565)
Total	**33,781**	17,567	**(83,900)**	(78,788)	**6,103,479**	5,315,010
Segment results	**(4,753)**	(11,387)	**—**	—	**2,502,776**	2,243,492
Interest income					**72,270**	49,918
Unallocated other operating income/(expenses), net					**(2,939)**	274
Other unallocated gains, net					**7,752**	84,124
Finance costs					**(653,149)**	(754,076)
Share of profits less losses of:						
Jointly-controlled entities	**—**	—	**—**	—	**66,858**	66,023
Associates	**—**	—	**—**	—	**54,173**	38,420
Profit before tax					**2,047,741**	1,728,175
Tax					**(268,724)**	(218,163)
Profit for the year					**1,779,017**	1,510,012

Note: Excluding exchange gains/(losses), net

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4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Property Investment and Development		Toll Roads and Bridges		Water Distribution	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**3,860,403**	3,502,744	**166,411**	168,241	**20,036,056**	21,009,478
Interests in associates	**—**	—	**66,861**	59,824	**—**	—
Interests in jointly-controlled entities	**—**	—	**915,052**	917,756	**—**	—
Contractual joint venture	**—**	—	**—**	—	**—**	—
Unallocated assets						
Total assets						
Segment liabilities	**373,397**	288,450	**57,458**	64,576	**2,047,455**	2,278,959
Unallocated liabilities						
Total liabilities						
Other segment information:						
Depreciation and amortisation	**28,078**	25,571	**6,444**	6,558	**914,040**	918,750
(Increase)/decrease in fair value of derivative financial instruments not qualified as hedge, net	**—**	—	**—**	—	**31,867**	(74,536)
Impairment losses recognised in the income statement	**922**	—	**—**	401	**—**	—
Impairment losses reversed in the income statement	**—**	(6,828)	**—**	—	**—**	—
Other non-cash expenses/(income), net	**(86,248)**	(64,109)	**—**	—	**50**	(212)
Capital expenditure	**258,892**	142,712	**167**	409	**6,597**	7,750

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4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Electric Power Generation		Hotel Operations and Management		Department Stores	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**550,344**	501,383	**1,652,315**	1,655,378	**94,262**	58,320
Interests in associates	**375,308**	394,590	**—**	—	**41,987**	29,001
Interests in jointly-controlled entities	**—**	—	**—**	—	**—**	—
Contractual joint venture	**—**	46,569	**—**	—	**—**	—
Unallocated assets						
Total assets						
Segment liabilities	**294,875**	431,163	**48,697**	43,994	**389,202**	322,894
Unallocated liabilities						
Total liabilities						
Other segment information:						
Depreciation and amortisation	**70,547**	40,714	**61,936**	57,305	**4,703**	3,740
(Increase)/decrease in fair value of derivative financial instruments not qualified as hedge, net	**—**	—	**—**	—	**—**	—
Impairment losses recognised in the income statement	**31,970**	289	**5**	—	**—**	—
Impairment losses reversed in the income statement	**—**	—	**—**	—	**—**	—
Other non-cash expenses/(income), net	**1,507**	(3,200)	**25**	1	**—**	—
Capital expenditure	**25,528**	59,166	**29,117**	37,612	**7,764**	12,530

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4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Others		Eliminations		Consolidated	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Segment assets	3,330	3,297	—	—	26,363,121	26,898,841
Interests in associates	—	—	—	—	484,156	483,415
Interests in jointly-controlled entities	—	—	—	—	915,052	917,756
Contractual joint venture	—	—	—	—	—	46,569
Unallocated assets					2,411,533	2,202,538
Total assets					30,173,862	30,549,119
Segment liabilities	23,428	43,979	—	—	3,234,512	3,474,015
Unallocated liabilities					12,527,360	13,994,114
Total liabilities					15,761,872	17,468,129
Other segment information:						
Depreciation and amortisation	145	65	—	—	1,085,893	1,052,703
(Increase)/decrease in fair value of derivative financial instruments not qualified as hedge, net	—	—	—	—	31,867	(74,536)
Impairment losses recognised in the income statement	—	—	—	—	32,897	690
Impairment losses reversed in the income statement	—	—	—	—	—	(6,828)
Other non-cash expenses/(income), net	—	(9,208)	—	—	(84,666)	(76,728)
Capital expenditure	468	59	—	—	328,533	260,238

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 2006 and 2005.

Group

	Hong Kong		Mainland China		Others		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:										
Sales to external customers	**183,597**	160,925	**5,872,734**	5,088,233	**—**	—	**—**	—	**6,056,331**	5,249,158
Other segment information:										
Segment assets	**1,834,697**	1,667,113	**24,528,424**	25,231,728	**—**	—	**—**	—	**26,363,121**	26,898,841
Capital expenditure	**7,910**	12,500	**320,623**	247,738	**—**	—	**—**	—	**328,533**	260,238

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:

	2006 HK$'000	2005 HK$'000
Revenue		
Sale of water and electricity	4,040,022	3,596,514
Sale of goods	1,267,904	1,045,495
Hotel and rental income	733,092	594,915
Toll revenue	15,313	12,234
	6,056,331	5,249,158
Other income		
Interest income	72,270	49,918
Excess over the cost of business combinations (note 40(a))	3,939	57,911
Dividend income from available-for-sale investments	1,053	274
Others	37,743	31,334
	115,005	139,437
Gains		
Changes in fair value of derivative financial instruments not qualified as hedges, net (note 30)	(31,867)	74,536
Gain on disposal of available-for-sale investments (note 23)	39,619	9,588
Write-back of an other payable	23,154	—
Others	1,465	3,173
	32,371	87,297
	147,376	226,734

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31 December 2006

6. PROFIT BEFORE TAX

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

	Notes	2006 HK$'000	2005 HK$'000
Cost of inventories sold*		**1,511,565**	1,120,688
Depreciation	14	**432,581**	412,478
Recognition of prepaid land lease payments		**158,250**	143,518
Amortisation of deferred expenses		**1,775**	3,420
Amortisation of the operating right*	24	**493,287**	493,287
Minimum lease payments under operating leases in respect of land and buildings		**7,725**	2,118
Auditors' remuneration		**4,905**	3,702
Employee benefits expense (excluding directors' remuneration — note 8)			
Wages and salaries		**274,528**	260,647
Equity-settled share option expense**	38	**3,366**	—
Pension scheme contributions		**19,334**	19,098
Less: Forfeited contributions		**(18)**	(82)
Net pension scheme contributions#		**19,316**	19,016
		297,210	279,663
Gross rental income from investment properties		**(308,832)**	(291,145)
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		**3,120**	1,939
Net rental income from investment properties		**(305,712)**	(289,206)
Foreign exchange differences, net		**19,153**	26,565

6. PROFIT BEFORE TAX (continued)

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

	Notes	2006 HK$'000	2005 HK$'000
Changes in fair value of investment properties^	16	(86,248)	(67,309)
Impairment of items of property, plant and equipment^	14	31,970	289
Impairment of interests in jointly-controlled entities^		—	401
Write-back of impairment of a contractual joint venture^		—	(54,752)
Write-back of impairment of an amount due from a fellow subsidiary^		—	(1,910)
Loss/(gain) on disposal of items of property, plant and equipment, net^		(22,596)	4,437
Loss on disposal of subsidiaries^	41	3,992	—
Provision/(write-back of provision) for inventories, net^		1,582	(211)
Impairment/(write-back of impairment) of receivables^		927	(3,933)
Equity-settled share option expense	38	3,366	1,260

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

** This expense is included in "Equity-settled share option expense" as disclosed above.

\# As at 31 December 2005 and 2006, 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, net" on the face of the consolidated income statement.

7. FINANCE COSTS

	Group 2006 HK$'000	2005 HK$'000
Interest on bank loans and other borrowings wholly repayable[1]:		
Within five years*	112,958	115,459
Over five years	482,374	449,388
	595,332	564,847
Finance charges on cash flow hedges, net (note 30)	12,693	169,581
Other finance costs	45,124	19,648
Total finance costs for the year	653,149	754,076

* For the year ended 31 December 2005, balance included interest on convertible bonds of HK$7,222,000 and amortisation on convertible bonds of HK$9,252,000. The convertible bonds were converted in full in September 2005.

