



Annual  
Report **2009** 年報



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

Stock Code 股份代號 : 270



# 2009 Annual Report



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

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## Board of Directors

### Executive Directors

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

### Non-Executive Directors

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

### Independent Non-Executive Directors

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

### Audit Committee

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

### Remuneration Committee

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

### Company Secretary

Mrs. HO LAM Lai Ping, Theresa

### Auditors

Ernst & Young

## Principal Bankers

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

## Registered Office

28/F. and 29/F.  
Guangdong Investment Tower  
148 Connaught Road Central  
Hong Kong  
Telephone : (852) 2860 4368  
Facsimile : (852) 2528 4386  
Website : <http://www.gdi.com.hk>

## Share Registrar

Tricor Tengis Limited  
26/F., Tesbury Centre  
28 Queen's Road East  
Hong Kong

## Share Information

|                    |   |
|--------------------|---|
| Place of Listing   | Main Board of The Stock Exchange of Hong Kong Limited |
| Stock Code         | 270   |
| Board lot          | 2,000 shares  |
| Financial year end | 31 December   |

## Shareholders' Calendar

|                                |  |
|--------------------------------|--|
| Closure of Register of Members | 31 May 2010 to 2 June 2010 (both days inclusive) |
| Annual General Meeting         | 2 June 2010 10:00 a.m.                           |
| Final Dividend Payable         | 6.0 HK cents per ordinary share<br>29 June 2010  |

# THE GROUP'S PRINCIPAL BUSINESSES

8 April 2010



**Guangdong Investment Limited**

粵海投資有限公司

## Water Distribution



**89.08%**

GH Water Supply  
(Holdings) Limited

**99%**

Guangdong  
Yue Gang  
Water Supply  
Company  
Limited

## Electric Power Generation



**51%**

Guangdong  
Power  
(International)  
Limited

**90%**

Shaoguan Power  
Plant (D) Ltd.\*

**25%**

Guangdong Shaoguan  
Yue Jiang Power  
Supply Limited\*  
(Yue Jiang Power Plant)

**59.85%**

Zhongshan Thermal  
Power Co., Ltd.\*  
(Zhongshan  
Power Plant)

**49%**

Guangdong Power  
Investment Limited

**25%**

Guangdong Yuejia  
Electric Power Co., Ltd.  
(Meixian Power Plant)

**25%**

Guangdong  
Yudean Jinghai  
Power Generation  
Co., Ltd.\*  
(Yudean Jinghai  
Power Plant)

## Toll Roads and Bridges



**51%**

Guangdong Transport  
Investment (BVI)  
Company Limited  
(1 Road and 2 Bridges)

**70%**

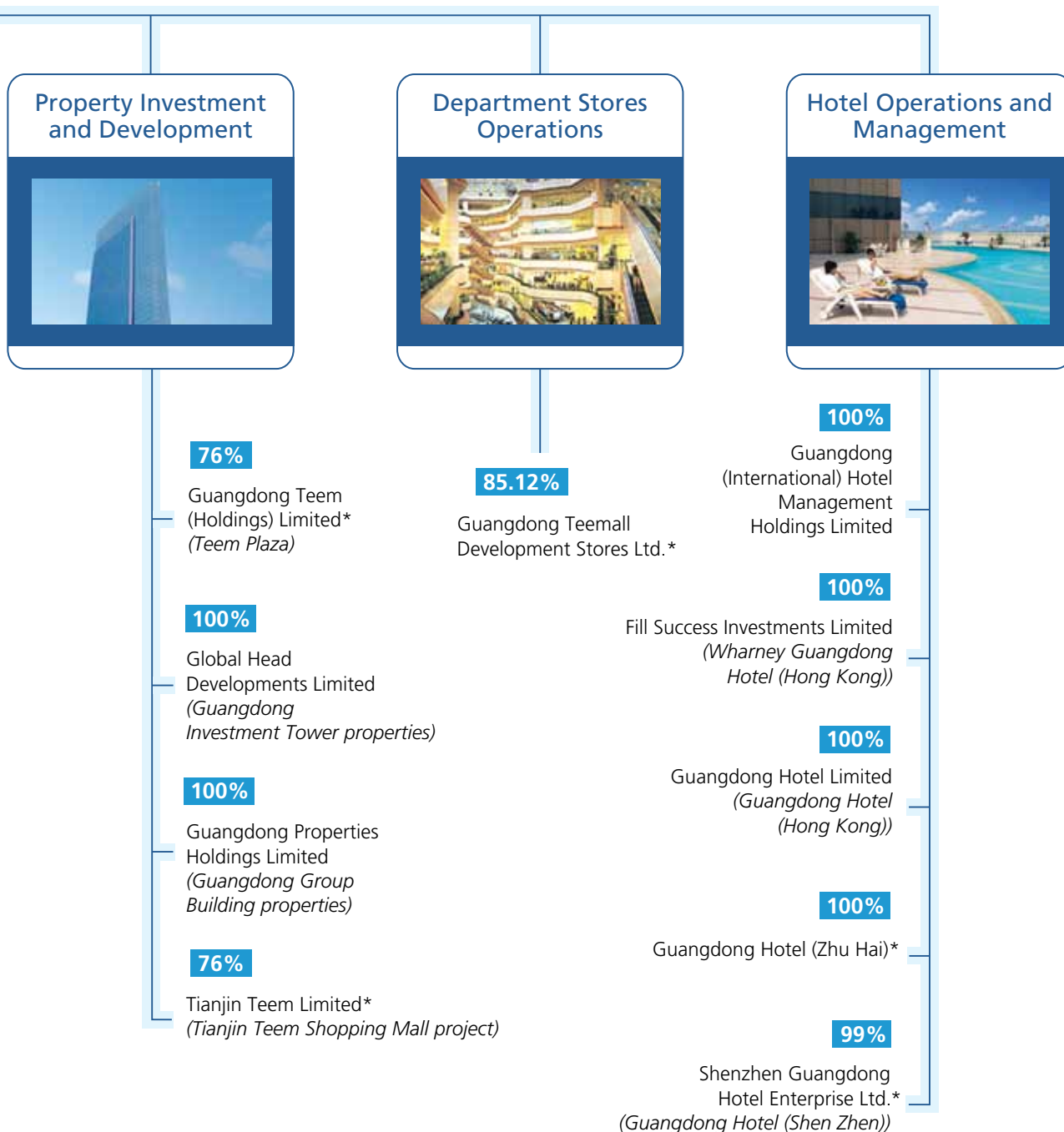
Guangdong Yingde  
Highway Ltd.  
(Yingkeng Highway)

**20%**

Guangdong Pan Yu  
Bridge Company  
Limited\*  
(Panyu Bridge)

## THE GROUP'S PRINCIPAL BUSINESSES (CONTINUED)

8 April 2010



Notes:

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

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

# FINANCIAL HIGHLIGHTS

## Financial highlights for the year ended 31 December

|   | <b>2009</b><br><b>HK\$'000</b> | 2008<br>HK\$'000<br>(Restated) | Changes<br>% |
|---|--------------------------------|--------------------------------|--------------|
| Revenue   | <b>5,915,758</b>               | 5,913,200                      | —            |
| Profit for the year attributable to equity holders of the Company | <b>2,044,254</b>               | 1,876,682                      | 8.9          |
| Earnings per share — Basic  | <b>33.03 HK cents</b>          | 30.54 HK cents                 | 8.2          |
| Dividends per share   |                                |                                |              |
| Interim   | <b>5.00 HK cents</b>           | 4.00 HK cents                  |              |
| Proposed final  | <b>6.00 HK cents</b>           | 6.00 HK cents                  |              |
|   | <b>11.00 HK cents</b>          | 10.00 HK cents                 | 10.0         |
| EBITDA  | <b>4,085,519</b>               | 3,700,641                      | 10.4         |
| Shareholders' equity  | <b>17,030,023</b>              | 15,395,522                     | 10.6         |
| Total assets  | <b>30,787,154</b>              | 31,244,691                     | (1.5)        |
| Net financial borrowings <sup>7</sup>                             | <b>3,601,959</b>               | 5,951,633                      | (39.5)       |

## Key ratios (as at 31 December)

|   | <b>2009</b>   | 2008<br>(Restated) |
|---|---------------|--------------------|
| Gearing <sup>1</sup>                                | <b>0.23X</b>  | 0.41X              |
| Interest cover <sup>2</sup>                         | <b>15.84X</b> | 9.73X              |
| Liquidity <sup>3</sup>                              | <b>1.06X</b>  | 1.78X              |
| Return on average shareholders' equity <sup>4</sup> | <b>12.61%</b> | 12.76%             |
| Post-tax return on average assets <sup>5</sup>      | <b>7.93%</b>  | 6.46%              |
| Dividend payout ratio <sup>6</sup>                  | <b>33%</b>    | 33%                |

## Share information (as at 31 December)

|  | <b>2009</b>           | 2008           |
|--|-----------------------|----------------|
| Number of ordinary shares (HK\$0.5 per share) in issue | <b>6,213m</b>         | 6,161m         |
| Market capitalisation                                  | <b>HK\$28,147m</b>    | HK\$19,162m    |
| Closing market price per share                         | <b>HK\$4.53</b>       | HK\$3.11       |
| Basic earnings per share                               | <b>33.03 HK cents</b> | 30.54 HK cents |
| Diluted earnings per share                             | <b>32.79 HK cents</b> | 30.12 HK cents |
| Net asset value <sup>8</sup> per share                 | <b>HK\$2.74</b>       | HK\$2.50       |

Notes:

- |  |   |
|--|---|
| 1. $\frac{\text{Net Financial indebtedness}}{\text{Net asset value}^8}$  | 5. $\frac{\text{Profit for the year}}{(\text{opening total assets} + \text{closing total assets})/2}$ |
| 2. $\frac{\text{EBITDA}}{\text{Finance costs}}$  | 6. $\frac{\text{Dividends per share}}{\text{Basic earnings per share}}$                               |
| 3. $\frac{\text{Current assets}}{\text{Current liabilities}}$  | 7. Financial borrowings – cash and cash equivalents   |
| 4. $\frac{\text{Profit for the year attributable to shareholders}}{(\text{opening equity}^8 + \text{closing equity}^8)/2}$ | 8. Excluded minority interests  |

## Analysis of gross financial borrowings (as at 31 December)

|                                    | 2009<br>HK\$'000 | 2008<br>HK\$'000  |
|------------------------------------|------------------|-------------------|
| <b>Loans maturity profile</b>      |                  |                   |
| Within 1 year                      | 1,703,103        | 428,609           |
| In the 2nd year                    | 427,683          | 1,702,609         |
| In the 3rd to 5th years, inclusive | 3,916,600        | 6,213,592         |
| Over 5 years                       | 1,425,600        | 1,703,800         |
|                                    | <b>7,472,986</b> | <b>10,048,610</b> |
| <b>Currency</b>                    | <b>%</b>         | <b>%</b>          |
| Hong Kong dollars                  | 91.7             | 90.7              |
| Renminbi                           | 8.3              | 9.3               |
| <b>Interest rate</b>               | <b>%</b>         | <b>%</b>          |
| Floating                           | *79.4            | *83.5             |
| Non-interest bearing               | 20.6             | 16.5              |

Note:

\* The Group has entered into certain fixed interest rate swap agreements, amounting to HK\$5,400 million (2008: HK\$5,400 million).

## Source of financing (as at 31 December 2009)

|                                  | Available,<br>committed<br>and utilised<br>% |
|----------------------------------|--|
| Interest-bearing bank borrowings | 79.4   |
| Non-interest-bearing borrowing   | 20.6   |
|                                  | <b>100.0</b>                                 |



## FINANCIAL HIGHLIGHTS (CONTINUED)

### Analysis of the Group's Businesses

An analysis of the Group's revenue, segment results and earnings before interest, tax, depreciation and amortisation ("EBITDA") by principal activities and geographical area of operations for the years ended 31 December 2009 and 2008 is as follows:

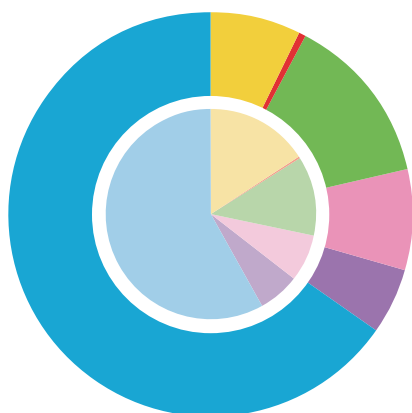
#### Year ended 31 December 2009

|                                     | Revenue   |        | Segment results |        | EBITDA    |        |
|-------------------------------------|-----------|--------|-----------------|--------|-----------|--------|
|                                     | HK\$'000  | %      | HK\$'000        | %      | HK\$'000  | %      |
| By activities:                      |           |        |                 |        |           |        |
| Water distribution                  | 3,867,903 | 65.39  | 2,222,627       | 67.88  | 2,966,219 | 70.99  |
| Electric power generation           | 435,392   | 7.36   | (51,052)        | —      | (43,402)  | —      |
| Toll roads and bridges              | 20,947    | 0.35   | 974             | 0.03   | 6,429     | 0.15   |
| Property investment and development | 803,818   | 13.59  | 841,097         | 25.69  | 896,160   | 21.44  |
| Department stores                   | 475,893   | 8.04   | 190,391         | 5.81   | 219,113   | 5.24   |
| Hotel operations and management     | 311,805   | 5.27   | 19,372          | 0.59   | 91,124    | 2.18   |
| Others                              | —         | —      | (57,191)        | —      | (50,124)  | —      |
|                                     | 5,915,758 | 100.00 | 3,166,218       | 100.00 | 4,085,519 | 100.00 |
| By geographical area:               |           |        |                 |        |           |        |
| Mainland China                      | 5,735,990 | 96.96  |                 |        |           |        |
| Hong Kong                           | 179,768   | 3.04   |                 |        |           |        |
|                                     | 5,915,758 | 100.00 |                 |        |           |        |

#### Year ended 31 December 2008

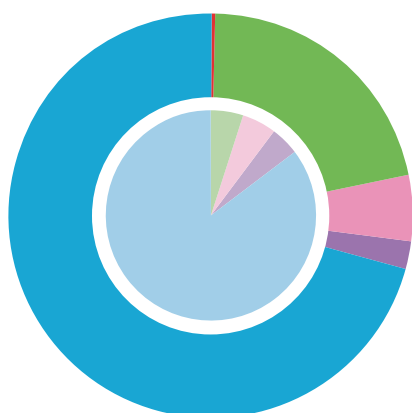
|                                     | Revenue    |            | Segment results |        | EBITDA    |        |
|-------------------------------------|------------|------------|-----------------|--------|-----------|--------|
|                                     | HK\$'000   | %          | HK\$'000        | %      | HK\$'000  | %      |
|                                     | (Restated) | (Restated) |                 |        |           |        |
| By activities:                      |            |            |                 |        |           |        |
| Water distribution                  | 3,443,842  | 58.24      | 2,511,234       | 86.11  | 3,389,126 | 85.36  |
| Electric power generation           | 927,616    | 15.69      | (281,404)       | —      | (258,795) | —      |
| Toll roads and bridges              | 14,268     | 0.24       | 912             | 0.03   | 5,145     | 0.13   |
| Property investment and development | 722,856    | 12.22      | 135,723         | 4.65   | 194,733   | 4.90   |
| Department stores                   | 433,266    | 7.33       | 170,555         | 5.85   | 208,859   | 5.26   |
| Hotel operations and management     | 371,352    | 6.28       | 97,976          | 3.36   | 172,916   | 4.35   |
| Others                              | —          | —          | (28,759)        | —      | (11,343)  | —      |
|                                     | 5,913,200  | 100.00     | 2,606,237       | 100.00 | 3,700,641 | 100.00 |
| By geographical area:               |            |            |                 |        |           |        |
| Mainland China                      | 5,690,717  | 96.24      |                 |        |           |        |
| Hong Kong                           | 222,483    | 3.76       |                 |        |           |        |
|                                     | 5,913,200  | 100.00     |                 |        |           |        |

## Revenue by Operating Segments



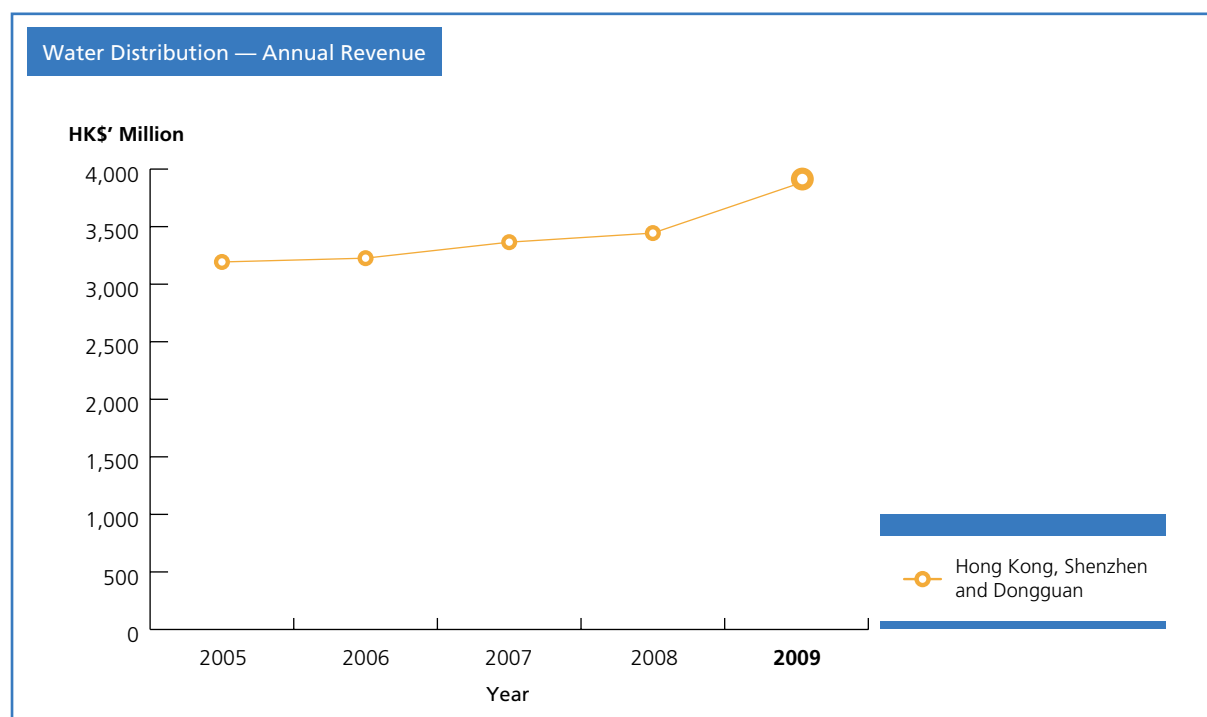
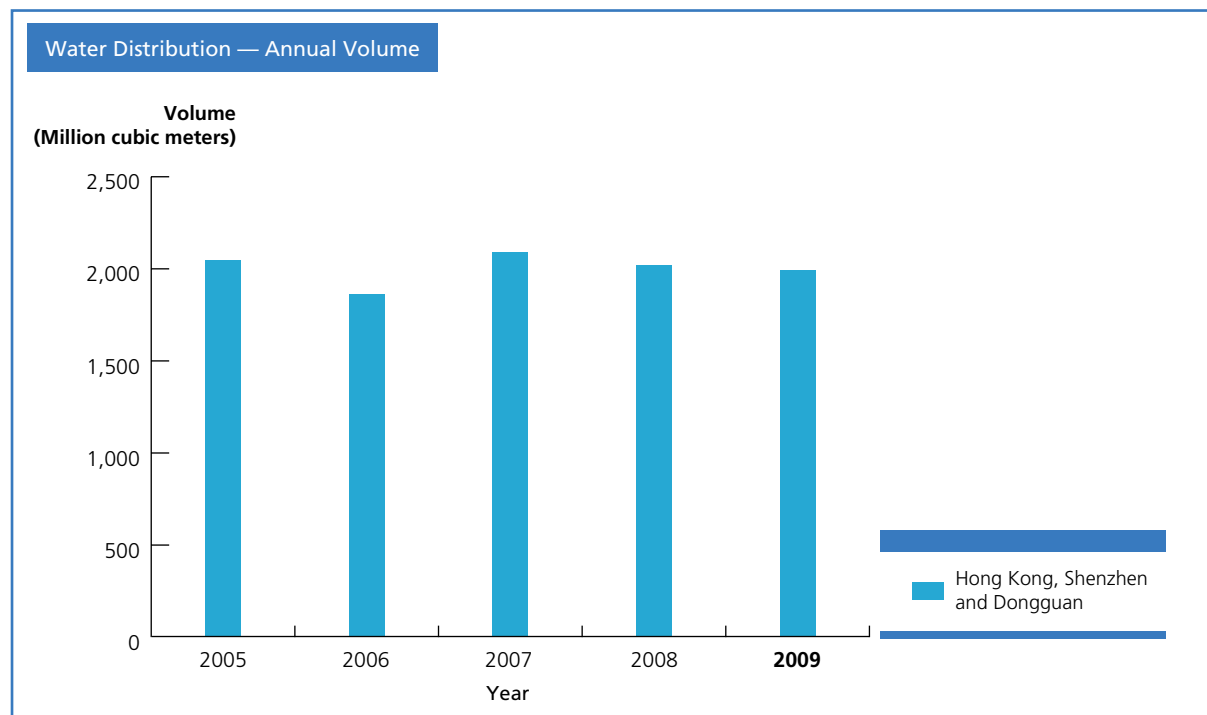
|                                     | 2009   | 2008   |
|-------------------------------------|--------|--------|
| Water distribution                  | 65.39% | 58.24% |
| Electric power generation           | 7.36%  | 15.69% |
| Toll roads and bridges              | 0.35%  | 0.24%  |
| Property investment and development | 13.59% | 12.22% |
| Department stores                   | 8.04%  | 7.33%  |
| Hotel operations and management     | 5.27%  | 6.28%  |
| Others                              | —      | —      |

## EBITDA by Operating Segments



|                                     | 2009   | 2008   |
|-------------------------------------|--------|--------|
| Water distribution                  | 70.99% | 85.36% |
| Electric power generation           | —      | —      |
| Toll roads and bridges              | 0.15%  | 0.13%  |
| Property investment and development | 21.44% | 4.90%  |
| Department stores                   | 5.24%  | 5.26%  |
| Hotel operations and management     | 2.18%  | 4.35%  |
| Others                              | —      | —      |

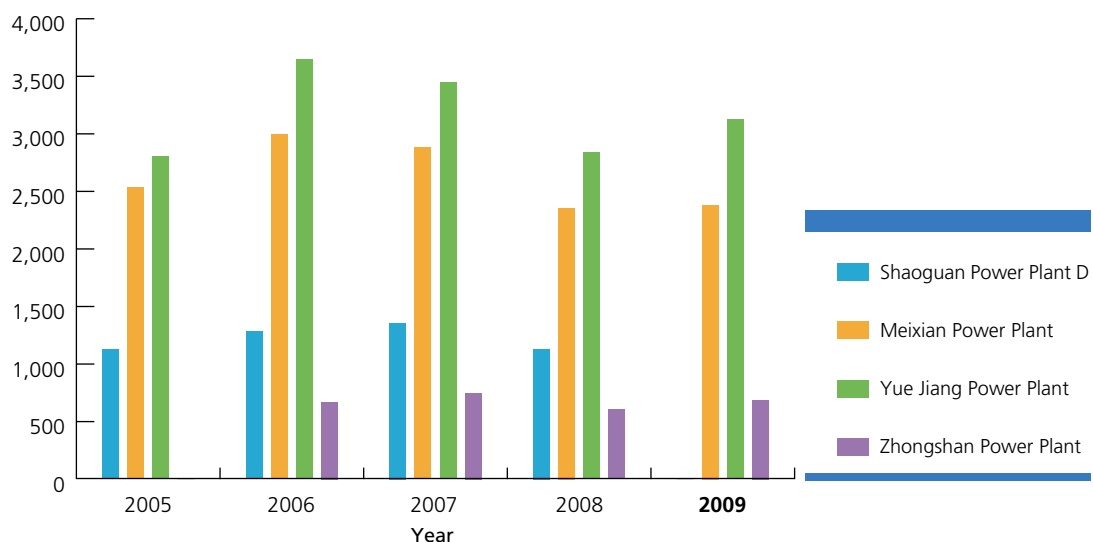
## Water Distribution



## Electric Power Generation

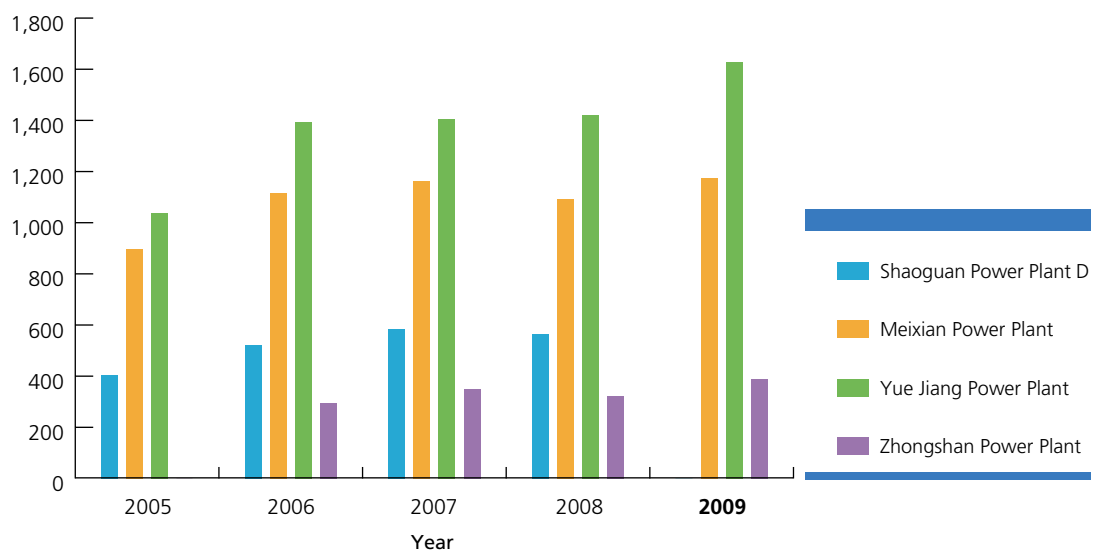
Electric Power Generation — Annual Sales of Electricity

Million kwh



Electric Power Generation — Annual Revenue

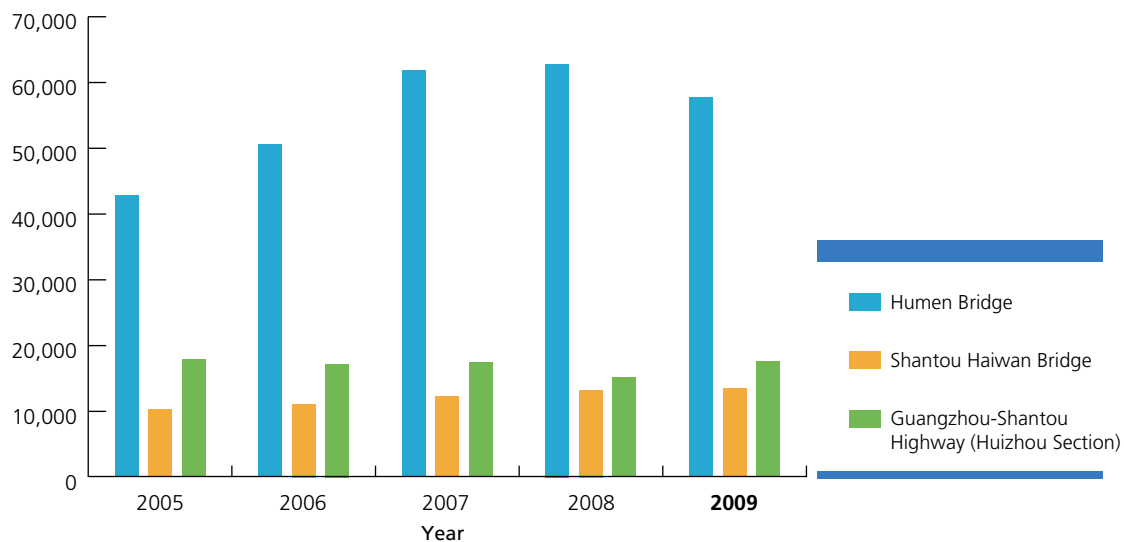
HK\$' Million



## Toll Roads and Bridges

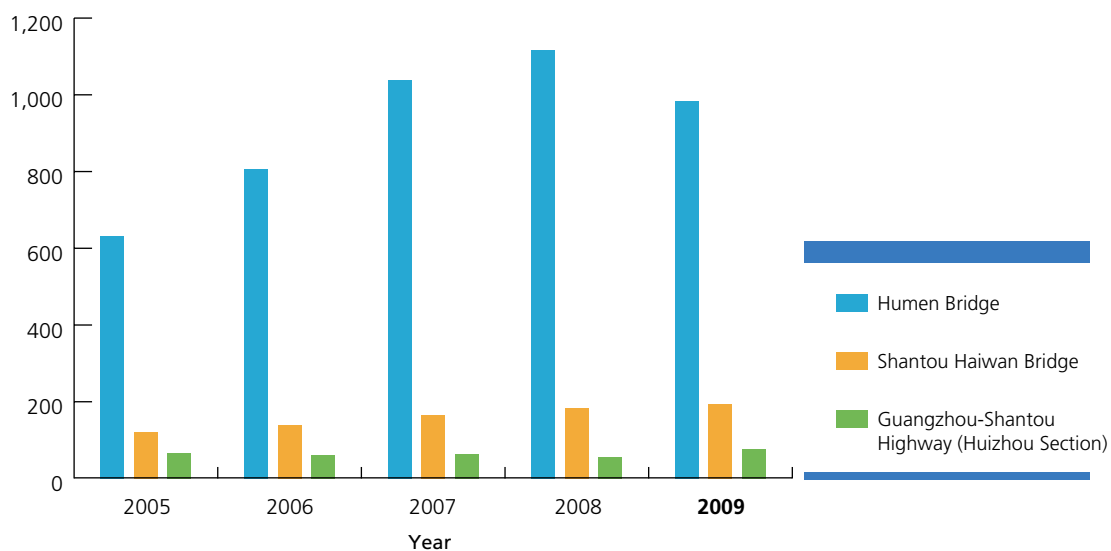
Toll Roads and Bridges — Average Daily Traffic Flow

Vehicle trips

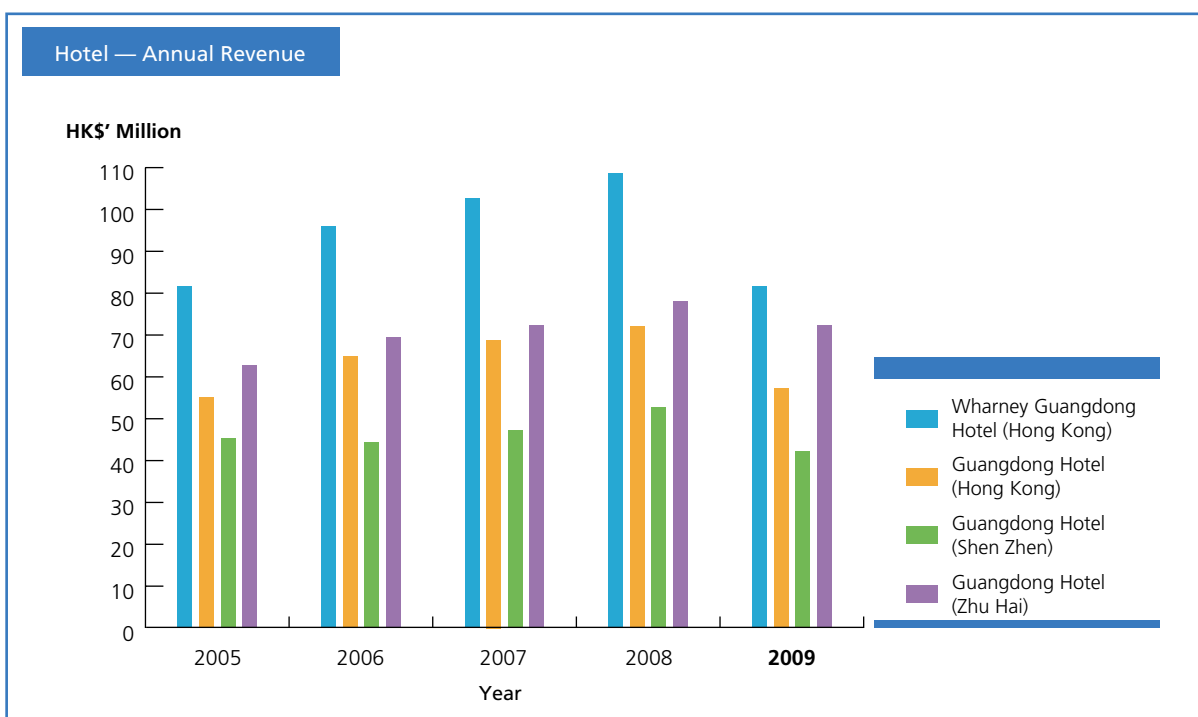
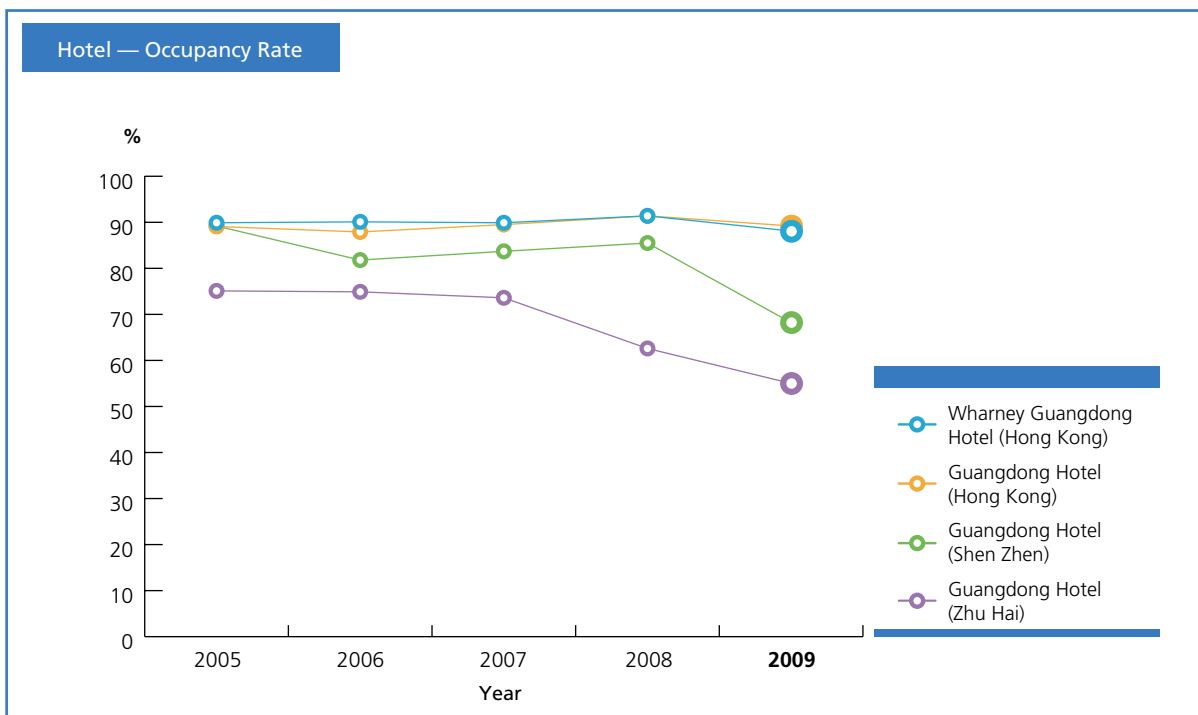


Toll Roads and Bridges — Annual Revenue

HK\$' Million



## Hotel Operations and Management



## CHAIRMAN'S STATEMENT



“ Management Teams with Credibility and Integrity are the Foundation of Corporate Profitability.