(1) Net of government grants of HK$58,762,000 (2005: HK$60,250,000) in respect of subsidies for interest expense arising from bank loans borrowed by the Group for the purpose of the Phase IV Renovation Project (as defined in note 14 to the financial statements). There are no unfulfilled conditions or contingencies relating to these grants.

8. DIRECTORS' REMUNERATION

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

	Group	
	2006 HK$'000	2005 HK$'000
Fees:		
Executive directors	**—**	—
Independent non-executive directors	**902**	600
Non-executive director	**275**	200
	1,177	800
Other emoluments:		
Salaries, allowances and benefits in kind	**1,094**	1,881
Performance related bonuses	**1,330**	1,570
Employee share option benefits	**—**	1,260
Pension scheme contributions	**331**	522
Less: Forfeited contributions	**—**	—
Net pension scheme contributions	**331**	522
Total directors' remuneration	**3,932**	6,033

In year 2005, 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 recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for last year was included in the above directors' remuneration disclosures.

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8. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

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

	2006 HK$'000	2005 HK$'000
CHAN Cho Chak, John	302	200
Dr. The Honourable LI Kwok Po, David	325	200
FUNG Daniel R.	275	200
	902	600

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

(b) Executive directors and other non-executive directors

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

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and other 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
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

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

* Li Wai Keung, a non-executive director was re-designated as an executive director on 19 July 2006.

** Fung Sing Hong, Stephen resigned as a director of the Company on 19 July 2006.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included one (2005: two) director. Details of the remuneration of the other four (2005: three) non-director, highest paid employees for the year are as follows:

	Group 2006 HK$'000	Group 2005 HK$'000
Salaries, allowances and other benefits in kind	**3,186**	2,133
Bonuses paid and payable	**2,624**	1,770
Employee share option benefits	**1,485**	—
Pension scheme contributions	**317**	407
	7,612	4,310

9. FIVE HIGHEST PAID EMPLOYEES (continued)

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

	Number of employees 2006	2005
HK$1,000,001–HK$1,500,000	**1**	2
HK$1,500,001–HK$2,000,000	**2**	1
HK$2,500,001–HK$3,000,000	**1**	—
	4	3

During the year, share options were granted to a non-director, highest paid employee in respect of her services to the Group, further details of which are included in the disclosures in note 38 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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.

	2006 HK$'000	2005 HK$'000
Group:		
Current — Hong Kong		
Charge for the year	**5,439**	1,625
Overprovision in prior years	**(12)**	(210)
Current — Mainland China		
Charge for the year	**240,137**	166,848
Underprovision in prior years	**10,943**	1,547
Deferred (note 36)	**12,217**	48,353
Total tax charge for the year	**268,724**	218,163

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10. TAX (continued)

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

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

	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

The share of tax attributable to jointly-controlled entities and associates amounting to HK$8,321,000 (2005: HK$10,524,000) (note 20) and HK$19,035,000 (2005: HK$5,125,000), 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.

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11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of HK$477,614,000 (2005: HK$776,250,000) which has been dealt with in the financial statements of the Company (note 39(b)).

12. DIVIDENDS

	2006 HK$'000	2005 HK$'000
Interim — 5.0 HK cents (2005: 4.0 HK cents) per Ordinary Share	301,447	236,367
Proposed final — 5.0 HK cents (2005: 5.0 HK cents) per Ordinary Share	304,597	301,001
	606,044	537,368

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:

	2006 HK$'000	2005 HK$'000
Earnings:		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	1,506,903	1,303,495
Interest on convertible bonds (note 7)	—	16,474
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds for the purpose of diluted earnings per share	1,506,903	1,319,969

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

	Number of shares	
	2006	2005
Number of shares:		
Weighted average number of Ordinary Shares in issue	**6,027,048,811**	5,681,046,620
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
For the purpose of basic earnings per share	**6,027,048,811**	5,745,057,579
Weighted average number of Ordinary Shares in issue	**6,027,048,811**	5,681,046,620
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*	**165,841,079**	190,944,549
On deemed conversion of convertible bonds	**—**	199,575,879
For Additional Shares arising from the Acquisition deemed to be issued from beginning of year	**—**	64,010,959
For the purpose of diluted earnings per share	**6,192,889,890**	6,135,578,007

The effect of the issue of 66,000,000 Additional Shares (as defined in note 39(a)(ii)) had been incorporated in the computation of the basic and diluted earnings per share for the year ended 31 December 2005. These Additional Shares 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 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 Additional Shares were fully issued during the year ended 31 December 2005 and, therefore, have had no impact on the computation of the basic and diluted earnings per share for the current year.

* The share options expiring on 10 June 2011 (2005: share options expiring on 19 April 2010) 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 2006.

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14. PROPERTY, PLANT AND EQUIPMENT

Group — 2006

	Hotel properties HK$'000	Land and buildings HK$'000	Tunnels, dams, water mains and reservoirs HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Toll road HK$'000	Construction in progress HK$'000	Total HK$'000
At 1 January 2006:										
Cost	929,508	958,714	4,911,368	1,789,575	238,145	108,455	23,794	228,350	557,886	9,745,795
Accumulated depreciation and impairment	(243,663)	(215,599)	(527,101)	(678,695)	(203,671)	(52,888)	(18,700)	(72,942)	(9,687)	(2,022,946)
Net carrying value	685,845	743,115	4,384,267	1,110,880	34,474	55,567	5,094	155,408	548,199	7,722,849
At 1 January 2006, net of accumulated depreciation and impairment	685,845	743,115	4,384,267	1,110,880	34,474	55,567	5,094	155,408	548,199	7,722,849
Additions	939	893	76	12,110	9,128	29,285	3,294	76	258,438	314,239
Acquisition of a subsidiary (note 40(b))	—	54,582	—	97,709	141	—	322	—	—	152,754
Disposals and write-offs	(699)	(474)	(2,277)	(2,345)	(544)	(1)	(1,395)	—	—	(7,735)
Disposal of subsidiaries (note 41)	—	—	—	—	(103)	(70)	(213)	—	—	(386)
Impairment (note 6)#	—	—	—	(31,970)	—	—	—	—	—	(31,970)
Depreciation provided during the year (note 6)	(24,644)	(48,856)	(174,501)	(150,370)	(11,277)	(14,895)	(1,883)	(6,155)	—	(432,581)
Transfers	—	—	1,186	6,518	562	(526)	438	—	(8,178)	—
Transfer from investment properties (note 16)	—	62,250	—	—	—	—	—	—	—	62,250
Reclassification*	—	—	(248,622)	(87,948)	—	—	—	—	5,168	(331,402)
Exchange realignment	20,972	35,062	—	7,550	735	1,550	182	6,234	24,484	96,769
At 31 December 2006, net of accumulated depreciation and impairment	682,413	846,572	3,960,129	962,134	33,116	70,910	5,839	155,563	828,111	7,544,787
At 31 December 2006										
Cost	948,860	1,075,718	4,658,273	1,720,845	223,301	136,964	20,058	236,549	837,797	9,858,365
Accumulated depreciation and impairment	(266,447)	(229,146)	(698,144)	(758,711)	(190,185)	(66,054)	(14,219)	(80,986)	(9,686)	(2,313,578)
Net carrying value	682,413	846,572	3,960,129	962,134	33,116	70,910	5,839	155,563	828,111	7,544,787

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group — 2005

	Hotel properties HK$'000	Land and buildings HK$'000	Tunnels, dams, water mains and reservoirs HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Toll road HK$'000	Construction in progress HK$'000	Total HK$'000
At 1 January 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	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	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

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

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

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

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

	Hotel properties		Land and buildings	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Long term leases in Hong Kong	**132,653**	137,003	**98,845**	99,013
Medium term leases in Hong Kong	**93,269**	98,052	**49,421**	49,504
Medium term leases in Mainland China	**456,491**	450,790	**459,048**	396,230
Short term leases in Mainland China	**—**	—	**239,258**	198,368
	682,413	685,845	**846,572**	743,115

Company — 2006

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

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company — 2005

	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2005:				
Cost	11,333	8,526	612	20,471
Accumulated depreciation	(11,296)	(8,416)	(612)	(20,324)
Net carrying amount	37	110	—	147
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

15. PROPERTIES UNDER DEVELOPMENT

	Group 2006 HK$'000	Group 2005 HK$'000
Carrying amount at 1 January	**15,342**	4,631
Additions	**14,294**	10,472
Disposal of subsidiaries (note 41)	**(29,965)**	—
Exchange realignment	**329**	239
Carrying amount at 31 December	**—**	15,342

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16. INVESTMENT PROPERTIES

	Group	
	2006	2005
	HK$'000	HK$'000
Carrying amount at 1 January	**2,302,685**	2,142,792
Net gain from fair value adjustments credited to the income statement (note 6)	**86,248**	67,309
Transfer from/(to) owner-occupied properties, net (note 14)	**(62,250)**	62,869
Exchange realignment	**58,797**	29,715
Carrying amount at 31 December	**2,385,480**	2,302,685

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

	2006	2005
	HK$'000	HK$'000
Long term leases in Hong Kong	**500,970**	464,900
Medium term leases in Mainland China	**1,884,510**	1,837,785
	2,385,480	2,302,685

The Group's investment properties were revalued on 31 December 2006 by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, at an aggregate amount of HK$2,385,480,000 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 150.

17. PREPAID LAND LEASE PAYMENTS

At 31 December 2006, certain temporary land use right 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 right certificates previously obtained in 2000 to formal land use right certificates are in progress as at 31 December 2006. For land related to the Phase IV Renovation Project, the application for land use right certificates has commenced and these land use right certificates were not yet issued by the relevant offices of the Land Authority in the PRC as at 31 December 2006. Notwithstanding this, the directors are of the opinion that the Group has obtained beneficial title to these assets as at 31 December 2006 and the land use right certificates can be received.

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

	2006 HK$'000	2005 HK$'000
Long term leases in Hong Kong	496,692	500,814
Long term leases in Mainland China	—	44,881
Medium term leases in Hong Kong	258,122	266,064
Medium term leases in Mainland China	3,411,094	3,247,164
Short term leases in Mainland China	9,336	—
	4,175,244	4,058,923

18. GOODWILL

	Group	
	2006 HK$'000	2005 HK$'000
Cost and net carrying amount at 1 January	139,346	1,399
Acquisition of minority interests (note 40(a))	76,781	137,947
Cost and net carrying amount at 31 December	216,127	139,346

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

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

18. GOODWILL (continued)

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, is related principally to the water supply cash-generating unit for impairment testing.

The recoverable amount of the water supply cash-generating unit has been determined based on a value in use calculation using cash flow projections approved by the Company's directors covering the concession period of 30 years commencing from 18 August 2000. The discount rate applied to cash flow projections is 7% (2005: 7%). The cash flows of the water supply cash-generating unit depend principally on the pricing and volume of the water supply to the HKSAR, Shenzhen and Dongguan. The cash flow projections have been prepared based on the actual results of the water supply cash-generating unit for the year ended 31 December 2006. Based on the approved cash flow projections, the directors believe that any reasonably possible change in the key assumptions on which the recoverable amount of the water supply cash-generating unit is based would not cause the aggregated carrying amount of goodwill and the operating right to exceed their recoverable amounts.

The carrying amount of goodwill allocated to the water supply cash-generating unit was HK$215,769,000 (2005: HK$138,988,000) as at 31 December 2006.

19. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted investments, at cost	**5,519,448**	5,415,725
Due from subsidiaries	**3,963,929**	4,681,511
Due to subsidiaries	**(912,674)**	(843,545)
	8,570,703	9,253,691
Less: Impairments	**(1,277,070)**	(1,869,048)
	7,293,633	7,384,643

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

Included in the amounts due from subsidiaries are: (i) unsecured loans in an aggregate amount of HK$395,961,000 (2005: HK$463,673,000), which bear interest at the Hong Kong Dollar Prime Rate (the "Prime Rate") plus 1% to fixed rates of 8% to 9% (2005: Prime Rate plus 1% to fixed rates of 4.17% to 9%) per annum and are repayable within five years; (ii) an unsecured loan of $400,000,000 (2005: HK$400,000,000) which bears interest at the Prime Rate minus 1.5% (2005: Prime Rate minus 1.5%) per annum and has no specific terms of repayment; and (iii) an unsecured loan of HK$15,000,000 (2005: Nil) which bears interest at the Hong Kong Inter Bank Offered Rates (the "HIBOR") plus 0.6% per annum and are repayable over five years.

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

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19. INTERESTS IN SUBSIDIARIES (continued)

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/ interest attributable to the Company Direct	Indirect	Principal activities
Global Head Developments Limited	British Virgin Islands/ Hong Kong	US$1	100%	—	Property investment
Fill Success Investments Limited	Hong Kong	HK$2 ordinary HK$2 non-voting deferred	—	100%	Hotel ownership
GH Water Supply (Holdings) Limited ("GH Holdings")*	Cayman Islands/ Mainland China	HK$1,000,000 ordinary HK$100 Class A special shares HK$10 Class B special shares	87.62%	—	Investment holding
廣東天河城(集團)股份有限公司 (Guangdong Teem (Holdings) Limited) ("GD Teem")(1)	Mainland China	RMB840,000,000	11.51%	75.73%	Property investment and investment holding
Guangdong Hotel Limited	Hong Kong	HK$2 ordinary HK$5,000,000 non-voting deferred	—	100%	Hotel ownership and operations
Guangdong (International) Hotel Management Holdings Limited	Hong Kong	HK$10,000,000	100%	—	Hotel management
Guangdong Nan Fang (Holdings) Co. Ltd.	British Virgin Islands/ Mainland China	US$10,000	56.34%	—	Property investment
Guangdong Power (International) Limited ("GPIL")**	British Virgin Islands/ Hong Kong	US$31,286,250	51%	—	Investment holding
Guangdong Properties Holdings Limited ("GHL")	Hong Kong	HK$2	100%	—	Investment holding
廣東天河城百貨有限公司 (Guangdong Teemall Department Stores Ltd.)(4)	Mainland China	RMB8,000,000	—	84.95%	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	—	86.74%	Water supply business
Guangdong Yingde Highway Ltd.(2)	Mainland China	RMB93,200,000	—	70%	Highway operations

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19. INTERESTS IN SUBSIDIARIES (continued)

Company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity/ interest attributable to the Company Direct	Indirect	Principal activities
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 ("ZPHK")	Hong Kong	HK$100	95%	—	Investment holding
中山火力發電有限公司 ("Zhongshan Power Plant")[(2)***]	Mainland China	US$35,000,000	—	59.85%	Power plant operations
廣州市天河城萬博百貨有限公司[(4)(5)]	Mainland China	RMB1,000,000	—	84.95%	Department stores operations

Notes:

1. Sino-foreign equity joint venture.

2. Sino-foreign co-operative joint venture.

3. Wholly-foreign-owned enterprise.

4. Limited company established in Mainland China.

5. Incorporated under the PRC Law on 18 January 2006.

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

** Pursuant to resolutions passed on 20 June 2006 by the shareholders and directors of GPIL, a 51% subsidiary of the Company, the authorised and issued share capital of GPIL was decreased from US$44,078,850 to US$31,286,250, and that such reduction of capital be effected by reducing the par value of each share in GPIL from US$0.317 to US$0.225. The US$12,792,600 (equivalent to HK$97,863,000) then constituting capital unrepresented by shares was transferred to GPIL's retained profits and distributed as dividend to the shareholders of GPIL in proportion to the shareholders' respective equity interests in GPIL. Such reduction of capital in GPIL has resulted in cash payment of HK$47,953,000 to the minority interests of GPIL.