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

### RESULTS

I am pleased to be able to report that our results for 2009 continued to maintain a steady growth. The Group's audited consolidated net profit attributable to shareholders for 2009 amounted to HK\$2,044 million (2008: HK\$1,877 million), an increase of 8.9% over 2008. Basic earnings per share was 33.03 HK cents (2008: 30.54 HK cents), an increase of 8.2% over 2008.

### DIVIDEND

The Board recommends a final dividend of 6.0 HK cents per share for 2009. Aggregating such dividend with the interim dividend of 5.0 HK cents per share paid in 2009, the total dividend for the entire year will be 11.0 HK cents (2008: 10.0 HK cents) per share. The said 2009 final dividend, if approved by the shareholders of the Company at the forthcoming annual general meeting, will be paid on 29 June 2010.

### REVIEW

Undeterred by the extremely tough macroeconomic environment during 2009, the Group's management worked in unison with all staff and led them in challenging the difficulties ahead by adhering to our policy of steady development, implementing our corporate culture of "credibility, integrity and profitability", and thereby achieving better operating results in securing the sustainable and steady development of the enterprise.

Through the effort of management, the Group's net profit attributable to shareholders increased by 8.9% to HK\$2,044 million, and profit before tax increased by 21.4% or HK\$522 million to HK\$2,959 million. The growth was mainly attributed to the contributions from our property investment and development businesses.

### PROSPECTS

We cannot be too optimistic over the operating environment in 2010 as the Group still has to meet tough challenges ahead. This would require the Group to focus all staff efforts to weather difficult times through correct judgement of the directions of macroeconomic trends, enhancing our ability to master the markets, raising management standards even further so as to secure its healthy and sustainable development.

For our investment projects, we will insist on interweaving our premier segments with prudent risk control and leveraging on our substantial available funds and low debt level to seek for investment opportunities prevailing in the present economic environment that will give us a leading position. In accordance with the Group's investment and development strategies, we will be focusing on the utility, commercial property and infrastructure industries while actively looking for water resources, commercial property, expressways and power generation related projects as long-term development targets so as to create higher values for shareholders.

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

**LI Wenyue**

*Chairman*

Hong Kong, 8 April 2010



# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL OVERVIEW

The consolidated revenue of the Group for 2009 was HK\$5,916 million (2008: HK\$5,913 million), which was almost at the same level with that in year 2008. The growth contributed by the water distribution business, the property investment and department stores businesses was almost offset by the decrease in the power generation and hotel businesses.

The consolidated net profit attributable to shareholders of the Group increased by 8.9% to HK\$2,044 million (2008: HK\$1,877 million). The profit before tax increased by 21.4% or HK\$522 million to HK\$2,959 million (2008: HK\$2,437 million). The growth was mainly contributed by the increase in the property investment and development businesses.

An increase in the fair value of investment properties for HK\$203 million (2008: decrease in value for HK\$494 million) and an impairment of interest in an associate for the power generation business for HK\$75 million (2008: HK\$100 million) were recorded in the consolidated income statement for the year. Mainly because of the low interest rate, the finance cost decreased by 32.1% to HK\$258 million.

The basic earnings per share were 33.03 HK cents (2008: 30.54 HK cents), representing an increase of 8.2% as compared with that in 2008.

## BUSINESS OVERVIEW

A summary of the performance of the Group's major businesses during 2009 is as follows:

### Water Distribution

Profit contribution from the Dongshen Water Supply Project remained significant to the Group. The Company's interest in the holding company of the Dongshen Water Supply Project has increased by 0.63% to 89.08% during the year. The holding company in turn has a 99% interest in the Dongshen Water Supply Project.

The designed annual capacity of water supply is 2.423 billion cubic meters. The total water supply to Hong Kong, Shenzhen and Dongguan during the year amounted to 1.993 billion cubic meters (2008: 2.019 billion cubic meters), a decrease of 1.3%, generating revenue amounted to HK\$3,867,903,000 (2008: HK\$3,443,842,000), an increase of 12.3%.

Pursuant to the Hong Kong Water Supply Agreement for 2009 to 2011 entered into between the Government of the Hong Kong Special Administrative Region and the Guangdong Province Government in 2008, the total annual revenue for water sales to Hong Kong for the three years 2009, 2010 and 2011 are to be HK\$2,959 million, HK\$3,146 million and HK\$3,344 million, respectively. Compared to the total annual revenue of HK\$2,494.8 million for 2008, there was an increase of 18.6% in the Hong Kong water sales revenue during the year.

Affected by the economic slowdown, the water sales volume to the Shenzhen area decreased by 4.9% to 911 million cubic meters during the year (2008: 958 million cubic meters). The water sales revenue to the Shenzhen area in 2009 decreased by 4.1% to HK\$784,409,000 (2008: HK\$817,717,000), while the water sales volume to the Dongguan area decreased by 12.5% to 357 million cubic meters during the year (2008: 408 million cubic meters). The water sales revenue to the Dongguan area in 2009 decreased by 5.2% to HK\$124,494,000 (2008: HK\$131,325,000).

The profit before tax of the water distribution business for the year under review was HK\$1,840,706,000 (2008: HK\$2,130,116,000), which was HK\$289,410,000 less than that in 2008. The EBITDA of the water distribution business during the year amounted to HK\$2,966,219,000 (2008: HK\$3,389,126,000), HK\$422,907,000 less than that of 2008. The decrease of both profit before tax and EBITDA were due to the one-off subsidy of approximately HK\$730 million realized in 2008.

## Electric Power Generation

### *Zhongshan Power Plant*

The Group's effective interest in 中山火力發電有限公司 (Zhongshan Thermal Power Co., Ltd.) ("ZTP") is 59.85% (Zhongshan Power (Hong Kong) Limited ("ZPHK"), a 95% owned subsidiary of the Company holding a 63% interest in ZTP). ZTP has 2 power generation units with a total installed capacity of 110 MW. Sales of electricity for the year amounted to 688 million kwh (2008: 603 million kwh), an increase of 14.1%. Sales revenue for the year amounted to HK\$389,049,000 (2008: HK\$321,573,000), an increase of 21%. The increase in revenue was mainly due to the increases in both the electricity sales and the average electricity tariff. Because of the significant decrease in coal price, the profit margin for the year had increased substantially as compared to that in 2008. The profit before tax for the year was HK\$156,697,000 (2008: loss before tax HK\$52,532,000).

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

### *Yudean Jinghai Power Plant*

On 20 October 2009, the Company, Chun Wai Consultants Limited ("Chun Wai") (which is a wholly-owned subsidiary of GDH Limited) and GDH Limited entered into an agreement, under which, the Company agreed to acquire the entire issued share capital ("Sale Share") of Golden River Chain Limited ("Golden River"), a wholly-owned subsidiary of Chun Wai, and the shareholder's loan due from Golden River to Chun Wai ("Sale Loan"). In addition, GDH Limited agreed to guarantee the obligations of Chun Wai thereunder. Golden River had an indirect equity interests of 25% of 廣東粵電靖海發電有限公司 (Guangdong Yudean Jinghai Power Generation Co., Ltd.) ("Yudean Jinghai"), which owns and operates a coal-fired power plant with two 600 MW power generators located in Huilai Town, Jieyang City, Guangdong Province. The consideration for the Sale Share and the Sale Loan is HK\$84,289,000 and HK\$515,711,000, respectively, and was paid by the Company in cash on 4 January 2010 upon the completion of the transaction. In addition, the Company will make further capital contribution of RMB342 million (approximately HK\$388 million) in Yudean Jinghai.

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

The Group's effective interest in Shaoguan PPD is 45.9%. Guangdong Power (International) Limited, a 51% owned subsidiary of the Company, holds a 90% interest in Shaoguan PPD. As mentioned in the Group's 2008 Annual Report, Shaoguan PPD's power generation unit was closed down at the end of 2008.

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

The Group's effective interest in Yue Jiang Power Plant is 11.48% (Shaoguan PPD holding a 25% interest in this project). Yue Jiang Power Plant has 2 power generation units with a total installed capacity of 600 MW. Sales of the electricity for the year amounted to 3,122 million kwh (2008: 2,836 million kwh), an increase of 10.1%. Sales revenue for the year reached HK\$1,629,379,000 (2008: HK\$1,421,968,000), an increase of 14.6%. The increase in revenue was mainly due to increases in both the electricity sales and the average electricity tariff. The profit before tax for the year was HK\$80,154,000 whereas a loss before tax of HK\$253,437,000 was recorded in 2008. In view of the expected increases in coal price and operating cost but decrease in tariff in the coming year, an impairment provision of HK\$75,405,000 in relation to the investment in Yue Jiang Power Plant has been made during the year.

### *Meixian Power Plant*

The Group's effective interest in Meixian Power Plant is 12.25% (a 49% associate of the Company, Guangdong Power Investment Limited ("GD Power Investment"), holding a 25% interest in the project). During the year, no dividend income was received by GD Power Investment from this investment (2008: HK\$20,540,000).

## **Toll Roads and Bridges**

### *"1 Road and 2 Bridges"*

In 2009, the profit before tax of the Group's 51% owned jointly-controlled entity (the "JCE") which holds interests in the "1 Road and 2 Bridges" project amounted to HK\$205,443,000 in aggregate (2008: HK\$299,830,000), a decrease of 31.5%.

#### **(i) Humen Bridge**

The JCE has a profit sharing ratio of 23% in this project. During the year, average daily traffic flow of this bridge decreased by 8.2% to 57,682 vehicle trips (2008: 62,825 vehicle trips). Revenue for the year amounted to HK\$982,928,000 (2008: HK\$1,116,205,000), a decrease of 11.9%. Following the completion of the repair and maintenance works at the Guangshen Highway in 2008, the Humen Bridge could no longer benefit from the traffic that would otherwise be diverted to it as a result of the said maintenance works. Accordingly, the profit before tax for the year decreased by 5.7% to HK\$760,213,000 (2008: HK\$805,747,000).

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

The JCE holds a 30% interest in this project. During the year, the average daily traffic flow of this bridge increased by 1.9% to 13,508 vehicle trips (2008: 13,258 vehicle trips). Revenue for the year increased by 5.7% to HK\$193,512,000 (2008: HK\$183,095,000). The profit before tax for the year was HK\$143,813,000 (2008: HK\$137,835,000), an increase of 4.3%.

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

The JCE holds a 51% interest in this project. During the year, the average daily traffic flow of this highway has increased by 16.3% to 17,574 vehicle trips (2008: 15,105 vehicle trips). Revenue for the year was HK\$76,546,000 (2008: HK\$57,088,000), an increase of 34.1%. Profit before tax for the year was HK\$22,152,000 (2008: HK\$5,661,000), an increase of 291.3%, mainly due to the increase of traffic flow.

*Yingkeng Highway*

The Group's effective interest in this project is 70%. During the year, the average daily traffic flow of this highway increased by 18.2% to 4,222 vehicle trips (2008: 3,572 vehicle trips). Revenue increased by 46.8% to HK\$20,947,000 (2008: HK\$14,268,000). The loss before tax for the year increased to HK\$7,088,000 (2008: HK\$4,000) as a result of the increase in interest expenses.

*Panyu Bridge*

The Group's effective interest in this project is 20%. During the year, the average daily traffic flow of this bridge decreased by 4.3% to 52,349 vehicle trips (2008: 54,690 vehicle trips). As a result, revenue for the year has decreased by 5.0% to HK\$138,142,000 (2008: HK\$145,364,000). The profit before tax for the year was HK\$50,248,000 (2008: HK\$71,550,000), a decrease of 29.8%.

**Property Investment***Mainland China***Teem Plaza**

As at 31 December 2009, the Group held an effective equity interest of 76.0% in 廣東天河城(集團)股份有限公司 (Guangdong Teem (Holdings) Limited) ("GD Teem"), which owns the investment property Teem Plaza comprising of a shopping mall, an office building and a hotel.

Revenue of Teem Plaza, comprising rental income from both the shopping mall (including rentals from department store run by the Group) and the office building, during the year reached HK\$837,047,000 (2008: HK\$744,468,000), an increase of 12%. The profit before tax for the year increased by 211% to HK\$783,941,000 (2008: HK\$252,476,000), including the revaluation gain of HK\$172,767,000 (2008: losses of HK\$379,109,000) in respect of Teem Plaza.

The Teemall, one of the most popular shopping malls in the premier area of Guangzhou, has a total gross floor area and lettable area of approximately 160,000 square meters and 97,000 square meters, respectively. The mall is operated at a full capacity with an average occupancy rate of approximately 99% during the year (2008: 99%). The mall is successful in retaining existing brand-name tenants and attracting new ones. The strong demands for shop spaces in the mall and the use of the open tender system for selecting tenants resulted in good rental increase.

The office building, known as the Teem Tower (粵海天河城大廈), is a 45-storey Grade A office tower with a total gross floor area and lettable area of approximately 102,000 square meters and 90,000 square meters, respectively. With an occupancy rate of 87% (2008: 80%) as at 31 December 2009, the total rental income for the year was HK\$136,070,000 (2008: HK\$106,027,000), an increase of 28%. The profit before tax for the year increased to HK\$132,945,000 (2008: HK\$98,878,000).

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The hotel, which will be a 5-star hotel with approximately 450 hotel rooms, is expected to be completed in near future. Sheraton Overseas Management Corporation has been engaged to operate, manage and promote the hotel under the name of Sheraton Guangzhou Hotel (粵海喜來登酒店) for an initial 10-year term. The estimated total development cost of the hotel (inclusive of both the historic land and further development costs) is about HK\$993 million, of which approximately HK\$427 million has been invested as at 31 December 2009.

### Tianjin Teem Shopping Mall

During the year, GD Teem acquired a piece of land in Tianjin. The land will be developed into a large-scale modern shopping mall with a total gross floor area above ground and underground of approximately 137,100 square meters and 56,000 square meters, respectively. The estimated total investment of the mall is about RMB2,130 million, of which approximately HK\$562 million has been invested as at 31 December 2009. The mall is expected to be completed in 2013 if the progress is on schedule.

### Hong Kong

#### Guangdong Investment Tower

Average occupancy rate of the Guangdong Investment Tower for 2009 was 96.5% (2008: 100%), which was 3.5% lower than that in 2008. The total rental income for the year was HK\$32,174,000 (2008: HK\$33,068,000), a decrease of 2.7%. The decrease in rental income was mainly due to the decrease in occupancy rate but compensated by the increase in the average rental.

### Department Stores

With further expansion of department stores business, as at 31 December 2009, the Group held an effective interest of 85.12% in both 廣東天河城百貨有限公司 (Guangdong Teemall Department Stores Ltd.) which operates the Teemall store and Teemall store — Beijing road branch (“Ming Sheng store”) and 廣州市天河城萬博百貨有限公司 which operates the 天河城百貨歐萊斯折扣店 (“Wan Bo store”). The 3 stores in aggregate with leased area of approximately 62,100 square meters (2008: 61,900 square meters) generating revenue of HK\$475,893,000 (2008: HK\$433,266,000), an increase of 9.8%. The profit before tax for the year was HK\$213,404,000 (2008: HK\$204,135,000), an increase of 4.5%.