*** Zhongshan Power Plant was a contractual joint venture of the Group in prior years. On 5 January 2006, an agreement was entered into between the Group and the Chinese joint venture partner of Zhongshan Power Plant to completely overhaul the terms of its original joint venture agreement. With effect from the same date, the Group was able to exercise control over the management and operation of Zhongshan Power Plant, and hence, Zhongshan Power Plant has become a subsidiary of the Group (note 40(b)).

19. INTERESTS IN SUBSIDIARIES (continued)

During the years ended 31 December 2005 and 2006, the Group acquired additional interests in GH Holdings and GD Teem from minority interests. Further details of these acquisitions are included in note 40(a) 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	
	2006	2005
	HK$'000	HK$'000
Share of net assets	**915,796**	877,316
Due from/(to) jointly-controlled entities (note 45(b))	**(744)**	40,440
	915,052	917,756

The amounts due from/(to) jointly-controlled entities are unsecured, non-interest-bearing and have no specific terms of repayment. The carrying amounts of the amounts due from/(to) jointly-controlled entities approximate to their fair values. Included in the amounts due from jointly-controlled entities as at 31 December 2005 was an unsecured loan receivable stated at amortised cost of HK$38,189,000 which bore interest at the London Inter Bank Offered Rate (the "LIBOR") per annum and was fully received during the current year.

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	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:

	2006 HK$'000	2005 HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Non-current assets	**890,811**	901,741
Current assets	**26,762**	20,330
Current liabilities	**(1,777)**	(3,048)
Non-current liabilities	**—**	(41,707)
Net assets	**915,796**	877,316
Share of the jointly-controlled entities' results:		
Turnover	**—**	—
Share of profits less losses of jointly-controlled entities	**109,730**	84,824
Total revenue	**109,730**	84,824
Total expenses	**(34,551)**	(8,277)
Tax (note 10)	**(8,321)**	(10,524)
Profit after tax	**66,858**	66,023

21. INTERESTS IN ASSOCIATES

	Group		**Company**	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Unlisted investments, at cost	**—**	—	**115,062**	115,062
Share of net assets	**480,918**	462,599	**—**	—
Due from associates (note 45(b))	**3,238**	23,881	**—**	22,931
Due to associates (note 45(b))	**—**	(3,065)	**—**	—
	484,156	483,415	**115,062**	137,993

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

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21. INTERESTS IN ASSOCIATES (continued)

Particulars of the associates are as follows:

Company	Nominal value of issued ordinary/ registered share capital	Place of incorporation/ registration and operations	Percentage of attributable equity interest held by Company	Group	Principal activities
Guangdong Jusco Teem Stores Co. Ltd.*	RMB56,000,000	Mainland China	—	26.51%	Department stores operation
Guangdong Power Investment Limited*	US$30,068,220	British Virgin Islands/ Hong Kong	49%	49%	Investment holding
廣東省韶關粵江發電有限責任公司 (Guangdong Shaoguan Yue Jiang Power Supply Limited) ("Yue Jiang")*	RMB770,000,000	Mainland China	—	11.48%	Power plant operations
廣東番禺大橋有限公司 (Guangdong Pan Yu Bridge Company Limited)*	RMB270,000,000	Mainland China	—	20%	Toll bridge operations

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

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

	2006 HK$'000	2005 HK$'000
Assets	**4,337,178**	4,150,627
Liabilities	**(2,653,791)**	(2,593,957)
Revenues	**2,650,501**	2,514,685
Profit	**205,089**	151,709

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22. CONTRACTUAL JOINT VENTURE

	Group	
	2006	2005
	HK$'000	HK$'000
Unlisted investment, at cost	**—**	271,152
Due from a contractual joint venture	**—**	62,044
	—	333,196
Less: Impairments	**—**	(286,627)
At 31 December	**—**	46,569

As further detailed in note 19, the contractual joint venture became a subsidiary of the Group during the year.

23. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2006	2005
	HK$'000	HK$'000
Unlisted equity investment, at cost*	**72,134**	96,325
Less: Impairments	**(72,134)**	(77,679)
Net carrying value	**—**	18,646
Unlisted equity investment, at fair value	**19**	19
Unlisted debt investment, at fair value	**39,572**	28,056
Total available-for-sale investments	**39,591**	46,721
Portion classified as current assets	**(39,591)**	(28,075)
Non-current portion	**—**	18,646

* At 31 December 2005, the unlisted equity investment consisted of a 24.5% equity interest in Pak Kong Transco Limited, a company established in Mainland China with an investment in the Pak Kong Bridges in Qingyuan, Mainland China. During the year, the Group's entire interest in Pak Kong Transco Limited was sold at a consideration of approximately HK$58,265,000, resulting in a gain on disposal of HK$39,619,000 (note 5).

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

23. AVAILABLE-FOR-SALE INVESTMENTS (continued)

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	
	2006	2005
	HK$'000	HK$'000
Cost at 1 January and 31 December	**14,798,611**	14,798,611
Accumulated amortisation:		
At 1 January	**2,650,236**	2,156,949
Provided during the year (note 6)	**493,287**	493,287
At 31 December	**3,143,523**	2,650,236
Net carrying amount at 31 December	**11,655,088**	12,148,375

Prior to the Acquisition, WaterCo acquired the operating right from Yue Gang Investment to operate a water supply business, which supplies natural water to HKSAR, 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 HKSAR and the non-exclusive right to supply natural water to Shenzhen and Dongguan for a period of 30 years commencing from 18 August 2000 or such longer period as extended in accordance with the terms stipulated in a concession agreement dated 18 August 2000 entered into between the Guangdong Provincial Government ("GPG") and WaterCo (the "Concession Agreement"). Upon dissolution of WaterCo after the expiration of the operating period, WaterCo is required, at its cost and expense and without compensation, to return all of the assets to the GPG.

25. OTHER LONG TERM ASSETS

	Group	
	2006	2005
	HK$'000	HK$'000
Prepayment for land use rights	**—**	2,370
Other deferred expenses	**58**	1,797
	58	4,167

26. INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
Raw materials	**24,883**	10,113
Finished goods	**34,433**	39,030
	59,316	49,143

27. RECEIVABLES, PREPAYMENTS AND DEPOSITS

		Group		Company	
		2006	2005	**2006**	2005
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Trade receivables, net of impairments		**119,694**	288,303	**—**	—
Other receivables, prepayments and deposits		**207,280**	167,383	**5,111**	3,650
Due from the ultimate holding company	45(b)	**51**	77	**—**	—
Due from the immediate holding company	45(b)	**320**	114	**—**	—
Due from fellow subsidiaries	45(b)	**2,384**	3,158	**34**	33
		329,729	459,035	**5,145**	3,683

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 27% (2005: 53%) of the total trade receivables were due from one of the Group's major customers.

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	
	2006	2005
	HK$'000	HK$'000
Within 3 months	**119,482**	287,148
3 months to 6 months	**86**	336
6 months to 1 year	**484**	178
More than 1 year	**10,664**	11,126
	130,716	298,788
Less: Impairments	**(11,022)**	(10,485)
	119,694	288,303

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	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances (notes (a) and (b))	**789,629**	782,169	**7,324**	65,012
Time deposits (notes (a) and (b))	**1,462,030**	1,331,875	**755,242**	671,042
Trust account (note (c))	**2,756**	25,778	**—**	—
	2,254,415	2,139,822	**762,566**	736,054
Less: Restricted cash and bank balances (note (c))	**(2,756)**	(25,778)	**—**	—
Cash and cash equivalents at 31 December (note (d) and note 42(b))	**2,251,659**	2,114,044	**762,566**	736,054

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 and time deposits for, amongst other things, payment of interest, repayment of debts and distribution to shareholders of that subsidiary pursuant to an agreement entered into between the subsidiary and other parties. As at 31 December 2006, cash and bank balances retained for such purpose amounted to HK$1,333,000 (2005: HK$74,123,000).

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

(c) Pursuant to the Undertaking as defined in note 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 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 2006, the amount standing to the credit of the Trust Account was HK$2,756,000 (2005: HK$25,778,000). The Trust Account shall be maintained for a period of six years from the Effective Date or such shorter period as provided under the Trust Deed. The Trust Account balance was classified as restricted cash and bank balances. The Trust Account earns interest at floating rates based on daily bank deposit rates and the carrying amount approximates to its fair value.

(d) At the balance sheet date, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to HK$1,380,099,000 (2005: HK$1,322,706,000). 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	
		2006	2005	**2006**	2005
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Trade payables		**159,141**	132,137	**—**	—
Accruals and other liabilities		**862,684**	1,002,165	**14,881**	38,079
Due to the ultimate holding company	45(b)	**—**	1,778	**—**	941
Due to the immediate holding company	45(b)	**1,616**	938	**412**	33
Due to fellow subsidiaries	45(b)	**288**	6,110	**—**	—
		1,023,729	1,143,128	**15,293**	39,053

29. PAYABLES, ACCRUALS AND OTHER LIABILITIES (continued)

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	
	2006	2005
	HK$'000	HK$'000
Within 3 months	**148,091**	124,405
3 months to 6 months	**3,736**	1,924
6 months to 1 year	**1,958**	506
More than 1 year	**5,356**	5,302
	159,141	132,137

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

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

	31 December 2005	
	Assets	Liabilities
	HK$'000	HK$'000
Interest rate swap agreements	—	(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 33 to the financial statements.

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

30. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedges

At 31 December 2006, the Group had certain interest rate swap agreements with a total notional amount of HK$5,200 million (2005: HK$7,700 million) designated and qualified as hedges in respect of the Group's Refinancing Facilities, whereby the Group receives interest at a variable rate of HIBOR per annum and pays interest at a range of fixed rates per annum on the notional amounts. The swap agreements converted the interest obligation arising from the Refinancing Facilities from the floating rate of HIBOR to a range of fixed interest rates per annum for the period from the effective dates of respective contracts to various maturity dates from 2008 to 2012.

The terms of these swap agreements have been negotiated to match the respective terms of the Refinancing Facilities. The cash flow hedges of the Refinancing Facilities were assessed to be highly effective and the net fair value gain on cash flow hedges of HK$1,674,000 (2005: HK$402,885,000) included in the hedging reserve was as follows:

	2006 HK$'000	2005 HK$'000
Total fair value gains/(losses) included in the hedging reserve	(9,887)	303,168
Fair value losses transferred from the hedging reserve and recognised in the income statement (note 7)	12,693	169,581
Net movement on cash flow hedges	2,806	472,749
Portion shared by minority interests	(1,132)	(69,864)
Net movement attributable to equity holders of the parent for the year ended 31 December	1,674	402,885

Derivatives not qualified for hedge accounting

At 31 December 2006, the Group had various other interest rate swap agreements which did not meet the criteria for hedge accounting. The net loss in the fair value of these derivatives not qualified for hedge accounting amounting to HK$31,867,000 (note 5) (2005: net gain of HK$74,536,000) was charged to the income statement during the year.

Amounts payable under the interest rate swap agreements are senior in right of payment to the Refinancing Facilities as detailed in note 33 to the financial statements.

31. DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

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

	Group	
	2006	2005
	HK$'000	HK$'000
Non-interest-bearing borrowings:		
Current portion	**307,056**	324,498
Non-current portion	**35,555**	29,115
	342,611	353,613

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

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year or no specific terms of repayment	**307,056**	324,498
In the second year	**5,438**	6,214
In the third to fifth years, inclusive	**30,117**	18,641
After five years	**—**	4,260
	342,611	353,613

The balances due to minority shareholders of subsidiaries as at 31 December 2006 are unsecured and non-interest-bearing. The carrying amounts of the amounts due approximate to their fair values.

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32. INTEREST-BEARING BANK AND OTHER BORROWINGS

		2006			2005		
	Notes	Effective interest rate	Maturity	HK$'000	Effective interest rate	Maturity	HK$'000
Current							
Bank loans — secured	33	5.51% – 6.16%	2007	172,954	5.18% – 5.51%	2006	45,660
Bank loan — unsecured#		5.86%	2007	32,848	—	—	—
				205,802			45,660
Non-current							
Bank loans — secured	33	4.58% – 6.16%*	2008 – 2017	11,374,742	1.43% – 6.28%*	2007 – 2017	11,879,524
The Tranche B Credit	34	—	—	—	8.0%	2010	1,231,284
				11,374,742			13,110,808
				11,580,544			13,156,468

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

\# The unsecured bank loan of HK$32,848,000 (2005: Nil) is denominated in RMB and is repayable within one year.

Other interest rate information:

	2006		2005	
	Fixed rate HK$'000	Floating rate HK$'000	Fixed rate HK$'000	Floating rate HK$'000
Bank loans — secured	—	11,547,696	—	11,925,184
Bank loans — unsecured	32,848	—	—	—
The Tranche B Credit	—	—	1,231,284	—

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 considered an interest rate of 8% adopted in discounting such borrowings for the estimation of its fair value to be appropriate. As further detailed in note 34, the Tranche B Credit was fully settled during the year.

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33. BANK LOANS — SECURED

The maturities of the secured bank loans are analysed into:

		Group	
	Note	2006 HK$'000	2005 HK$'000
Within one year or on demand		**172,954**	45,660
In the second year		**272,497**	263,145
In the third to fifth years, inclusive		**2,853,020**	2,155,054
Over five years		**8,249,225**	9,461,325
		11,547,696	11,925,184
Less: Portion classified as current liabilities	32	**(172,954)**	(45,660)
Non-current portion	32	**11,374,742**	11,879,524

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 2006, included in the Group's secured bank loans was an outstanding bank loan of HK$8,212 million (2005: HK$9,765 million) drawn under the Refinancing Facility A which bears interest at 3-month HIBOR plus 0.6% (2005: 3-month HIBOR plus 0.6%) per annum and is repayable in 18 consecutive instalments within 10 years commencing from December 2003.

During the year, the Group obtained an additional bank loan of HK$1,274 million under the Refinancing Facility A, which bears interest at a rate of 3-month HIBOR plus 0.4% per annum and is repayable in full in December 2010.

As at 31 December 2006, included in the Group's secured bank loans was another outstanding bank loan of HK$800 million (2005: HK$800 million) drawn under the Refinancing Facility B which bears interest at 3-month or 6-month HIBOR plus 0.6% (2005: 3-month or 6-month HIBOR plus 0.6%) per annum with the first repayment due in 2013.

At 31 December 2006, the Group had certain outstanding interest rate swaps to convert the interest from the floating rate of HIBOR to a range of fixed interest rates or the floating rate of LIBOR for the respective periods up to various maturity dates ranging from 2008 to 2012. Amounts payable under the interest swap agreements are senior in right of payment to the Refinancing Facility A and the Refinancing Facility B.

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

33. BANK LOANS — SECURED (continued)

The remaining bank loans of HK$1,261,696,000 (2005: HK$1,360,184,000) 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.

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 bore interest at a rate of 8% (2005: 8%) per annum and was fully settled during the year (2005: HK$1,231,284,000).

As at 31 December 2005, the Tranche B Credit was guaranteed by WaterCo on a subordinated basis and was secured by the pledge of the water revenue of WaterCo under the Hong Kong Water Supply Agreement entered into by the GPG and the Government of the HKSAR, which had been assigned to WaterCo under the Concession Agreement. As the Tranche B Credit was fully settled during the year, the pledge of the water revenue of WaterCo was released.

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

35. NON-INTEREST-BEARING RECEIPT IN ADVANCE

	Group	
	2006	2005
	HK$'000	HK$'000
Carrying amount at 1 January	**2,009,400**	2,127,600
Recognised as revenue in the income statement	**(118,200)**	(118,200)
Carrying amount at 31 December	**1,891,200**	2,009,400
Less: Portion classified as current liabilities	**(118,200)**	(118,200)
Non-current portion	**1,773,000**	1,891,200

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

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36. DEFERRED TAX

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

Deferred tax liabilities

Group

	2006			
	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of investment properties HK$'000	Others HK$'000	Total HK$'000
At 1 January 2006	354,757	247,416	(9,956)	592,217
Acquisition of a subsidiary (note 40(b))	4,556	—	—	4,556
Deferred tax charged to the income statement during the year (note 10)	1,594	23,561	72	25,227
Exchange differences	11,687	8,458	(351)	19,794
Gross deferred tax liabilities at 31 December 2006	372,594	279,435	(10,235)	641,794

Deferred tax assets

Group

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

36. DEFERRED TAX (continued)

Deferred tax liabilities

Group

	2005			
	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of investment properties HK$'000	Others HK$'000	Total HK$'000
At 1 January 2005	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		
	Depreciation expense in excess of related depreciation allowance 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)

The Group has tax losses of approximately HK$462,000,000 (2005: HK$745,000,000) 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 profits will be available against which the unused tax losses can be utilised by the Group.