The Teemall store sells a wide range of products and its sales rank very high among the major department stores in Guangzhou. The revenue of the Teemall store increased by 0.2% to HK\$392,173,000 (2008: HK\$391,570,000) arising from the improvement of the retail market and the success of various promotion activities launched at Teemall store during the year.

The Ming Sheng store was opened in August 2008 and had an increase in revenue from HK\$3,937,000 in 2008 to HK\$34,338,000 in 2009.

The Wan Bo store operates as an outlet mall selling brand name products at substantial discount. The revenue of Wan Bo store for the year was HK\$49,382,000 (2008: HK\$37,759,000), an increase of 31%.

In 2009, the Group's share of profit of 廣東吉之島天貿百貨有限公司 (Guangdong Jusco Teem Stores Co. Ltd.), a 26.6% associate of the Group, amounted to HK\$29,684,000 (2008: HK\$29,754,000).

## Hotel Operations and Management

As at 31 December 2009, our hotel management team managed a total of 38 hotels (2008: 34 hotels), of which 2 were in Hong Kong, 1 in Macau and 35 in Mainland China. Of these 38 hotels, 9 were owned by the Group (2 in Hong Kong, 4 in Shenzhen, 1 in Zhuhai, 1 in Zhengzhou and 1 in Changzhou).

Among the 9 hotels owned by the Group, 5 were star-rated hotels and 4 were limited service hotels. During the year, the average room rate of the star-rated hotels of the Group in Hong Kong, Shenzhen, Zhuhai, and Changzhou was HK\$432 (2008: HK\$515), a decrease of 16.1% as compared with that of 2008. The average room rate of the 4 limited service hotels of the Group in Shenzhen and Zhengzhou was HK\$180, a decrease of 8.0% as compared with that of 2008.

For the hotel business as a whole, the revenue for the year decreased by 16.0% to HK\$311,805,000 (2008: HK\$371,352,000), and profit before tax decreased by 77.8% to HK\$22,759,000 (2008: HK\$102,503,000). The decrease was due to global economic downturn and impairments of HK\$36,183,000 (2008: nil).

## LIQUIDITY, GEARING AND FINANCIAL RESOURCES

As at 31 December 2009, the cash and bank balances of the Group decreased by HK\$229 million to HK\$3,871 million (2008: HK\$4,100 million), of which 22% in Hong Kong dollars, 76% in Renminbi and 2% in US dollars.

During the year under review, the level of the Group's financial borrowing decreased by HK\$2,576 million due to the repayment of certain interest-bearing debts.

As at 31 December 2009, the Group's financial borrowings amounted to HK\$7,473 million (2008: HK\$10,049 million), of which 8% in Renminbi and 92% in Hong Kong dollars, including the non-interest-bearing receipt in advance of HK\$1,537 million. Of the Group's total financial borrowings, HK\$1,703 million was repayable within one year while the remaining balance of HK\$4,344 million and HK\$1,426 million are repayable within two to five years and beyond five years from the balance sheet date, respectively.

Other than the bank debts incurred in respect of our water distribution business, the Group maintained credit facilities of RMB50 million as at 31 December 2009 (2008: RMB50 million).

The gearing (i.e. net financial indebtedness/net asset value (excluded minority interests)) of the Group as at 31 December 2009 was 0.23 times (2008: 0.41 times). The improvement is in fact a reflection of the reduction in the level of the Group's financial borrowings and the increase in the net assets of the Group. The Group is in a healthy debt servicing position as the EBITDA /finance cost is 15.84 times (2008: 9.73 times).

The existing cash resources and available credit facilities of the Group, together with steady cash flows generated from the Group's operations, are sufficient to meet the Group's payment obligation and business requirements.

## PLEDGE OF ASSETS

As at 31 December 2009, none of the Group's property, plant and equipment, investment properties, intangible assets and bank deposits was pledged to secure general banking facilities granted to the Group (2008: Nil).

### CAPITAL EXPENDITURE

The Group's capital expenditure in 2009 amounted to HK\$831 million which was principally related to the land and development cost for the Tianjin Teem Shopping Mall and the construction in progress of the Sheraton Guangzhou Hotel and the Zhongshan Project.

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

As at 31 December 2009, total Renminbi borrowings amounted to HK\$620 million (2008: HK\$930 million).

As at 31 December 2009, the Group's total floating rate borrowings amounted to HK\$5,936 million (2008: HK\$8,394 million). For the purpose of interest rate risk management, the Group has entered into certain fixed interest rate swap agreements, amounting to HK\$5,400 million (2008: HK\$5,400 million), with remaining life of 3 years.

### EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2009, the Group had a total of 4,016 employees, of which 836 were at the managerial level. Among the employees, 3,810 were employed by subsidiaries in Mainland China and 206 were employed by the head office and subsidiaries in Hong Kong. Total remuneration paid for the year was approximately HK\$406,858,000 (2008: HK\$381,223,000).

In 2009, even when facing the challenges of continuing adverse economic situation and business environments, the Group further enhanced its human resources, staff productivity and creativity in order to strengthen the overall competitiveness of the enterprise. At the same time, the Group raised and improved its management standard further for efficiency and competitive advantages. Despite the unfavourable external conditions in the past year, all these measures have made it possible for the Group to successfully maintain a stable and healthy growth. To sustain our growth in the long term, the Group has implemented the core value of corporate culture, "Credibility, Integrity and Profitability", and aimed at creating an environment of fair competition with an impartial reward and discipline system conducive to nurturing our human resources. The Group has put in place the mechanism for regular performance appraisals of and feedback to senior management staff to ensure their integrity and performance. Our remuneration and incentive packages are driven mainly by the operating results. In order to effectively motivate our employees, the incentive bonuses we pay to our management, key staff and employees with outstanding performance are determined by reference to the operating net cash flows and profits after tax, as well as by a policy that links rewards with individual performance. The Group has adopted a share option scheme to attract and motivate outstanding employees to contribute to the continuing success of the Group in the long run. In terms of staff training and development, the Group encourages and subsidizes our staff to actively participate in relevant professional development and training programs. The Group has also continued to offer its various functional skilled-based and general corporate culture internal training to upgrade the overall quality of all our staff and thereby lay down a solid foundation for the sustainable growth and development of the Group in the years ahead.



## DIRECTORS

**Mr. Li Wenyue**, aged 59, was appointed an Executive Director and the Managing Director of the Company on 14 March 2000. When he was appointed Chairman of the Company on 16 March 2001, he resigned his position as Managing Director. He was appointed a Director and the General Manager of 廣東粵海控股有限公司 (Guangdong Holdings Limited) ("Guangdong Holdings") and GDH Limited ("GDH") in July 2000 and August 2000, respectively and has acted as the Chairman of both Guangdong Holdings and GDH since April 2005. Mr. Li subsequently ceased to act as General Manager of both Guangdong Holdings and GDH in February 2009. Guangdong Holdings and GDH are the ultimate holding company and the immediate holding company of the Company, respectively. Mr. Li was appointed Chairman of Kingway Brewery Holdings Limited ("Kingway Brewery"), a subsidiary of GDH, in July 2008. Before joining the Company, Mr. Li was with Guangdong Power Group in a number of positions from 1977 to 1994 including Director and Deputy General Manager; and thereafter, he acted as Deputy Secretary-General of the Guangdong Provincial Government from 1994 to 2000, mainly assisting the Governor in the management of transport, industry, energy, communication, labour and, subsequently, the restructuring of Guangdong Enterprises (Holdings) Limited ("GDE"). He has a Master's degree in Engineering from Tsinghua University.

**Mr. ZHANG Hui**, aged 51, was appointed an Executive Director of the Company on 28 October 2002 and was subsequently appointed the Managing Director of the Company in December 2002. Mr. Zhang graduated from Tsinghua University and holds a Master's degree in Business Administration from International East-West University, USA. He worked for the Guangdong Province Dongshen Water Supply Management Bureau from July 1996 to September 2000 in a number of positions including Section Chief and Vice President. He joined the Company in July 2002. He is also the Chairman of Guangdong Teem (Holdings) Limited, a subsidiary of the Company. He was appointed a Director of GDH in December 2008. He was also appointed a Director and the Chairman of both GDH Real Estates (China) Limited ("GDH Real Estates (China)") and 廣東粵港投資開發有限公司 (Guangdong Yue Gang Investment Development Company Limited) ("Yue Gang Investment Development") in December 2009 and February 2010 respectively. GDH Real Estates (China) is a subsidiary of GDH and Yue Gang Investment Development is a subsidiary of Guangdong Holdings.

**Mr. TSANG Hon Nam**, aged 40, was appointed an Executive Director and Chief Financial Officer of the Company on 17 April 2008. Mr. Tsang graduated from The Chinese University of Hong Kong and holds a Bachelor's degree in Science. He is an Associate of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Association of Chartered Certified Accountants. Mr. Tsang acted as an Executive Director and the Chief Financial Officer of Guangnan (Holdings) Limited ("Guangnan Holdings"), a subsidiary of GDH, during the period from February 2004 to April 2008. Before joining Guangnan Holdings, he had acted as Deputy General Manager of the Finance Department of GDH and had also worked for GDE.

**Dr. CHENG Mo Chi, Moses**, *GBS, OBE, JP*, aged 60, was appointed an Independent Non-Executive Director of the Company on 25 November 1999. He was re-designated as a Non-Executive Director of the Company on 13 October 2004.

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



## DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE (CONTINUED)

**Mr. HUANG Xiaofeng**, aged 51, was appointed a Non-Executive Director of the Company on 26 June 2008. Mr. Huang graduated from South China Normal University and holds a Bachelor's degree in History. He also holds a Master's degree in Public Administration from the Sun Yat-Sen University. From 1987 to 1999, he worked for the General Office of the Communist Party of China ("CPC") Guangdong Committee in a number of positions. Between 1999 and 2003, Mr. Huang was the Deputy Director General of the General Office of the CPC Guangzhou Committee and thereafter the Deputy Secretary General of the CPC Guangzhou Committee. Between 2003 and 2008, Mr. Huang was the Deputy Director General of the General Office of the Guangdong Provincial Government and then the Deputy Secretary General of the Guangdong Provincial Government. Mr. Huang was appointed as a Director and a Deputy General Manager of Guangdong Holdings in April 2008 and was subsequently appointed as an Executive Director and a Deputy General Manager of GDH. Mr. Huang was appointed General Manager of both Guangdong Holdings and GDH in February 2009. He was also appointed a Non-Executive Director of respectively Kingway Brewery and Guangnan Holdings in October 2008.

**Ms. XU Wenfang**, aged 55, was appointed a Non-Executive Director of the Company on 3 March 2005. She is a Senior Economist and holds a Master's degree in Business Administration from International East-West University, USA. Ms. Xu was appointed a Director of GDH in December 2008 and was subsequently appointed a Deputy General Manager of Guangdong Holdings and an Executive Director of GDH in February 2009. She is also the Chief Personnel and Appraisal Officer and the General Manager of the Personnel Department of Guangdong Holdings and the Chief Personnel and Appraisal Officer and the General Manager of the Personnel and Appraisal Department of GDH, and is responsible for human resources management. Ms Xu is also a Director of Guangdong Assets Management Limited, a wholly-owned subsidiary of GDH. Ms. Xu was appointed a Director and the Chairman of Guangdong Yue Gang Water Supply Company Limited ("Yue Gang Water Supply") and 廣東粵港建設發展有限公司 (Guangdong Yue Gang Construction Development Company Limited) ("Yue Gang Construction Development") in January 2010. Yue Gang Water Supply and Yue Gang Construction Development are subsidiaries of the Company and Guangdong Holdings, respectively.

**Mr. ZHAI Zhiming**, aged 61, was appointed a Non-Executive Director of the Company on 21 April 2006. He had been a Non-Executive Director of the Company for the period from 18 January 2002 to 16 September 2004. Mr. Zhai graduated from Xian Foreign Language University in 1976. After his graduation, Mr. Zhai worked for the Tianjin Bureau for Economic Relations with Foreign Countries until 1992 in a number of positions including Section Chief and Vice Director. He undertook further study abroad from 1993 to 1995 and obtained his Master's degree in Business Administration from the Business School of Emory University, USA. From 1996 to 1999, he worked for IVY International LLC in USA as General Manager. Mr. Zhai worked for the Guangdong Provincial Government in 2000. Mr. Zhai has been working for GDH since 2001. He is a Director of GDH and the Chairman of Supertime Development Limited, a wholly-owned subsidiary of GDH. He was appointed a Director and Deputy General Manager of Guangdong Holdings in February 2006.

**Mr. LI Wai Keung**, aged 53, was appointed a Non-Executive Director of the Company on 30 May 2000. He acted as an Executive Director and the Chief Financial Officer of the Company from 19 July 2006 to 16 April 2008 and was thereafter re-designated as a Non-Executive Director of the Company. Mr. Li graduated from the Hong Kong Polytechnic and holds a Master's degree in Business Administration from the University of East Asia. He is a Fellow of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Li had worked for Henderson Land Development Company Limited. Mr. Li who has been an Executive Director and the Financial Controller of GDH since August 2000 is currently the Financial Controller of Guangdong Holdings as well. He is also an Independent Non-Executive Director of Shenzhen Investment Limited, Hans Energy Company Limited and China South City Holdings Limited and a Director of Shenzhen City Airport (Group) Company Limited. Mr. Li was also appointed an Independent Non-Executive Director of Hong Long Holdings Limited in March 2010. He is a member on the Council of the Hong Kong Chinese Orchestra Limited. He is also the Vice Chairman of the Financial and Accounting Affairs Steering Committee of the Hong Kong Chinese Enterprises Association.

**Mr. SUN Yingming**, aged 57, was appointed a Non-Executive Director of the Company on 15 December 2006. Mr. Sun obtained a Diploma in Political Theory from South China Normal University. He had worked for the Finance Section of the Commercial Bureau of Guangdong Province. From 1990 to 2000, he worked for GDE as Manager of the Finance Department and the Chief Audit and Supervision Officer and the General Manager of the Audit and Supervision Department. He has been the Chief Audit and Supervision Officer and the General Manager of the Audit and Supervision Department of GDH since 2000 and a Director of GDH since 2001. Mr. Sun is also the Chief Audit and Supervision Officer and the General Manager of the Audit and Supervision Department of Guangdong Holdings.

**Dr. CHAN Cho Chak, John**, *GBS, JP*, aged 67, was appointed an Independent Non-Executive Director of the Company on 25 June 1998.

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

Dr. Chan was educated in Hong Kong and graduated from the University of Hong Kong in 1964 with an Honours Degree in English Literature. He later obtained a Diploma in Management Studies from the same University following the completion of evening studies. He was awarded the degree of Doctor of Business Administration (*honoris causa*) by the International Management Centres in October 1997 and the degree of Doctor of Social Sciences (*honoris causa*) by the Hong Kong University of Science and Technology in November 2009.

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

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

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

**Dr. The Honourable LI Kwok Po, David**, *GBM, GBS, OBE, MA Cantab. (Economics & Law), Hon. DSc. (Imperial), Hon. DBA (Napier), Hon. D.Hum. Litt. (Trinity, USA), Hon. DSocSc (Lingnan), Hon. LLD (Hong Kong), Hon. LLD (Warwick), Hon. LLD (Cantab), FCA, FCPA, FCPA (Aust.), FCIB, FHKIB, FBCS, CITP, FCI Arb, JP, Officier de L'Ordre de la Couronne, Grand Officer of the Order of the Star of Italian Solidarity, The Order of the Rising Sun, Gold Rays with Neck Ribbon, Officier de la Légion d'Honneur*, aged 71, was appointed an Independent Non-Executive Director of the Company on 25 June 1998.

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

## DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE (CONTINUED)

Dr. Li is the Chairman of The Chinese Banks' Association, Limited, He is the Honorary Advisor of The International Chamber of Commerce — Hong Kong, China and the First Honorary Chairman of Hong Kong Chamber of Commerce in China. He is also the Honorary Chairman of the Chamber of Hong Kong Listed Companies. Dr. Li is the Vice President of the Council of the Hong Kong Institute of Bankers.

Dr. Li is the Chairman of the Hong Kong Management Association, He is a Council Member of the Employers' Federation of Hong Kong. He is Emeritus Trustee of the Cambridge Foundation, a Trustee of the Cambridge Overseas Trust, Trustee Emeritus of the Institute for Advanced Study in Princeton, and Chairman of INSEAD East Asia National Council.

Dr. Li is the Chairman of the Advisory Board of The Salvation Army, Hong Kong and Macau Command, the Chairman of the Executive Committee of St. James' Settlement and he also serves on the Hong Kong Red Cross Advisory Board.

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

Dr. Li is a member of the Board of Trustees of the Asia Society International Council and the Asia Business Council.

Dr. Li serves on the International Advisory Board of Crédit Agricole S.A., the Advisory Board of Deutsche Bank Asia Pacific, the International Advisory Committee of the Federal Reserve Bank of New York, He is a Member of the Munich Re Greater China Advisory Board, and he is a Senior Adviser of Metrobank.

**Mr. FUNG Daniel Richard**, SBS, QC, SC, JP, aged 56, was appointed an Independent Non-Executive Director of the Company on 3 January 2000.

Mr. Fung is Senior Counsel of the Hong Kong Bar. Called to the English Bar in Middle Temple in 1975 and to the Hong Kong Bar in 1977, Mr. Fung has been in continuous practice for over three decades, achieving in 1990 appointment as Queen's Counsel.

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

In 1998, Mr. Fung left public office to take up successive appointments as Visiting Scholar at Harvard Law School and Senior Visiting Fellow at Yale Law School.

Mr. Fung served as Chairman of the Broadcasting Authority (2002–2008) and on respectively the Basic Law Consultative Committee (1985–1990) and the Central Policy Unit of the Hong Kong Government (1993–1994) and was Distinguished Fulbright Scholar for Hong Kong in the Year 2000. Additionally, Mr. Fung currently serves as President of the International Law Association Hong Kong Branch, Member of the World Bank International Advisory Council on Law and Justice, International Consultant to the UNDP on Corporate Governance in the PRC, Special Advisor to the UNDP on the Rule of Law Development Program in Cambodia and in Laos, and Advisory Committee Member of the American Bar Association/United Nations Development Program Legal Resource Unit.

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

## SENIOR MANAGEMENT

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

The directors (the “Directors”) of Guangdong Investment Limited (the “Company”) herein present their report and the audited financial statements of the Company and its subsidiaries (together the “Group”) for the year ended 31 December 2009.

## Principal Activities

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

## Results and Dividends

The results of the Group for the year ended 31 December 2009 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 51 to 153.

An interim dividend of 5.0 HK cents (2008: 4.0 HK cents) per share was paid on 30 October 2009. The Directors recommend the payment of a final dividend of 6.0 HK cents (2008: 6.0 HK cents) per share for the year ended 31 December 2009. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

The proposed final dividend, if approved at the forthcoming annual general meeting of the Company to be held on Wednesday, 2 June 2010, is expected to be paid on Tuesday, 29 June 2010 to shareholders whose names appear on the register of members of the Company on Wednesday, 2 June 2010.

The register of members of the Company will be closed from Monday, 31 May 2010 to Wednesday, 2 June 2010 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s share registrar, Tricor Tengis Limited, at 26/F., Tesbury Centre, 28 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Friday, 28 May 2010.

## Summary of Financial Information

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

### Results

|   |                  | Year ended 31 December |            |            |            |
|---|------------------|------------------------|------------|------------|------------|
|   | 2009             | 2008                   | 2007       | 2006       | 2005       |
|   | HK\$'000         | HK\$'000               | HK\$'000   | HK\$'000   | HK\$'000   |
|   |                  | (Restated)             | (Restated) | (Restated) | (Restated) |
| <b>REVENUE</b>                                  | <b>5,915,758</b> | 5,913,200              | 5,533,682  | 5,239,395  | 4,628,370  |
| <b>PROFIT FROM OPERATING ACTIVITIES</b>         |                  |                        |            |            |            |
| <b>AFTER FINANCE COSTS</b>                      | <b>2,841,778</b> | 2,296,953              | 2,356,403  | 1,926,710  | 1,623,732  |
| Share of profits of a jointly-controlled entity | 91,074           | 134,084                | 3,030      | 66,858     | 66,023     |
| Share of profits less losses of associates      | 26,347           | 6,188                  | 44,589     | 54,173     | 38,420     |
| <b>PROFIT BEFORE TAX</b>                        | <b>2,959,199</b> | 2,437,225              | 2,404,022  | 2,047,741  | 1,728,175  |
| <b>TAX</b>                                      | <b>(499,746)</b> | (442,422)              | (406,120)  | (268,724)  | (218,163)  |
| <b>PROFIT BEFORE MINORITY INTERESTS</b>         | <b>2,459,453</b> | 1,994,803              | 1,997,902  | 1,779,017  | 1,510,012  |
| Minority interests                              | (415,199)        | (118,121)              | (300,868)  | (272,114)  | (206,517)  |
| <b>PROFIT FOR THE YEAR</b>                      |                  |                        |            |            |            |
| <b>ATTRIBUTABLE TO EQUITY</b>                   |                  |                        |            |            |            |
| <b>HOLDERS OF THE COMPANY</b>                   | <b>2,044,254</b> | 1,876,682              | 1,697,034  | 1,506,903  | 1,303,495  |

Note: Due to the adoption of Amendment to Appendix to HKAS18 during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Certain amounts for the prior years have been reclassified and restated to conform with the current year's presentation and accounting treatment accordingly.

## Summary of Financial Information (continued)

## Assets, liabilities and minority interests

|   | As at 31 December   |                  |                  |                  |                  |
|---|---------------------|------------------|------------------|------------------|------------------|
|   | 2009<br>HK\$'000    | 2008<br>HK\$'000 | 2007<br>HK\$'000 | 2006<br>HK\$'000 | 2005<br>HK\$'000 |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>            | <b>2,315,077</b>    | 2,271,930        | 2,301,211        | 3,274,206        | 3,182,046        |
| <b>PROPERTIES UNDER DEVELOPMENT</b>             | <b>—</b>            | —                | —                | —                | 15,342           |
| <b>INVESTMENT PROPERTIES</b>                    | <b>4,810,466</b>    | 4,032,698        | 4,277,760        | 2,385,480        | 2,302,685        |
| <b>PREPAID LAND LEASE PAYMENTS</b>              | <b>822,203</b>      | 838,589          | 849,808          | 860,146          | 919,420          |
| <b>GOODWILL</b>                                 | <b>266,146</b>      | 262,370          | 256,119          | 216,127          | 139,346          |
| <b>INTERESTS IN A JOINTLY-CONTROLLED ENTITY</b> | <b>909,136</b>      | 994,757          | 852,142          | 915,052          | 917,756          |
| <b>INTERESTS IN ASSOCIATES</b>                  | <b>184,521</b>      | 274,118          | 354,424          | 484,156          | 483,415          |
| <b>CONTRACTUAL JOINT VENTURE</b>                | <b>—</b>            | —                | —                | —                | 46,569           |
| <b>INTANGIBLE ASSETS</b>                        | <b>16,667,163</b>   | 17,454,798       | 18,300,506       | 19,240,767       | 19,828,681       |
| <b>OTHER ASSETS</b>                             | <b>4,796,669</b>    | 5,099,070        | 3,279,035        | 2,775,324        | 2,704,296        |
| <b>DEFERRED TAX ASSETS</b>                      | <b>15,773</b>       | 16,361           | 21,618           | 22,604           | 9,563            |
| <b>TOTAL ASSETS</b>                             | <b>30,787,154</b>   | 31,244,691       | 30,492,623       | 30,173,862       | 30,549,119       |
| <b>OTHER LOANS AND LIABILITIES</b>              | <b>(10,449,471)</b> | (13,045,789)     | (13,703,079)     | (15,120,078)     | (16,875,912)     |
| <b>DEFERRED TAX LIABILITIES</b>                 | <b>(886,781)</b>    | (717,271)        | (758,058)        | (641,794)        | (592,217)        |
| <b>TOTAL LIABILITIES</b>                        | <b>(11,336,252)</b> | (13,763,060)     | (14,461,137)     | (15,761,872)     | (17,468,129)     |
| <b>MINORITY INTERESTS</b>                       | <b>(2,420,879)</b>  | (2,086,109)      | (2,006,491)      | (1,789,403)      | (1,602,701)      |
| <b>NET ASSETS</b>                               | <b>19,450,902</b>   | 17,481,631       | 16,031,486       | 14,411,990       | 13,080,990       |

## Property, Plant and Equipment, Investment Properties and Intangible Assets

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

## Share Capital

Details of movements in the Company's share capital during the year are set out in note 32 to the financial statements.

## Share Premium Accounts and Reserves

Details of movements in the share premium accounts and reserves of the Company and the Group during the year are set out in notes 32 and 34 to the financial statements and in the consolidated statement of changes in equity, respectively.

### Distributable Reserves

As at 31 December 2009, the Company's reserves available for distribution as calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance and in light of the undertakings more particularly referred to in note 34 to the financial statements amounted to HK\$142,598,000.

### Charitable Contributions

The Group made HK\$3,177,000 charitable contributions during the year (2008: HK\$3,589,000).

### Arrangement to Acquire Shares or Debentures

Save as disclosed in the sections headed "Directors' Interests and Short Positions in Securities" and "Share Options of the Company" of this report, and in note 33 to the financial statements, at no time during the year was the Company or its holding companies, or any of its subsidiaries or its fellow subsidiaries, a party to any arrangements to enable the Directors of the Company or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### Directors

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

#### *Executive Directors*

Li Wenyue (*Chairman*)

Zhang Hui (*Managing Director*)

Tsang Hon Nam (*Chief Financial Officer*)

#### *Non-Executive Directors*

Cheng Mo Chi, Moses

Huang Xiaofeng

Xu Wenfang

Zhai Zhiming

Li Wai Keung

Sun Yingming

Wang Xiaofeng (resigned on 5 January 2010)

#### *Independent Non-Executive Directors*

Chan Cho Chak, John

Li Kwok Po, David

Fung Daniel Richard

## Directors (continued)

Ms. Xu Wenfang, Mr. Li Wai Keung, Dr. Chan Cho Chak, John and Dr. Li Kwok Po, David will retire by rotation in accordance with Articles 77 to 79 of the Articles of Association of the Company at the forthcoming annual general meeting. Being eligible, Ms. Xu Wenfang, Mr. Li Wai Keung, Dr. Chan Cho Chak, John and Dr. Li Kwok Po, David will offer themselves for re-election.

Ms. Xu Wenfang and Mr. Li Wai Keung, Non-Executive Directors, and Dr. Chan Cho Chak, John and Dr. Li Kwok Po, David, Independent Non-Executive Directors, agree to stand for re-election and if re-elected to hold office from the date of re-election, to the earlier of (i) the conclusion of the annual general meeting of the Company to be held in 2013, and (ii) 30 June 2013, subject to earlier determination in accordance with the Articles of Association of the Company and/or applicable laws and regulations.

## Directors' Service Contracts

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

## Directors' Interests in Contracts of Significance

None of the Directors had a material beneficial interest, whether directly or indirectly, in any significant contract to which the Company or any of its subsidiaries, its holding companies or a subsidiary of its holding companies was a party during the year or as at 31 December 2009.

## Directors' Interests in Competing Businesses

As at 31 December 2009, Messrs. Li Wenyue, Huang Xiaofeng and Zhai Zhiming, Directors of the Company, were also directors of 廣東粵海控股有限公司 (Guangdong Holdings Limited) ("Guangdong Holdings") and GDH Limited ("GDH"). Ms. Xu Wenfang and Messrs. Zhang Hui, Li Wai Keung and Sun Yingming, Directors of the Company, were also directors of GDH. GDH is a wholly-owned subsidiary of Guangdong Holdings. In addition, Ms. Xu Wenfang was a director of Guangdong Assets Management Limited ("GDAM"), a wholly-owned subsidiary of GDH. Certain subsidiaries of GDAM own certain office units in Guangdong Group Building (the "Building") in Guangzhou, the People's Republic of China. Certain subsidiaries of the Company also own certain other office units in the Building. The respective subsidiaries of GDAM and the Company rent out some of these office units for commercial purposes. However the Directors consider that such competition, if any, is neither significant nor material to the Group as a whole. Accordingly, the Directors are of the view that the Group is capable of carrying on its businesses independently of, and at arm's length from, any such potential competing businesses.



### Directors' Interests and Short Positions in Securities

As at 31 December 2009, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), were as follows:

#### Interests and short positions in the Company

##### (i) Interests in ordinary shares

| Name of Director    | Capacity/<br>nature of<br>interests | Number of<br>ordinary<br>shares held | Long/short<br>position | Approximate<br>percentage of<br>interests held<br>(Note) |
|---------------------|-------------------------------------|--------------------------------------|------------------------|--|
| Li Wenyue           | Personal                            | 31,320,000                           | Long position          | 0.504%   |
| Cheng Mo Chi, Moses | Personal                            | 1,150,000                            | Long position          | 0.019%   |
| Chan Cho Chak, John | Personal                            | 5,450,000                            | Long position          | 0.088%   |
| Li Kwok Po, David   | Personal                            | 6,000,000                            | Long position          | 0.097%   |

Note: The approximate percentage of interests held was calculated on the basis of 6,213,438,071 ordinary shares of the Company in issue as at 31 December 2009.

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

## Interests and short positions in the Company (continued)

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

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

| Name of Director    | Number of share options |                               |                                 |  | At<br>31 December<br>2009 | Date of<br>grant of<br>share<br>options*<br>(dd.mm.yyyy) | Total<br>consideration<br>paid for share<br>options<br>HK\$ | Exercise period<br>of share<br>options<br>(both days<br>inclusive)#<br>(dd.mm.yyyy) | Exercise<br>price<br>of share<br>options**<br>HK\$<br>(per share) | Price of<br>ordinary<br>share<br>at date<br>immediately<br>before date<br>of grant***<br>HK\$<br>(per share) | Price of<br>ordinary<br>share<br>immediately<br>before the<br>exercise<br>date***<br>HK\$<br>(per share) |
|---------------------|-------------------------|-------------------------------|---------------------------------|--|---------------------------|--|---|---|---|--|--|
|                     | At<br>1 January<br>2009 | Granted<br>during<br>the year | Exercised<br>during<br>the year | Cancelled/<br>Lapsed<br>during<br>the year |                           |  |   |   |   |  |  |
| Li Wenyue           | 3,000,000               | —                             | (3,000,000)                     | —  | —                         | 06.02.2004   | 1   | 07.05.2004 to<br>06.05.2009   | 1.59  | 1.57   | } 3.81   |
|                     | 2,500,000               | —                             | (2,500,000)                     | —  | —                         | 24.05.2004   | 1   | 25.08.2004 to<br>24.08.2009   | 1.25  | 1.25   |  |
| Zhang Hui           | 3,000,000               | —                             | (3,000,000)                     | —  | —                         | 06.02.2004   | 1   | 07.05.2004 to<br>06.05.2009   | 1.59  | 1.57   | } 3.76   |
|                     | 2,500,000               | —                             | (2,500,000)                     | —  | —                         | 24.05.2004   | 1   | 25.08.2004 to<br>24.08.2009   | 1.25  | 1.25   |  |
| Cheng Mo Chi, Moses | 1,000,000               | —                             | (1,000,000)                     | —  | —                         | 06.02.2004   | 1   | 07.05.2004 to<br>06.05.2009   | 1.59  | 1.57   | } 3.56   |
|                     | 450,000                 | —                             | (450,000)                       | —  | —                         | 24.05.2004   | 1   | 25.08.2004 to<br>24.08.2009   | 1.25  | 1.25   |  |
| Wang Xiaofeng       | 1,000,000               | —                             | (1,000,000)                     | —  | —                         | 06.02.2004   | 1   | 07.05.2004 to<br>06.05.2009   | 1.59  | 1.57   | } 3.69   |
|                     | 650,000                 | —                             | (650,000)                       | —  | —                         | 24.05.2004   | 1   | 25.08.2004 to<br>24.08.2009   | 1.25  | 1.25   |  |
| Li Kwok Po, David   | 1,000,000               | —                             | (1,000,000)                     | —  | —                         | 06.02.2004   | 1   | 07.05.2004 to<br>06.05.2009   | 1.59  | 1.57   | } 3.44   |
|                     | 450,000                 | —                             | (450,000)                       | —  | —                         | 24.05.2004   | 1   | 25.08.2004 to<br>24.08.2009   | 1.25  | 1.25   |  |

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

| Name of Director    | Number of share options |                               |                                 |  | At<br>31 December<br>2009 | Date of<br>grant of<br>share<br>options*<br>(dd.mm.yyyy) | Total<br>consideration<br>paid for<br>share options<br>HK\$ | Exercise<br>price<br>of share<br>options**<br>HK\$<br>(per share) | Price of<br>ordinary<br>share<br>at date<br>immediately<br>before date<br>of grant***<br>HK\$<br>(per share) | Price of<br>ordinary<br>share<br>immediately<br>before the<br>exercise<br>date***<br>HK\$<br>(per share) |
|---------------------|-------------------------|-------------------------------|---------------------------------|--|---------------------------|--|---|---|--|--|
|                     | At<br>1 January<br>2009 | Granted<br>during<br>the year | Exercised<br>during<br>the year | Cancelled/<br>Lapsed<br>during<br>the year |                           |  |   |   |  |  |
| Li Wenyue           | 9,500,000               | —                             | —                               | —  | 9,500,000                 | 24.10.2008   | —   | 1.88  | 1.73   | —  |
| Zhang Hui           | 4,400,000               | —                             | —                               | —  | 4,400,000                 | 24.10.2008   | —   | 1.88  | 1.73   | —  |
| Tsang Hon Nam       | 2,950,000               | —                             | —                               | —  | 2,950,000                 | 24.10.2008   | —   | 1.88  | 1.73   | —  |
| Cheng Mo Chi, Moses | 2,500,000               | —                             | —                               | —  | 2,500,000                 | 24.10.2008   | —   | 1.88  | 1.73   | —  |
| Huang Xiaofeng      | 5,700,000               | —                             | —                               | —  | 5,700,000                 | 24.10.2008   | —   | 1.88  | 1.73   | —  |
| Xu Wenfang          | 3,300,000               | —                             | —                               | —  | 3,300,000                 | 24.10.2008   | —   | 1.88  | 1.73   | —  |
| Zhai Zhiming        | 3,900,000               | —                             | —                               | —  | 3,900,000                 | 24.10.2008   | —   | 1.88  | 1.73   | —  |
| Li Wai Keung        | 3,350,000               | —                             | —                               | —  | 3,350,000                 | 24.10.2008   | —   | 1.88  | 1.73   | —  |
| Sun Yingming        | 3,500,000               | —                             | —                               | —  | 3,500,000                 | 24.10.2008   | —   | 1.88  | 1.73   | —  |
| Wang Xiaofeng       | 3,200,000               | —                             | —                               | —  | 3,200,000                 | 24.10.2008   | —   | 1.88  | 1.73   | —  |

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

### Interests and short positions in the Company (continued)

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

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

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

- (a) The option period of all the share options is 5.5 years from the date of grant.
- (b) Any share option is only exercisable during the option period after it has become vested.
- (c) The normal vesting scale of the share options is as follows:

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

- (d) The vesting of the share options is further subject to the achievement of such performance targets as determined by the board of Directors upon grant and stated in the offer of grant.
- (e) The leaver vesting scale of the share options that would apply in the event of the grantee ceasing to be an eligible person under certain special circumstances (less the percentage which has already vested under the normal vesting scale or lapsed) is as follows:

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

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

## Interests and short positions in the Company (continued)

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

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

- \* The vesting period of the share options granted under the 2002 Scheme is from the date of the grant until the commencement of the exercise period. Details of the vesting periods of the share options granted under the 2008 Scheme are set out in the "Share Option Scheme adopted on 24 October 2008" section of this report.
- \*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- \*\*\* The price of the Company's ordinary share disclosed as "at date immediately before date of grant" of the share options is the closing price on the Hong Kong Stock Exchange on the business day prior to which the options were granted.
- The price of the Company's ordinary share disclosed as "immediately before the exercise date" of the share options is the weighted average of the Hong Kong Stock Exchange closing prices immediately before the dates on which the options were exercised by each of the Directors or all other participants as an aggregate whole.
- # Under the 2002 Scheme, the option period of any share option is the period expiring at 5:01 p.m. on the business day immediately preceding the fifth anniversary of the commencement date of the option period for the share option in question.