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: 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

	2006 HK$'000	2005 HK$'000
Authorised:		
8,000,000,000 (2005: 8,000,000,000) ordinary shares of HK$0.50 each ("Ordinary Shares")	4,000,000	4,000,000
Issued and fully paid:		
6,090,948,071 (2005: 6,017,518,071) Ordinary Shares	3,045,474	3,008,759

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 capital HK$'000	Ordinary Share premium account HK$'000	Total HK$'000
At 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 and 1 January 2006		6,017,518,071	3,008,759	2,298,205	5,306,964
Share options exercised	(ii)	73,430,000	36,715	22,979	59,694
At 31 December 2006		6,090,948,071	3,045,474	2,321,184	5,366,658

Notes:

(i) During the year ended 31 December 2005, 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 73,430,000 (2005: 121,103,939) share options were exercised at subscription prices ranging from HK$0.5312 to HK$2.575 (2005: from HK$0.5312 to HK$1.59) per Ordinary Share, resulting in the issue of 73,430,000 (2005: 121,103,939) Ordinary Shares for a total consideration, net of expenses, of HK$59,694,000 (2005: HK$110,439,000).

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.

38. SHARE OPTION SCHEME (continued)

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

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

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

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

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

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

The 73,430,000 share options exercised during the year resulted in the issue of 73,430,000 Ordinary Shares of the Company and new share capital of HK$36,715,000 and share premium of HK$22,979,000 (after issue expenses), as detailed in note 37 to the financial statements.

At 31 December 2006, the number of Ordinary Shares issuable under the share options granted under the GDI Scheme was 193,490,000 (2005: 267,020,000), which represented approximately 3.2% (2005: 4.4%) 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 193,490,000 new Ordinary Shares of the Company and increase share capital of HK$96,745,000 and share premium of HK$149,517,000 (before issue expenses).

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

At the date of approval of these financial statements, the Company had 192,490,000 share options outstanding under the GDI Scheme, which represented approximately 3.2% of the Company's shares in issue as at that date.

Notes to Financial Statements

31 December 2006

38. SHARE OPTION SCHEME (continued)

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

Name or category of participants	Number of share options: At 1 January 2006	Granted during the year##	Cancelled/ lapsed during the year	Exercised during the year	At 31 December 2006	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$ (per share)	Price of the Company's Ordinary Shares***: At grant date of options HK$ (per share)	Immediately before the exercise date HK$ (per share)	At exercise date of options HK$ (per share)
Directors											
LI Wenyue	7,000,000	—	—	(7,000,000)	—	10.08.2001	11.02.2002 to 10.02.2007	0.5312	0.66	3.470	3.440
	9,000,000	—	—	(9,000,000)	—	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81	3.470	3.440
	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	1,000,000	—	—	(1,000,000)	—	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	3.475	3.525
Chak, John	1,000,000	—	—	(1,000,000)	—	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	3.475	3.525
	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	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	—	—
David	450,000	—	—	—	450,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	—	—
FUNG, Daniel R.	1,000,000	—	—	—	1,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	—	—
	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	1,000,000	—	—	—	1,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	—	—
Chi, 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	3.150	3.060
	1,500,000	—	—	(1,500,000)	—	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81	3.150	3.060
	1,500,000	—	—	(1,500,000)	—	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	3.150	3.060
	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	—	—
WANG Xiaofeng	1,000,000	—	—	(1,000,000)	—	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81	3.480	3.540
	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	—	—
	67,150,000	—	—	(22,700,000)	44,450,000						
Others											
Former directors (Note)	19,000,000	—	—	(19,000,000)	—	10.08.2001	11.02.2002 to 10.02.2007	0.5312	0.66	3.480	3.540
	18,000,000	—	—	(18,000,000)	—	07.05.2002	08.11.2002 to 07.11.2007	0.814	0.81	3.480	3.540
	12,000,000	—	—	(6,000,000)	6,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	3.480	3.540
	5,000,000	—	—	(1,000,000)	4,000,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	3.480	3.540
	5,000,000	—	—	(1,000,000)	4,000,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	3.480	3.540
	1,500,000	—	—	(1,500,000)	—	19.01.2005	20.04.2005 to 19.04.2010	2.575	2.60	3.036	3.080
Employees	42,900,000	—	—	(900,000)	42,000,000	04.12.2002	05.03.2003 to 04.03.2008	0.96	0.89	3.225	3.100
	21,800,000	—	(1,000,000)	(1,500,000)	19,300,000	07.05.2003	08.08.2003 to 07.08.2008	1.22	1.22	2.990	2.970
	32,000,000	—	(1,000,000)	(1,100,000)	29,900,000	06.02.2004	07.05.2004 to 06.05.2009	1.59	1.57	3.239	3.148
	42,670,000	—	(1,500,000)	(730,000)	40,440,000	24.05.2004	25.08.2004 to 24.08.2009	1.25	1.25	3.058	2.966
	—	3,400,000	—	—	3,400,000	10.03.2006	11.06.2006 to 10.06.2011	3.405	3.30	—	—
	199,870,000	3,400,000	(3,500,000)	(50,730,000)	149,040,000						
Total	267,020,000	3,400,000	(3,500,000)	(73,430,000)	193,490,000						

38. SHARE OPTION SCHEME (continued)

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

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

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

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

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

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

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

HK$1.00 is payable by the grantee on acceptance of the offer in respect of the options granted on 10 March 2006.

Note: As at 1 January 2006, Fung Sing Hong, Stephen, a director of the Company, who resigned during the year, had a total of 1,500,000 share options. These share options were reclassified and included in the "Former directors" category in the above movement schedule.

The fair value of the share options granted during the year was HK$3,366,000 (2005: HK$1,260,000), of which the Group recognised a share option expense of HK$3,366,000 (2005: HK$1,260,000) in the consolidated income statement during the year ended 31 December 2006.

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 2006:

Dividend yield (%)	2.29
Expected volatility (%)	36.12
Risk-free interest rate* (%)	4.33
Expected life of option (year)	5.25
Weighted average share price (HK$)	3.405

* 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 55 to 57.

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

During the year ended 31 December 2006, the release of provision as determined above was HK$191,031,371 (2005: HK$224,265,712); and no profit was distributed from the Company's subsidiaries as determined above (2005: profit distributed from the Company's subsidiaries was HK$1,178,626), resulting in an aggregate transfer from retained profits to the Special Reserve of the Group and the Company of HK$191,031,371 (2005: HK$225,444,338).

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

During the year, the reduction of the Special Reserve and the capitalisation of the same amount to retained profits, which resulted from the aggregate increase in paid-up share capital and share premium account due to the issue of the Company's Ordinary Shares in both the current year and prior years (before any share issue expenses), amounted to HK$191,031,371 (2005: HK$498,389,037). In effecting the reduction and capitalisation as aforesaid, the amount transferred from the Special Reserve is kept to an amount not exceeding the balance of the Special Reserve before such transfer.

The amount credited to the Special Reserve shall not at any time exceed HK$2,984,676,517 (the "Limit"). The Limit may be reduced by the amount of any increase, after the Effective Date, in the paid-up share capital or share premium account of the Company which results from 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$364,930,217 (2005: HK$864,953,608).

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 2006, 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$59,750,200 (2005: HK$668,476,555); and (ii) the amount of a non-permanent loss of 364,930,217 (2005: HK$864,953,608) which was turned into a permanent loss for the year ended 31 December 2006.