## Interests and short positions in Kingway Brewery Holdings Limited

## Interests in ordinary shares

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

Note: The approximate percentage of interests held was calculated on the basis of 1,711,536,850 ordinary shares of Kingway Brewery Holdings Limited in issue as at 31 December 2009.

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

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

(i) *Interests in ordinary shares*

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

Note: The approximate percentage of interests held was calculated on the basis of 905,723,285 ordinary shares of Guangnan (Holdings) Limited ("Guangnan Holdings") in issue as at 31 December 2009.

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

| Name of Director | Number of share options |                               |                                 |  |                           | Date of<br>grant of<br>share<br>options*<br>(dd.mm.yyyy) | Total<br>consideration<br>paid for<br>share options<br>HK\$ | Exercise period<br>of share<br>options (both<br>days inclusive)**<br>(dd.mm.yyyy) | Exercise<br>price<br>of share<br>options<br>HK\$<br>(per share) | Price of<br>ordinary<br>share<br>at date<br>immediately<br>before date<br>of grant***<br>HK\$<br>(per share) | Price of<br>ordinary<br>share<br>immediately<br>before the<br>exercise<br>date<br>HK\$<br>(per share) |
|------------------|-------------------------|-------------------------------|---------------------------------|--|---------------------------|--|---|---|---|--|---|
|                  | At<br>1 January<br>2009 | Granted<br>during<br>the year | Exercised<br>during<br>the year | Cancelled/<br>Lapsed<br>during<br>the year | At<br>31 December<br>2009 |  |   |   |   |  |   |
| Tsang Hon Nam    | 300,000                 | —                             | —                               | —  | 300,000                   | 09.03.2006   | 1   | 09.06.2006 to<br>08.03.2016   | 1.66  | 1.61   | —   |

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

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

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

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

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

## Interests and short positions in Guangdong Tannery Limited

*Interests in ordinary shares*

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

Note: The approximate percentage of interests held was calculated on the basis of 537,619,000 ordinary shares of Guangdong Tannery Limited in issue as at 31 December 2009.

Save as disclosed above, as at 31 December 2009, to the knowledge of the Company, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

## Substantial Shareholders' Interests

As at 31 December 2009, so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interest or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to Section 336 of the SFO:

| Name of shareholder                                    | Capacity/<br>nature of<br>interests                        | Number of<br>ordinary<br>shares held | Long/short<br>position | Approximate<br>percentage of<br>interests held<br>(Note 1) |
|--|--|--------------------------------------|------------------------|--|
| 廣東粵海控股有限公司<br>(Guangdong Holdings Limited)<br>(Note 2) | Interest of<br>controlled corporation                      | 3,765,770,781                        | Long position          | 60.61%   |
| GDH Limited<br>(Note 3)                                | Beneficial owner/<br>Interest of<br>controlled corporation | 3,765,770,781                        | Long position          | 60.61%   |
| Guangdong Trust Ltd.                                   | Beneficial owner/<br>Interest of<br>controlled corporation | 576,404,918                          | Long position          | 9.28%  |

## Substantial Shareholders' Interests (continued)

Notes:

1. The approximate percentage of interests held was calculated on the basis of 6,213,438,071 ordinary shares of the Company in issue as at 31 December 2009.
2. The attributable interest which 廣東粵海控股有限公司 (Guangdong Holdings Limited) has in the Company is held through its 100% direct interest in GDH Limited.
3. The interests of GDH Limited set out above include attributable interest held through its wholly-owned subsidiary, Guangdong Trust Ltd.

Save as disclosed above, as at 31 December 2009, so far as is known to any Director or chief executive of the Company, no other person (other than a Director or chief executive of the Company) had, or were deemed or taken to have interest or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

## Share Options of the Company

As at 31 December 2009, save as disclosed in the section of "Directors' Interests and Short Positions in Securities", certain other eligible persons had the following interests in rights to subscribe for shares of the Company granted under the 2002 Scheme and the 2008 Scheme. Each option gives the holder the right to subscribe for one share of par value HK\$0.50 each of the Company. Further details are set out in note 33 to the financial statements.

### (1) 2002 Scheme

| Category of participants | Number of share options |                         |                           |                                   |                     | Date of grant of share options*<br>(dd.mm.yyyy) | Total consideration paid for share options<br>HK\$ | Exercise period of share options (both days inclusive)*<br>(dd.mm.yyyy) | Exercise price of share options**<br>HK\$<br>(per share) | Price of ordinary share at date immediately before date of grant***<br>HK\$<br>(per share) | Price of ordinary share immediately before the exercise date***<br>HK\$<br>(per share) |
|--------------------------|-------------------------|-------------------------|---------------------------|-----------------------------------|---------------------|---|--|---|--|--|--|
|                          | At 1 January 2009       | Granted during the year | Exercised during the year | Cancelled/ Lapsed during the year | At 31 December 2009 |   |  |   |  |  |  |
| Employees                | 15,500,000              | —                       | (15,500,000)              | —                                 | —                   | 06.02.2004                                      | 1  | 07.05.2004 to 06.05.2009  | 1.59   | 1.57   | } 3.67   |
|                          | 21,000,000              | —                       | (21,000,000)              | —                                 | —                   | 24.05.2004                                      | 1  | 25.08.2004 to 24.08.2009  | 1.25   | 1.25   |  |
|                          | 1,500,000               | —                       | —                         | —                                 | 1,500,000           | 10.03.2006                                      | 1  | 11.06.2006 to 10.06.2011  | 3.405  | 3.30   | —  |

### (2) 2008 Scheme

| Category of participants | Number of share options |                         |                           |                                   |                     | Date of grant of share options*<br>(dd.mm.yyyy) | Total consideration paid for share options<br>HK\$ | Exercise price of share options**<br>HK\$<br>(per share) | Price of ordinary share at date immediately before date of grant***<br>HK\$<br>(per share) | Price of ordinary shares immediately before the exercise date***<br>HK\$<br>(per share) |
|--------------------------|-------------------------|-------------------------|---------------------------|-----------------------------------|---------------------|---|--|--|--|---|
|                          | At 1 January 2009       | Granted during the year | Exercised during the year | Cancelled/ Lapsed during the year | At 31 December 2009 |   |  |  |  |   |
| Employees                | 18,500,000              | —                       | —                         | —                                 | 18,500,000          | 24.10.2008                                      | —  | 1.88   | 1.73   | —   |

## Share Options of the Company (continued)

### (2) 2008 Scheme (continued)

Additional information regarding the above share options granted in 2008 is set out in the “Notes to the above share options granted pursuant to the 2008 Scheme” in the “Directors’ Interests and Short Positions in Securities” section of this report on page 34.

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

## Significant Contracts with Controlling Shareholder

Save as disclosed in notes 38 and 39 to the financial statements, the Company and the controlling shareholders of the Company had not entered into any contracts of significance during the year.

## Connected Transactions

Details of the connected transactions including continuing connected transactions are disclosed in note 39 to the financial statements.

## Purchase, Sale and Redemption of Listed Securities

During the year, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s securities listed on the Hong Kong Stock Exchange save and except that the Company has issued the following new ordinary shares to certain option holders during the year pursuant to the Company’s 2002 Scheme:

|              | <b>No. of<br/>new ordinary<br/>shares issued</b> | <b>Exercise price<br/>per ordinary<br/>share<br/>HK\$</b> | <b>Cash<br/>consideration<br/>HK\$</b> |
|--------------|--|---|--|
|              | 27,550,000                                       | 1.25  | 34,437,500                             |
|              | 24,500,000                                       | 1.59  | 38,955,000                             |
| <b>Total</b> | <b>52,050,000</b>                                |   | <b>73,392,500</b>                      |



### Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 66% of the total sales for the year and sales to the Group's largest customer included therein amounted to 50%. Purchases from the Group's five largest suppliers accounted for 24% of the total purchases for the year and purchases from the Group's largest supplier included therein amounted to 17%.

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

### Post Balance Sheet Event

Details of the significant post balance sheet event of the Group is set out in note 44 to the financial statements.

### Public Float

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

### Auditors

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

By order of the Board

**LI Wenyue**

*Chairman*

Hong Kong, 8 April 2010

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

In the opinion of the directors of the Company (the “Directors”), the Company has complied with the code provisions set out in the CG Code throughout the year ended 31 December 2009.

## Directors’ Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors’ securities transactions. All Directors have confirmed, upon specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the year.

## Board of Directors

The board of Directors (the “Board”) currently comprises three Executive Directors, being Mr. Li Wenyue, Mr. Zhang Hui and Mr. Tsang Hon Nam, six Non-Executive Directors, being Dr. Cheng Mo Chi, Moses, Mr. Huang Xiaofeng, Ms. Xu Wenfang, Mr. Zhai Zhiming, Mr. Li Wai Keung and Mr. Sun Yingming, and three Independent Non-Executive Directors, being Dr. Chan Cho Chak, John, Dr. Li Kwok Po, David and Mr. Fung Daniel Richard. Ms. Wang Xiaofeng resigned as a Non-Executive Director on 5 January 2010.

The Board is responsible for the leadership and control of the Company and oversees the Group’s businesses, strategic decisions and performances. The management was delegated the authority and responsibility by the Board for the day-to-day management of the Group. Major corporate matters that are specifically delegated by the Board to the management include the preparation of interim and annual reports and announcements for Board approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory and regulatory requirements and rules and regulations.

## Board of Directors (continued)

During the financial year ended 31 December 2009, the Board had five scheduled meetings. The attendances of the Directors at the Board meetings are as follows:

| Directors           | Number of Attendance |
|---------------------|----------------------|
| Li Wenyue           | 3/5                  |
| Zhang Hui           | 5/5                  |
| Tsang Hon Nam       | 5/5                  |
| Cheng Mo Chi, Moses | 3/5                  |
| Huang Xiaofeng      | 5/5                  |
| Xu Wenfang          | 3/5                  |
| Zhai Zhiming        | 4/5                  |
| Li Wai Keung        | 5/5                  |
| Sun Yingming        | 5/5                  |
| Wang Xiaofeng       | 2/5                  |
| Chan Cho Chak, John | 5/5                  |
| Li Kwok Po, David   | 5/5                  |
| Fung Daniel R.      | 2/5                  |

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

Dr. Chan Cho Chak, John and Dr. Li Kwok Po, David will stand for re-election at the forthcoming annual general meeting of the Company. While both of them have served the Board of the Company for more than nine years, they have clearly demonstrated their respective willingness to exercise independent judgment and to provide objective challenges to the management. There is no evidence that length of tenure is having an adverse impact on their independence. The Board therefore considers that they remain independent, notwithstanding the length of their respective tenure.

The Board members do not have any financial, business, family or other material/relevant relationships with each other. Such balanced board composition also ensures that strong independence exists across the Board. The biographies of the Directors as at the date of this report are set out in pages 23 to 26 to the annual report, which demonstrate a diversity of skills, expertise, experience and qualifications.

## Chairman and Managing Director

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

## Non-Executive Directors

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

## Remuneration of Directors

### Remuneration Committee

The Company established the Remuneration Committee in 2005. The authority and duties of the Remuneration Committee are as follows:

#### *Authority*

1. The Remuneration Committee is authorized by the Board to investigate any activity within its terms of reference. It is authorized to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Remuneration Committee.
2. The Remuneration Committee is authorized by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

#### *Duties*

1. To make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.
2. To have the delegated responsibilities to determine the specific remuneration packages of all Executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment. Factors which should be taken into consideration include but not limited to salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.
3. To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.
4. To review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company.

## Remuneration of Directors (continued)

### Remuneration Committee (continued)

#### *Duties (continued)*

5. To review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate.
6. To make recommendations to the Board of the remuneration of Non-Executive Directors.
7. To ensure that no Director or any of his associates is involved in deciding his own remuneration.
8. To consult the Chairman and/or the Managing Director about their proposals relating to the remuneration of Executive Directors and senior management and have access to professional advice if considered necessary.
9. To consider other topics as defined by the Board.
10. To report back to the Board on their work (including their decisions and recommendations) from time to time as appropriate and in any event not less than once every year.

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

During the financial year ended 31 December 2009, the Remuneration Committee held three meetings to (i) review the remuneration policy for the senior management of the Company and (ii) approve the annual remuneration package and performance bonuses for the Executive Directors of the Company that came up for determination. The attendance of each member of the Remuneration Committee is set out as follows:

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

### Remuneration

Details of the amount of Directors' emoluments for the year 2009 are set out in note 8 to the financial statements.

Dr. Chan Cho Chak, John is currently entitled to an annual director's fee of HK\$378,000 and also annual fees of HK\$119,000 and HK\$105,000 for serving as Chairman of the Remuneration Committee and member of the Audit Committee, respectively.

## Remuneration of Directors (continued)

### Remuneration (continued)

Dr. Li Kwok Po, David is currently entitled to an annual director's fee of HK\$378,000 and also annual fees of HK\$161,000 and HK\$77,000 for serving as Chairman of the Audit Committee and member of the Remuneration Committee, respectively.

Mr. Fung Daniel R. is currently entitled to an annual director's fee of HK\$378,000 and also annual fees of HK\$105,000 and HK\$77,000 for serving as member of both the Audit Committee and the Remuneration Committee, respectively.

Dr. Cheng Mo Chi, Moses is currently entitled to an annual director's fee of HK\$378,000 and also annual fees of HK\$105,000 and HK\$77,000 for serving as member of both the Audit Committee and the Remuneration Committee, respectively.

Other than the biographies of the Directors and the changes in the Directors' remuneration as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## Nomination of Directors

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

## Auditors' Remuneration

During the year under review, the remuneration paid to Ernst & Young (excluding the audit fee relating to the audit of a jointly-controlled entity), is set out as follows:

| Services rendered                    | Fee paid/<br>payable<br>HK\$'000 |
|--------------------------------------|----------------------------------|
| Audit of financial statements        | 5,980                            |
| Review of interim results            | 1,040                            |
| Risk and internal control assessment | 980                              |
| Due diligent services                | 1,010                            |
|                                      | 9,010                            |

### Audit Committee

The Audit Committee of the Company was established in 1998 . The authority and duties of the Audit Committee are as follows:

#### Authority

1. The Audit Committee is authorized by the Board to investigate any activity within its terms of reference. It is authorized to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Audit Committee.
2. The Audit Committee is authorized by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

#### Duties

1. To be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor.
2. To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences.
3. To develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.
4. To monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the Audit Committee should focus particularly on:
  - i. any changes in accounting policies and practices;
  - ii. major judgmental areas;
  - iii. significant adjustments resulting from audit;
  - iv. the going concern assumptions and any qualifications;
  - v. compliance with accounting standards; and
  - vi. compliance with the Listing Rules and other legal requirements in relation to financial reporting.