The Limit, as adjusted, was HK$724,689,533 (2005: HK$1,149,369,950) and the amount standing to the credit of the Group's and the Company's Special Reserve was nil (2005: Nil) as at 31 December 2006.

(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 ended 31 December 2005, 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 comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

(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$'000	Capital reserve HK$'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	Total HK$'000
At 1 January 2005		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(i)	362,882	—	(67,291)	—	—	—	—	21,427	317,018
Share options exercised, net of issue expenses	37(ii)	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
At 1 January 2006		2,298,205	—	—	1,733,711	1,260	(14,813)	—	895,338	4,913,701
Share options exercised, net of issue expenses	37(ii)	22,979	—	—	—	—	—	—	—	22,979
Equity-settled share option arrangements	38	—	—	—	—	3,366	—	—	—	3,366
Profit for the year	11	—	—	—	—	—	—	—	477,614	477,614
Interim 2006 dividend paid	12	—	—	—	—	—	—	—	(301,447)	(301,447)
Proposed final 2006 dividend	12	—	—	—	—	—	—	—	(304,597)	(304,597)
Final 2005 dividend paid		—	—	—	—	—	—	—	(111)	(111)
Transfer from retained profits during the year in accordance with the Undertaking	39(a)(i)	—	—	—	—	—	—	191,031	(191,031)	—
Transfer to retained profits upon issue of new Ordinary Shares during the year	39(a)(i)	—	—	—	—	—	—	(191,031)	191,031	—
At 31 December 2006		2,321,184	—	—	1,733,711	4,626	(14,813)	—	766,797	4,811,505

40. BUSINESS COMBINATIONS EFFECTED DURING THE YEAR

(a) During the year ended 31 December 2006, the Company acquired (i) an aggregate additional 1.28% equity interest in GH Holdings at a total cash consideration of HK$150,072,000, and (ii) an aggregate additional 0.33% effective equity interest in GD Teem at a total cash consideration of HK$4,539,000, from the minority shareholders of the respective subsidiaries. As a result of these acquisitions, the Group increased its holdings in (i) GH Holdings from 86.34% at 31 December 2005 to 87.62% at 31 December 2006, resulting in a total positive goodwill of approximately HK$76,781,000 (note 18), and (ii) GD Teem from 75.40% at 31 December 2005 to 75.73% at 31 December 2006, resulting in an excess over the cost of business combinations of approximately HK$3,939,000 (note 5).

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).

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

(b) As further detailed in note 19 to the financial statements, Zhongshan Power Plant has become a subsidiary of the Group during the year.

The fair values of the identifiable assets and liabilities of Zhongshan Power Plant as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value HK$'000	**Carrying amounts** HK$'000
Property, plant and equipment (note 14)	152,754	152,754
Prepaid land lease payments	10,352	10,352
Cash and bank balances	7,336	7,336
Inventories	6,372	6,372
Receivables, prepayments and deposits	32,299	32,299
Payables, accruals and other liabilities	(47,850)	(47,850)
Interest-bearing bank and other borrowings	(79,462)	(79,462)
Tax payable	(3,326)	(3,326)
Deferred tax liabilities (note 36)	(4,556)	(4,556)
	73,919	73,919
Minority interests	(27,350)	
	46,569	
Satisfied by amount due from a contractual joint venture	46,569	

40. BUSINESS COMBINATIONS EFFECTED DURING THE YEAR (continued)

(b) (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	HK$'000
Cash consideration	—
Cash and bank balances acquired	7,336
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	7,336

Since its acquisition, Zhongshan Power Plant contributed HK$293,592,000 and HK$66,898,000 to the Group's revenue and profit before tax for the year ended 31 December 2006, respectively. Had the combination taken place at the beginning of 2006, there would not be material impact on the revenue from continuing operations of the Group and the profit of the Group for the year.

41. DISPOSAL OF SUBSIDIARIES

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

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

41. DISPOSAL OF SUBSIDIARIES (continued)

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

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

42. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

(i) During the year ended 31 December 2006, the Group settled the non-interest-bearing receipt in advance of an amount of HK$118,200,000 (2005: 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, which remained outstanding and were included in the Group's amounts due from associates as at 31 December 2005.

(b) Cash and cash equivalents

	2006 HK$'000	2005 HK$'000
Cash and cash equivalents for the purpose of the consolidated balance sheet as at 31 December (note 28)	**2,251,659**	2,114,044
Non-pledged time deposits with original maturity of more than three months when acquired	**(424,917)**	(490,443)
Cash and cash equivalents for the purpose of the consolidated cash flow statement as at 31 December	**1,826,742**	1,623,601

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 twelve years (2005: one to eleven years). The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 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	
	2006 HK$'000	2005 HK$'000
Within one year	**270,723**	285,077
In the second to fifth years, inclusive	**330,732**	334,035
After five years	**71,878**	20,159
	673,333	639,271

(b) *As lessee*

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of one to fifteen years (2005: one to fourteen years).

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

	Group	
	2006 HK$'000	2005 HK$'000
Within one year	**9,717**	7,038
In the second to fifth years, inclusive	**38,055**	27,567
After five years	**67,850**	44,067
	115,622	78,672

In addition to the operating lease arrangements as disclosed above, the Group leases certain leasehold properties for its department store operations. The rental charge is calculated with reference to the revenue generated by 廣州市天河城萬博百貨有限公司, a subsidiary of the Group.

The Company did not have significant operating lease arrangements as at the balance sheet date (2005: Nil).

44. 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	
	2006	2005
	HK$'000	HK$'000
(a) Capital commitments in respect of property, plant and equipment:		
Contracted for	**52,520**	136,292
Authorised, but not contracted for	**784,934**	1,211,065
	837,454	1,347,357

(b) Pursuant to WaterCo's article of association, Yue Gang Investment, which directly holds an 1% equity interest in WaterCo and is the Company's ultimate holding company, is not entitled to receive any distributed profits of WaterCo for the first fifteen years of operation and 100% of the distributed profits for that period shall be made to GH Holdings. Starting from the sixteenth year of WaterCo's operation, 1.01% of the distributed profits of WaterCo for the first fifteen years of operation plus simple interest at a rate of 8% per annum on the unpaid amount of the distributed profits shall be made to 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.

The Company did not have any significant commitments as at the balance sheet date (2005: Nil).

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	2006 HK$'000	2005 HK$'000
Dividend income received from an associate	(i)	(30,576)	(22,932)
Rental income from GDH Limited and certain of its subsidiaries	(ii)	(3,863)	(2,929)
Storage and handling fee income from an associate	(iii)	(3,048)	(938)
Interest income from a contractual joint venture	(iv)	(13,162)	(7,491)
Interest expense to GDH Limited and certain of its subsidiaries	(v)	6,286	13,461
Rental expense paid to an associate	(vi)	—	3,651
Dividend paid to GDH Limited and certain of its subsidiaries by GH Holdings	(vii)	5,404	19,851
Dividend paid to GDH Limited and certain of its subsidiaries by the Company	(viii)	376,577	267,546

Notes:

(i) During the year, the Company recorded dividend income of HK$30,576,000 (2005: HK$22,932,000) from an associate.

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

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

(iv) The interest income arose from an unsecured loan which was previously advanced by the Group to the contractual joint venture and repaid in prior years. The interest has now been agreed to be charged at a fixed rate of 7.56% per annum and the interest received during the year was HK$13,162,000 (2005: HK$7,491,000). The interest income for the year ended 31 December 2005 also included the income arising from another unsecured loan advanced by the Company to a contractual joint venture, which carried a fixed rate of 3.8% per annum and was repaid in June 2005.

(v) The interest expense arose from (a) the Tranche B Credit charged at 8% per annum of HK$79,080,000 (2005: HK$76,262,000) held by GDH Limited; and (b) loans totalling RMB6,124,000 (2005: RMB6,124,000), which were charged at interest rates ranging from 4.17% to 4.5% (2005: 4.17% to 4.5%), provided to the Group by a fellow subsidiary. The Tranche B Credit and the loans were repaid in December 2006 and February 2006, respectively.