## Audit Committee (continued)

### Duties (continued)

5. In regard to 4 above:
  - i. members of the Audit Committee must liaise with the Company's Board and senior management and the Audit Committee must meet, at least once a year, with the Company's auditor; and
  - ii. the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditor.
6. To review the Company's financial controls, internal control and risk management systems.
7. To discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.
8. To consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response.
9. Where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function.
10. To review the Group's financial and accounting policies and practices.
11. To review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response.
12. To ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter.
13. To report to the Board on the matters set out in the code provisions in relation to Audit Committee under Appendix 14 of the Listing Rules.
14. To consider other topics, as defined by the Board.

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



## Audit Committee (continued)

### Duties (continued)

During the financial year ended 31 December 2009, the Audit Committee held two meetings. It reviewed the 2008 annual results and the 2009 interim results of the Company before their submission to the Board and monitored the integrity of such financial statements. The Audit Committee oversees matters concerning the external auditors including making recommendations to the Board regarding the appointment of the external auditors, reviewing the scope of their audit and work and approving their fees. It proposed for the Board's approval the amendment to the terms of reference of the Audit Committee to be in line with the new provisions of the CG Code. In addition to its two meetings as aforesaid, the Audit Committee also had a private meeting with the external auditors without the presence of the management to discuss any area of concern. The Audit Committee further ensures that the management has put in place an effective system of internal control. It maintains an overview of the Group's risk assessment, control and management processes. It reviews the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function and their training programmes and budget. In addition, it reviews the internal audit schedules of the Group, considers the Group's internal audit reports and monitors the effectiveness of the internal audit function. The attendance of each member of the Audit Committee is set out as follows:

| <b>Directors</b>    | <b>Number of Attendance</b> |
|---------------------|-----------------------------|
| Li Kwok Po, David   | 2/2                         |
| Chan Cho Chak, John | 2/2                         |
| Fung Daniel R.      | 1/2                         |
| Cheng Mo Chi, Moses | 2/2                         |

## Accountability and Audit

The Board is responsible for overseeing the preparation of financial statements for the year ended 31 December 2009, which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that financial year. In preparing the financial statements for the year ended 31 December 2009, the Board has selected appropriate accounting policies, applied them consistently in accordance with the Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and ensured the preparation of the financial statements on the going concern basis.

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

## Internal Control

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

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

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

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

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

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

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

By order of the Board

**LI Wenyue**

*Chairman*

Hong Kong, 8 April 2010

# INDEPENDENT AUDITORS' REPORT



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

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

We have audited the financial statements of Guangdong Investment Limited ("the Company") set out on pages 51 to 153, which comprise the consolidated and Company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## **Directors' responsibility for the financial statements**

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

## **Auditors' responsibility**

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

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

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

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

## **Opinion**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong  
8 April 2010

# CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2009



|  | Notes | 2009<br>HK\$'000 | 2008<br>HK\$'000<br>(Restated) |
|--|-------|------------------|--------------------------------|
| REVENUE  | 5     | 5,915,758        | 5,913,200                      |
| Cost of sales  |       | (2,140,177)      | (2,699,894)                    |
| Gross profit   |       | 3,775,581        | 3,213,306                      |
| Other income/(loss)  | 5     | (7,907)          | 852,436                        |
| Selling and distribution costs   |       | (87,021)         | (99,698)                       |
| Administrative expenses  |       | (617,350)        | (574,863)                      |
| Other operating income/(expenses), net                                       |       | 36,460           | (713,950)                      |
| Finance costs  | 7     | (257,985)        | (380,278)                      |
| Share of profits of a jointly-controlled entity                              |       | 91,074           | 134,084                        |
| Share of profits less losses of associates                                   |       | 26,347           | 6,188                          |
| PROFIT BEFORE TAX  | 6     | 2,959,199        | 2,437,225                      |
| Tax  | 10    | (499,746)        | (442,422)                      |
| PROFIT FOR THE YEAR  |       | 2,459,453        | 1,994,803                      |
| Attributable to:   |       |                  |                                |
| Equity holders of the Company  | 11    | 2,044,254        | 1,876,682                      |
| Minority interests   |       | 415,199          | 118,121                        |
|  |       | 2,459,453        | 1,994,803                      |
| EARNINGS PER SHARE ATTRIBUTABLE TO<br>ORDINARY EQUITY HOLDERS OF THE COMPANY | 13    |                  |                                |
| Basic  |       | 33.03 HK cents   | 30.54 HK cents                 |
| Diluted  |       | 32.79 HK cents   | 30.12 HK cents                 |

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

|   | Note | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|---|------|------------------|------------------|
| PROFIT FOR THE YEAR                                       |      | <b>2,459,453</b> | 1,994,803        |
| OTHER COMPREHENSIVE INCOME                                |      |                  |                  |
| Fair value gains on property, plant and equipment         |      | <b>1,708</b>     | 5,978            |
| Exchange differences on translation of foreign operations |      | <b>11,350</b>    | 399,608          |
| Net gains/(losses) on cash flow hedges                    | 27   | <b>200,459</b>   | (323,573)        |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR                   |      | <b>213,517</b>   | 82,013           |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR                   |      | <b>2,672,970</b> | 2,076,816        |
| Attributable to:  |      |                  |                  |
| Equity holders of the Company                             |      | <b>2,233,141</b> | 1,920,083        |
| Minority interests  |      | <b>439,829</b>   | 156,733          |
|   |      | <b>2,672,970</b> | 2,076,816        |

# CONSOLIDATED BALANCE SHEET

31 December 2009



|  |              | <b>31 December<br/>2009</b> | 31 December<br>2008    | 1 January<br>2008      |
|--|--------------|-----------------------------|------------------------|------------------------|
|  | <i>Notes</i> | <b>HK\$'000</b>             | HK\$'000<br>(Restated) | HK\$'000<br>(Restated) |
| <b>NON-CURRENT ASSETS</b>                    |              |                             |                        |                        |
| Property, plant and equipment                | 14           | <b>2,315,077</b>            | 2,271,930              | 2,301,211              |
| Investment properties                        | 15           | <b>4,810,466</b>            | 4,032,698              | 4,277,760              |
| Prepaid land lease payments                  | 16           | <b>822,203</b>              | 838,589                | 849,808                |
| Goodwill                                     | 17           | <b>266,146</b>              | 262,370                | 256,119                |
| Interests in a jointly-controlled entity     | 19           | <b>909,136</b>              | 994,757                | 852,142                |
| Interests in associates                      | 20           | <b>184,521</b>              | 274,118                | 354,424                |
| Intangible assets                            | 21           | <b>16,667,163</b>           | 17,454,798             | 18,300,506             |
| Prepayments and deposits                     | 24           | <b>120,111</b>              | —                      | —                      |
| Deferred tax assets                          | 31           | <b>15,773</b>               | 16,361                 | 21,618                 |
| Other long term assets                       |              | <b>—</b>                    | 6                      | 18                     |
| <b>Total non-current assets</b>              |              | <b>26,110,596</b>           | 26,145,627             | 27,213,606             |
| <b>CURRENT ASSETS</b>                        |              |                             |                        |                        |
| Available-for-sale investments               | 22           | <b>56,808</b>               | 56,718                 | 42,045                 |
| Tax recoverable                              |              | <b>—</b>                    | 174                    | 33,437                 |
| Inventories                                  | 23           | <b>49,399</b>               | 50,190                 | 57,819                 |
| Receivables, prepayments and deposits        | 24           | <b>563,315</b>              | 722,807                | 379,843                |
| Derivative financial instruments             | 27           | <b>136,009</b>              | 169,367                | 78,516                 |
| Restricted cash and bank balances            | 25           | <b>—</b>                    | 2,831                  | 2,824                  |
| Cash and cash equivalents                    | 25           | <b>3,871,027</b>            | 4,096,977              | 2,684,533              |
| <b>Total current assets</b>                  |              | <b>4,676,558</b>            | 5,099,064              | 3,279,017              |
| <b>CURRENT LIABILITIES</b>                   |              |                             |                        |                        |
| Payables, accruals and other liabilities     | 26           | <b>(1,736,315)</b>          | (1,512,351)            | (1,416,203)            |
| Tax payable                                  |              | <b>(181,239)</b>            | (268,282)              | (81,249)               |
| Derivative financial instruments             | 27           | <b>(417,493)</b>            | (312,770)              | (147,503)              |
| Due to minority shareholders of subsidiaries | 28           | <b>(367,013)</b>            | (346,825)              | (415,349)              |
| Interest-bearing bank borrowings             | 29           | <b>(1,584,903)</b>          | (310,409)              | (292,343)              |
| Other liabilities — current portion          | 30           | <b>(118,200)</b>            | (118,200)              | (118,200)              |
| <b>Total current liabilities</b>             |              | <b>(4,405,163)</b>          | (2,868,837)            | (2,470,847)            |
| <b>NET CURRENT ASSETS</b>                    |              | <b>271,395</b>              | 2,230,227              | 808,170                |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> |              |                             |                        |                        |
| — page 54                                    |              | <b>26,381,991</b>           | 28,375,854             | 28,021,776             |

## CONSOLIDATED BALANCE SHEET (CONTINUED)

31 December 2009

|   | Notes | 31 December<br>2009<br>HK\$'000 | 31 December<br>2008<br>HK\$'000<br>(Restated) | 1 January<br>2008<br>HK\$'000<br>(Restated) |
|---|-------|---------------------------------|---|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES                   |       |                                 |   |   |
| — page 53   |       | 26,381,991                      | 28,375,854                                    | 28,021,776                                  |
| NON-CURRENT LIABILITIES                                 |       |                                 |   |   |
| Derivative financial instruments                        | 27    | (155,988)                       | (395,472)                                     | (130,144)                                   |
| Due to minority shareholders of subsidiaries            | 28    | (11,574)                        | (18,007)                                      | (22,594)                                    |
| Interest-bearing bank borrowings                        | 29    | (4,351,483)                     | (8,083,401)                                   | (9,424,694)                                 |
| Other liabilities                                       | 30    | (1,525,263)                     | (1,680,072)                                   | (1,654,800)                                 |
| Deferred tax liabilities                                | 31    | (886,781)                       | (717,271)                                     | (758,058)                                   |
| Total non-current liabilities                           |       | (6,931,089)                     | (10,894,223)                                  | (11,990,290)                                |
| Net assets  |       | 19,450,902                      | 17,481,631                                    | 16,031,486                                  |
| EQUITY  |       |                                 |   |   |
| Equity attributable to equity holders<br>of the Company |       |                                 |   |   |
| Issued capital  | 32    | 3,106,719                       | 3,080,694                                     | 3,051,969                                   |
| Reserves  | 34(a) | 13,550,498                      | 11,945,145                                    | 10,606,790                                  |
| Proposed final dividends                                | 12    | 372,806                         | 369,683                                       | 366,236                                     |
|   |       | 17,030,023                      | 15,395,522                                    | 14,024,995                                  |
| Minority interests                                      |       | 2,420,879                       | 2,086,109                                     | 2,006,491                                   |
| Total equity  |       | 19,450,902                      | 17,481,631                                    | 16,031,486                                  |

Li Wen Yue  
Director

Tsang Hon Nam  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009



| Attributable to equity holders of the Company                  |          |                            |   |                                   |  |                              |                              |                                     |   |                              |                               |                                      |                   |                                |
|--|----------|----------------------------|---|-----------------------------------|--|------------------------------|------------------------------|-------------------------------------|---|------------------------------|-------------------------------|--------------------------------------|-------------------|--------------------------------|
|  | Notes    | Issued capital<br>HK\$'000 | Ordinary share premium account*<br>HK\$'000 | Share option reserve*<br>HK\$'000 | Asset revaluation reserve*<br>HK\$'000 | Capital reserve*<br>HK\$'000 | Hedging reserve*<br>HK\$'000 | Expansion fund reserve*<br>HK\$'000 | Exchange fluctuation reserve*<br>HK\$'000 | Special reserve*<br>HK\$'000 | Retained profits*<br>HK\$'000 | Proposed final dividends<br>HK\$'000 | Total<br>HK\$'000 | Minority interests<br>HK\$'000 |
|  |          |                            |   | (note 34(a)(ii))                  |  |                              | (note 34(a)(iii))            | (note 34(a)(iv))                    |   | (note 34(a)(i))              |                               |                                      |                   |                                |
| At 1 January 2008  |          | 3,051,969                  | 2,339,544                                   | 1,485                             | 8,406                                  | 1,430,009                    | (150,817)                    | 501,859                             | 505,735                                   | 74,049                       | 5,896,520                     | 366,236                              | 14,024,995        | 2,006,491                      |
| Total comprehensive income/(expense) for the year              |          | —                          | —   | —                                 | 4,541                                  | —                            | (286,447)                    | —                                   | 325,307                                   | —                            | 1,876,682                     | —                                    | 1,920,083         | 156,733                        |
| Share options exercised, net of share issue expenses           | 32(i)    | 28,725                     | 34,613                                      | —                                 | —                                      | —                            | —                            | —                                   | —   | —                            | —                             | —                                    | 63,338            | —                              |
| Acquisition of minority interests                              |          | —                          | —   | —                                 | —                                      | —                            | —                            | —                                   | —   | —                            | —                             | —                                    | —                 | (23,517)                       |
| Equity-settled share option arrangements                       | 33       | —                          | —   | 1,865                             | —                                      | —                            | —                            | —                                   | —   | —                            | —                             | —                                    | 1,865             | —                              |
| Transfer from retained profits                                 |          | —                          | —   | —                                 | —                                      | —                            | —                            | 149,751                             | —   | —                            | (149,751)                     | —                                    | —                 | —                              |
| Dividends paid to minority interests                           |          | —                          | —   | —                                 | —                                      | —                            | —                            | —                                   | —   | —                            | —                             | —                                    | —                 | (53,598)                       |
| Interim 2008 dividend paid                                     | 12       | —                          | —   | —                                 | —                                      | —                            | —                            | —                                   | —   | —                            | (246,456)                     | —                                    | (246,456)         | —                              |
| Proposed final 2008 dividend                                   | 12       | —                          | —   | —                                 | —                                      | —                            | —                            | —                                   | —   | —                            | (369,683)                     | 369,683                              | —                 | —                              |
| Final 2007 dividend paid                                       |          | —                          | —   | —                                 | —                                      | —                            | —                            | —                                   | —   | —                            | (2,067)                       | (366,236)                            | (368,303)         | —                              |
| Transfer to retained profits upon issue of new ordinary shares | 34(a)(i) | —                          | —   | —                                 | —                                      | —                            | —                            | —                                   | —   | (63,372)                     | 63,372                        | —                                    | —                 | —                              |
| At 31 December 2008  |          | 3,080,694                  | 2,374,157                                   | 3,350                             | 12,947                                 | 1,430,009                    | (437,264)                    | 651,610                             | 831,042                                   | 10,677                       | 7,068,617                     | 369,683                              | 15,395,522        | 2,086,109                      |



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Year ended 31 December 2009

| Attributable to equity holders of the Company                     |          |                            |   |                                   |  |                              |                              |                                     |   |                              |                               |                                      |                   |                                |                          |
|---|----------|----------------------------|---|-----------------------------------|--|------------------------------|------------------------------|-------------------------------------|---|------------------------------|-------------------------------|--------------------------------------|-------------------|--------------------------------|--------------------------|
|   | Notes    | Issued capital<br>HK\$'000 | Ordinary share premium account*<br>HK\$'000 | Share option reserve*<br>HK\$'000 | Asset revaluation reserve*<br>HK\$'000 | Capital reserve*<br>HK\$'000 | Hedging reserve*<br>HK\$'000 | Expansion fund reserve*<br>HK\$'000 | Exchange fluctuation reserve*<br>HK\$'000 | Special reserve*<br>HK\$'000 | Retained profits*<br>HK\$'000 | Proposed final dividends<br>HK\$'000 | Total<br>HK\$'000 | Minority interests<br>HK\$'000 | Total equity<br>HK\$'000 |
|   |          |                            |   | (note 34(a)(ii))                  |  |                              | (note 34(a)(iii))            | (note 34(a)(iv))                    |   | (note 34(a)(i))              |                               |                                      |                   |                                |                          |
| At 1 January 2009   |          | 3,080,694                  | 2,374,157                                   | 3,350                             | 12,947                                 | 1,430,009                    | (437,264)                    | 651,610                             | 831,042                                   | 10,677                       | 7,068,617                     | 369,683                              | 15,395,522        | 2,086,109                      | 17,481,631               |
| Total comprehensive income for the year                           |          | —                          | —   | —                                 | 1,300                                  | —                            | 178,283                      | —                                   | 9,304                                     | —                            | 2,044,254                     | —                                    | 2,233,141         | 439,829                        | 2,672,970                |
| Share options exercised, net of share issue expenses              | 32(i)    | 26,025                     | 47,320                                      | —                                 | —                                      | —                            | —                            | —                                   | —   | —                            | —                             | —                                    | 73,345            | —                              | 73,345                   |
| Acquisition of minority interests                                 |          | —                          | —   | —                                 | —                                      | —                            | —                            | —                                   | —   | —                            | —                             | —                                    | —                 | (61,758)                       | (61,758)                 |
| Equity-settled share option arrangements                          | 33       | —                          | —   | 9,867                             | —                                      | —                            | —                            | —                                   | —   | —                            | —                             | —                                    | 9,867             | —                              | 9,867                    |
| Transfer from retained profits                                    |          | —                          | —   | —                                 | —                                      | —                            | —                            | 82,488                              | —   | —                            | (82,488)                      | —                                    | —                 | —                              | —                        |
| Dividends paid to minority interests                              |          | —                          | —   | —                                 | —                                      | —                            | —                            | —                                   | —   | —                            | —                             | —                                    | —                 | (43,301)                       | (43,301)                 |
| Interim 2009 dividend paid  | 12       | —                          | —   | —                                 | —                                      | —                            | —                            | —                                   | —   | —                            | (310,672)                     | —                                    | (310,672)         | —                              | (310,672)                |
| Proposed final 2009 dividend                                      | 12       | —                          | —   | —                                 | —                                      | —                            | —                            | —                                   | —   | —                            | (372,806)                     | 372,806                              | —                 | —                              | —                        |
| Final 2008 dividend paid  | 12       | —                          | —   | —                                 | —                                      | —                            | —                            | —                                   | —   | —                            | (1,497)                       | (369,683)                            | (371,180)         | —                              | (371,180)                |
| Transfer from retained profits in accordance with the Undertaking | 34(a)(i) | —                          | —   | —                                 | —                                      | —                            | —                            | —                                   | —   | 1,085                        | (1,085)                       | —                                    | —                 | —                              | —                        |
| Transfer to retained profits upon issue of new ordinary shares    | 34(a)(i) | —                          | —   | —                                 | —                                      | —                            | —                            | —                                   | —   | (11,762)                     | 11,762                        | —                                    | —                 | —                              | —                        |
| At 31 December 2009   |          | 3,106,719                  | 2,421,477                                   | 13,217                            | 14,247                                 | 1,430,009                    | (258,981)                    | 734,098                             | 840,346                                   | —                            | 8,356,085                     | 372,806                              | 17,030,023        | 2,420,879                      | 19,450,902               |

\* These reserve accounts comprise the consolidated reserves of HK\$13,550,498,000 (2008: HK\$11,945,145,000) in the consolidated balance sheet.