The interest expenses for the year ended 31 December 2005 also included the expenses arising from convertible bonds with a par value of HK$497,320,000 issued by the Group to GDH Limited on 24 December 2003. The convertible bonds bore interest at a rate of 2% per annum and were fully converted in September 2005.

45. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Notes: (continued)

(vi) The rental expense arose from the leasing of certain leasehold properties held by Yue Jiang for storage and handling of coal and coal ashes for the Group's electric power generation operation during the year ended 31 December 2005. The rental expense was calculated with reference to the number of units of electricity generated by the Group's subsidiary and the relevant costs incurred by Yue Jiang. Such leasing arrangement was terminated during the year ended 31 December 2005.

(vii) During the year, out of the dividend distributions made by GH Holdings, a 87.62% (2005: 86.34%) subsidiary of the Group, to all its shareholders in accordance with their respective shareholdings in GH Holdings, the total divided distributions of approximately HK$5,404,000 (2005: HK$19,851,000), was paid or payable to GDH Limited and certain of its subsidiaries as shareholders of GH Holdings.

(viii) During the year, the Company paid dividends, in aggregate of approximately HK$376,577,000 (2005: HK$267,546,000) to GDH Limited and certain of its subsidiaries as the Company's shareholders. The dividend payment was made to all shareholders of the Company in accordance with their respective shareholdings in the Company.

(ix) On 3 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 share options were exercised in 2005.

(x) On 25 July 2006, the Group sold its entire 80% equity interest in Hui Yang Yue Hai Real Estate Development Limited ("GD Hui Yang") to GDH Real Estate (Hui Yang) Limited, a subsidiary of GDH Limited, at a cash consideration of HK$37,630,000. The sales proceeds were received by the Group in full in July 2006 and GD Hui Yang has since ceased to be a subsidiary of the Group. This transaction also constitutes a connected transaction as disclosed in note 46(e).

Notes to Financial Statements

31 December 2006

45. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties

	Notes	Group 2006 HK$'000	Group 2005 HK$'000	Company 2006 HK$'000	Company 2005 HK$'000
Balances due from:					
Ultimate holding company	(i)	51	77	—	—
Immediate holding company	(ii)	320	114	—	—
Fellow subsidiaries	(iii)	2,384	3,158	34	33
Jointly-controlled entities	(iv)	—	40,440	—	—
Associates	(v)	3,238	23,881	—	22,931
Contractual joint venture	(vi)	—	62,044	—	—
Balances due to:					
Ultimate holding company	(i)	—	(1,778)	—	(941)
Immediate holding company	(ii)	(1,616)	(938)	(412)	(33)
Fellow subsidiaries	(iii)	(288)	(6,110)	—	—
Jointly-controlled entitles	(iv)	(744)	—	—	—
Associates	(v)	—	(3,065)	—	—

Notes:

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

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

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

As at 31 December 2005, the balances with fellow subsidiaries included loans from a fellow subsidiary, in aggregate, of RMB6,124,000 which bore interest at rates ranging from 4.17% to 4.5% per annum and were repaid in full during the year.

(iv) The balances with the jointly-controlled entities are unsecured, non-interest-bearing and have no specific terms of repayment. The carrying amounts of the amounts due approximate to their fair values.

As at 31 December 2005, included in the balances was an amount of HK$38,189,000 which bore interest at LIBOR and was repaid during the year.

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

(vi) As at 31 December 2005, the amount due from a contractual joint venture was unsecured, non-interest-bearing and had no specific terms of repayment. The carrying amount approximated to its fair value.

45. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel of the Group

	2006 HK$'000	2005 HK$'000
Short term employee benefits	3,601	4,251
Post-employment benefits	331	522
Share-based payments	—	1,260
Total compensation paid to key management personnel	3,932	6,033

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 other connected transactions disclosed in accordance with Chapter 14A of the Listing Rules are as follows:

(a) As at 31 December 2006, outstanding advances of HK$249,424,000 (2005: HK$241,979,000) 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$81,479,000 (2005: HK$81,184,000) which bears interest at a rate of 9% (2005: 9%) per annum and is repayable on demand. The remaining balance of HK$167,945,000 (2005: HK$160,795,000) is unsecured, non-interest-bearing and has no specific terms of repayment.

(b) In prior years, the Company made an advance to ZPHK, a 95% owned subsidiary of the Company, to finance its investment in Zhongshan Power Plant, a 59.9% owned subsidiary of the Group (a former contractual joint venture of ZPHK). At the balance sheet date, the outstanding advance of HK$162,744,000 (2005: HK$162,705,000) made to ZPHK is unsecured, non-interest-bearing and has no specific terms of repayment.

(c) In a prior year, the Company's wholly-owned subsidiary made a loan to Zhongshan Power Plant to finance its expansion of the power plant project, and the loan had to be repaid in full together with interest. Although the loan to Zhongshan Power Plant was fully repaid in January 2003, the outstanding loan interest of US$1,687,473 had not been settled and full provision for the loan interest had been made in prior years. During the year ended 31 December 2005, the interest was agreed to be charged at a rate of 7.56% per annum up to January 2003. Part of the loan interest amounting to US$687,473 was received in November 2006 and the remaining loan interest of US$1,000,000 was outstanding as at 31 December 2006.

(d) As at 31 December 2005, the Group advanced unsecured loans of RMB5,368,000 (2005: RMB5,368,000) and HK$18,300,000 (2005: HK$18,300,000) to GD Hui Yang, a 80% owned subsidiary of the Group, to finance its working capital. The loans to GD Hui Yang bear interest at fixed rates of 4.5% (2005: 4.5%) and 4.17% (2005: 4.17%) respectively per annum. The loans were repaid in full in June 2006.

(e) As disclosed in note 45(a)(x), on July 2006, the Group sold its entire 80% equity interest in GD Hui Yang to GDH Real Estate (Hui Yang) Limited, a subsidiary of GDH Limited.

47. CONTINGENT LIABILITIES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantee given in respect of a bank loan of the Group's contractual joint venture*	**—**	46,800	**—**	46,800

* As at 31 December 2005, a bank loan of US$6 million (HK$46.8 million) drawn by Zhongshan Power Plant, which was secured by all land, buildings and equipment of Zhongshan Power Plant and was also guaranteed by the Company.

As Zhongshan Power Plant has become a subsidiary of the Group and the bank loan was fully repaid during the year, the guarantee given by the Company in respect of the bank loan was released.

48. PLEDGE OF ASSETS

At 31 December 2006, 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 (2005: 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, cash and bank balances, and short term time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

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

The main risks arising from the Group's financial instruments are 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 2.4 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.

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 33 to the financial statements.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Cash flow interest rate risk (continued)

At 31 December 2006, the Group had interest rate swap agreements with an aggregate notional contract amount of HK$5,200 million (2005: HK$7,700 million) which qualified as hedges. The swap agreements will mature over the next six years (2005: seven years) matching the maturity of the Refinancing Facilities and have fixed swap interest rates ranging from 4.43% to 4.70% (2005: 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 2006 was $171,449,000 (2005: HK$171,832,000). 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.

(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.

Notes to Financial Statements

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50. POST BALANCE SHEET EVENTS

(i) Subsequent to the balance sheet date, from January to March 2007, 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 0.22% interest in GH Holdings at a total consideration of approximately HK$30,643,000. As a result of these acquisitions, the Group increased its holdings in GH Holdings from 87.62% at the balance sheet date to 87.84%, resulting in a positive goodwill of approximately HK$15,799,000.

(ii) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

(iii) On 28 March 2007, the Company has signed a letter of intent regarding the construction of two 300,000 kilowatts heat and electricity supply plants (the "Proposed Project") utilising the existing land and production facilities of Zhongshan Power Plant. At present, it is estimated that the Proposed Project will have a total investment cost of approximately RMB2.8 billion. A lot of the details of the Proposed Project including the terms of the contractual documents, the number and identities of the other investors and the percentage of the Group's interest in the Proposed Project have yet to be worked out. In addition, the Proposed Project is also very much contingent upon all the various requisite PRC approvals being obtained.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 13 April 2007.