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2009



|  | Notes | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|--|-------|------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |       |                  |                  |
| Profit before tax  |       | <b>2,959,199</b> | 2,437,225        |
| Adjustments for:   |       |                  |                  |
| Finance costs  | 7     | <b>257,985</b>   | 380,278          |
| Share of profits of a jointly-controlled entity  |       | <b>(91,074)</b>  | (134,084)        |
| Share of profits less losses of associates   |       | <b>(26,347)</b>  | (6,188)          |
| Bank interest income   | 5     | <b>(65,703)</b>  | (88,552)         |
| Changes in fair value of derivative financial instruments not qualified as hedges, net | 5     | <b>132,158</b>   | 25,310           |
| Excess over the cost of acquisition of minority interests                              |       | <b>(2,881)</b>   | (492)            |
| Depreciation   | 6     | <b>157,511</b>   | 190,191          |
| Recognition of prepaid land lease payments   | 6     | <b>16,523</b>    | 16,485           |
| Amortisation of intangible assets  | 6     | <b>811,716</b>   | 816,722          |
| Changes in fair value of investment properties   | 6     | <b>(203,296)</b> | 494,199          |
| Impairment of items of property, plant and equipment                                   | 6     | <b>36,183</b>    | 33,150           |
| Impairment of intangible assets  | 6     | <b>—</b>         | 56,193           |
| Impairment of interests in an associate  | 6     | <b>75,405</b>    | 99,928           |
| Write-back of impairment of interests in an associate                                  | 6     | <b>(5,067)</b>   | —                |
| Write-off of construction in progress  | 14    | <b>10</b>        | 937              |
| Loss/(gain) on disposal of items of property, plant and equipment, net                 | 6     | <b>(358)</b>     | 12,557           |
| Loss on disposal of items of intangible assets, net                                    | 6     | <b>4,869</b>     | —                |
| Impairment/(write-back of impairment) of inventories, net                              | 6     | <b>137</b>       | (42)             |
| Impairment of trade receivables  | 6     | <b>491</b>       | 1,231            |
| Write-back of provision for trade receivables  | 6     | <b>(113)</b>     | —                |
| Equity-settled share option expense  | 6     | <b>9,867</b>     | 1,865            |
| Interest income from disposals of available-for-sale investments                       |       | <b>(2,933)</b>   | —                |
| Amortisation of other long term assets   |       | <b>6</b>         | 12               |
| Operating profit before working capital changes — page 58                              |       | <b>4,064,288</b> | 4,336,925        |

## CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

Year ended 31 December 2009

|  | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|--|------------------|------------------|
| Operating profit before working capital changes — page 57  | 4,064,288        | 4,336,925        |
| Decrease/(increase) in an amount due from an associate   | 1,293            | (7,280)          |
| Decrease/(increase) in an amount due from the immediate holding company                              | 1,991            | (1,385)          |
| Decrease in amounts due from fellow subsidiaries   | 1,935            | 458              |
| Decrease in inventories  | 654              | 7,671            |
| Increase in receivables, prepayments and deposits  | (84,443)         | (491,385)        |
| Increase in payables, accruals and other liabilities   | 189,643          | 249,722          |
| Decrease in an amount due to the immediate holding company   | (830)            | (4,546)          |
| Decrease in amounts due to fellow subsidiaries   | (1,458)          | (5,556)          |
| Increase/(decrease) in amounts due to minority shareholders of subsidiaries                          | 13,755           | (73,111)         |
| Cash generated from operations   | 4,186,828        | 4,011,513        |
| Interest received  | 65,703           | 88,552           |
| Dividends from a jointly-controlled entity   | 178,230          | 49,352           |
| Dividends from associates  | 60,570           | 9,745            |
| Hong Kong profits tax paid   | (7,475)          | (8,913)          |
| Mainland China tax paid  | (410,156)        | (290,797)        |
| Net cash flows from operating activities   | 4,073,700        | 3,859,452        |
| CASH FLOWS FROM INVESTING ACTIVITIES   |                  |                  |
| Purchases of available-for-sale investments  | (204,246)        | (746,978)        |
| Proceeds from disposals of available-for-sale investments  | 207,179          | 735,053          |
| Purchases of items of property, plant and equipment  | (240,181)        | (138,243)        |
| Purchases of items of intangible assets  | (28,754)         | (20,148)         |
| Additions to investment properties   | (562,420)        | (414)            |
| Acquisition of minority interests  | (62,653)         | (29,276)         |
| Capital injection in an associate  | (15,999)         | —                |
| Proceeds from disposal of items of property, plant and equipment                                     | 1,592            | 3,355            |
| Proceeds from disposal of items of intangible assets   | —                | 2,972            |
| Increase in non-pledged time deposits with original maturity of more than three months when acquired | (502,542)        | (8,587)          |
| Net cash flows used in investing activities — page 59  | (1,408,024)      | (202,266)        |

## CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

Year ended 31 December 2009



|  | Notes | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|--|-------|------------------|------------------|
| Net cash flows used in investing activities — page 58                                    |       | (1,408,024)      | (202,266)        |
| CASH FLOWS FROM FINANCING ACTIVITIES   |       |                  |                  |
| Proceeds from issue of new ordinary shares   | 32    | 73,345           | 63,338           |
| Repayment of bank loans  |       | (2,458,903)      | (1,395,409)      |
| Other finance costs  | 7     | (1,376)          | (1,670)          |
| Interest paid  | 7     | (79,694)         | (270,964)        |
| Finance charges paid on cash flow hedges, net  | 7     | (176,915)        | (107,644)        |
| Finance charges paid on derivative financial instruments not qualified as hedges         |       | (33,102)         | (9,139)          |
| Dividends paid to minority shareholders  |       | (43,301)         | (53,598)         |
| Dividends paid to shareholders   |       | (681,852)        | (614,759)        |
| Net cash flows used in financing activities  |       | (3,401,798)      | (2,389,845)      |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS                                     |       | (736,122)        | 1,267,341        |
| Cash and cash equivalents at beginning of year   |       | 3,219,025        | 1,815,161        |
| Effect of foreign exchange rate changes, net   |       | 4,799            | 136,523          |
| CASH AND CASH EQUIVALENTS AT END OF YEAR   |       | 2,487,702        | 3,219,025        |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS  | 35(b) |                  |                  |
| Cash and bank balances   |       | 1,179,732        | 1,269,832        |
| Non-pledged time deposits with original maturity of less than three months when acquired |       | 1,307,970        | 1,946,362        |
| Restricted cash and bank balances  |       | —                | 2,831            |
| Cash and cash equivalents as stated in the consolidated cash flow statement              |       | 2,487,702        | 3,219,025        |

# BALANCE SHEET

31 December 2009

|  | Notes | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|--|-------|------------------|------------------|
| NON-CURRENT ASSETS                       |       |                  |                  |
| Property, plant and equipment            | 14    | 504              | 424              |
| Interests in subsidiaries                | 18    | 7,005,297        | 6,971,211        |
| Interests in associates                  | 20    | —                | —                |
| Total non-current assets                 |       | 7,005,801        | 6,971,635        |
| CURRENT ASSETS                           |       |                  |                  |
| Receivables, prepayments and deposits    | 24    | 35,576           | 38,388           |
| Cash and cash equivalents                | 25    | 745,281          | 732,665          |
| Total current assets                     |       | 780,857          | 771,053          |
| CURRENT LIABILITIES                      |       |                  |                  |
| Payables, accruals and other liabilities | 26    | (10,943)         | (9,818)          |
| NET CURRENT ASSETS                       |       | 769,914          | 761,235          |
| Net assets                               |       | 7,775,715        | 7,732,870        |
| EQUITY                                   |       |                  |                  |
| Issued capital                           | 32    | 3,106,719        | 3,080,694        |
| Reserves                                 | 34(b) | 4,296,190        | 4,282,493        |
| Proposed final dividends                 | 12    | 372,806          | 369,683          |
| Total equity                             |       | 7,775,715        | 7,732,870        |

**Li Wenyue**  
Director

**Tsang Hon Nam**  
Director

## 1. Corporate information

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

During the year, the Group was principally engaged in investment holding, property holding and investment, investing in infrastructure and energy projects, water supply to Hong Kong and Shenzhen and Dongguan, hotel ownership and operations, hotel management and department stores operations.

GDH Limited is the parent company of the Group. In the opinion of the directors, the ultimate holding company of the Group is 廣東粵海控股有限公司 (Guangdong Holdings Limited), a company established in the mainland of the People's Republic of China (the "PRC" or "Mainland China").

## 2.1 Basis of preparation

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

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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

## 2.2 Changes in accounting policy and disclosures

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

|  |  |
|--|--|
| HKFRS 1 and HKAS 27 Amendments           | Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i> |
| HKFRS 2 Amendments                       | Amendments to HKFRS 2 <i>Share-based Payment — Vesting Conditions and Cancellations</i>  |
| HKFRS 7 Amendments                       | Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments</i>  |
| HKFRS 8                                  | <i>Operating Segments</i>  |
| HKAS 1 (Revised)                         | <i>Presentation of Financial Statements</i>  |
| HKAS 18 Amendment*                       | Amendment to Appendix to HKAS 18 <i>Revenue — Determining whether an entity is acting as a principal or as an agent</i>  |
| HKAS 23 (Revised)                        | <i>Borrowing Costs</i>   |
| HKAS 32 and HKAS 1 Amendments            | Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation</i>              |
| HK(IFRIC) — Int 9 and HKAS 39 Amendments | Amendments to HK(IFRIC) — Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement — Embedded Derivatives</i>                                     |
| HK(IFRIC) — Int 13                       | <i>Customer Loyalty Programmes</i>   |
| HK(IFRIC) — Int 15                       | <i>Agreements for the Construction of Real Estate</i>  |
| HK(IFRIC) — Int 16                       | <i>Hedges of a Net Investment in a Foreign Operation</i>   |
| HK(IFRIC) — Int 18                       | <i>Transfers of Assets from Customers</i>  |
| Improvements to HKFRSs (October 2008)**  | Amendments to a number of HKFRSs   |

\* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

\*\* The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary*, which are effective for annual periods beginning on or after 1 July 2009.

Other than as further explained below regarding the impact of HKAS 1 (Revised) and its amendments, HKAS 18 Amendment, HKAS 40 Amendments, HKFRS 7 Amendments and HKFRS 8, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

## 2.2 Changes in accounting policy and disclosures (continued)

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

### (a) HKAS 1 (Revised) *Presentation of Financial Statements*

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

### (b) Amendments to HKAS 1 (Revised) *Presentation of Financial Statements* included in *Improvements to HKFRSs issued in October 2008*

Amendments to HKAS 1 reaffirmed that if a financial liability is held primarily for trading purposes, it should be presented as current regardless of its maturity date. Also, derivatives that have a maturity of more than twelve months and are expected to be held for more than twelve months after the reporting period should be presented as non-current assets or liabilities. The Group has reclassified its derivative financial instruments with maturity of more than twelve months to non-current liabilities retrospectively in accordance with the amendments to HKAS 1. The effect was to decrease the Group's derivative financial instruments in current liabilities at 31 December 2008 and 1 January 2008 by HK\$395,472,000 and HK\$130,144,000, respectively, and increase the Group's derivative financial instruments in non-current liabilities at 31 December 2008 and 1 January 2008 by the same amounts. As a result of this reclassification, an opening balance sheet as at 1 January 2008 has been presented. Further details are included in note 27 to the financial statements.

### (c) Amendment to Appendix to HKAS 18 *Revenue — Determining whether an entity is acting as a principal or as an agent* included in *Improvements to HKFRSs 2009*

In prior years, revenue from department store operation included the gross proceeds from sales of goods, while the related costs of sales were presented as "Cost of sales" in the income statement.

In the current year, the Group has reviewed and revised the recognition and measurement of revenue due to the issuance of the amendment to Appendix to HKAS 18 *Revenue — Determining whether an entity is acting as a principal or as an agent* included in *Improvements to HKFRS 2009* ("Improvements") by the HKICPA during the year. The Improvements has added guidance to analyse the key features indicating that an entity is acting as a principal or as an agent.

The Group concluded that the proceeds from sales of goods are offset against the respective cost of sales, and the resulting net proceeds are presented as commission income in the income statement.

The effects of the changes in the recognition and measurement of revenue have been accounted for retrospectively with comparative figures restated. The specific line items affected are as follows:

|                           | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|---------------------------|------------------|------------------|
| Decrease in revenue       | (1,897,626)      | (1,677,512)      |
| Decrease in cost of sales | 1,897,626        | 1,677,512        |

These changes do not have any impact on the results of the Group in respect of the current and prior years.



## 2.2 Changes in accounting policy and disclosures (continued)

### (d) Amendments to HKAS 40 *Investment Property* included in Improvements to HKFRSs issued in October 2008

Amendments to HKAS 40 *Investment Property* revised the scope such that property being constructed or developed for future as an investment property is classified as an investment property. The Group has applied the amendment prospectively from 1 January 2009. The Group's accounting policy for investment properties is to subsequently state them at fair value with changes in fair values recognised in profit or loss. As a result of the amendment, an investment property under construction is carried at fair value at the earlier of when the fair value first becomes reliably determinable and when the construction of the property is completed. The Group had no aforementioned properties as at 31 December 2008.

### (e) Amendments to HKFRS 7 *Financial Instruments: Disclosures* — Improving Disclosures about Financial Instruments

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balances is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 42 to the financial statements. As the Group's liquidity risk disclosures in prior years were already presented in accordance with HKFRS 7 Amendments, no revision was made on the liquidity risk disclosures presented in note 43 to the financial statements.

### (f) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. The adoption of the revised standard has no effect on the financial position or results of operations of the Group. It does, however, result in certain presentational changes in the presentation and disclosures of financial statements.

## 2.3 Issued but not yet effective Hong Kong Financial Reporting Standards

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

|   |  |
|---|--|
| HKFRS 1 (Revised)   | <i>First-time Adoption of HKFRSs</i> <sup>1</sup>  |
| HKFRS 1 Amendments  | Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs — The Additional Exceptions for First-time Adopters</i> <sup>2</sup>                                    |
| HKFRS 1 Amendments  | Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adoption</i> <sup>4</sup>       |
| HKFRS 2 Amendments  | Amendments to HKFRS 2 <i>Share-based Payment — Group Cash-settled Share-based Payment Transactions</i> <sup>2</sup>  |
| HKFRS 3 (Revised)   | <i>Business Combinations</i> <sup>1</sup>  |
| HKFRS 9   | <i>Financial Instruments</i> <sup>6</sup>  |
| HKAS 24 (Revised)   | <i>Related Party Disclosures</i> <sup>5</sup>  |
| HKAS 27 (Revised)   | <i>Consolidated and Separate Financial Statements</i> <sup>1</sup>   |
| HKAS 32 Amendment   | Amendment to HKAS 32 <i>Financial Instruments: Presentation — Classification of Rights Issues</i> <sup>3</sup>   |
| HKAS 39 Amendment   | Amendment to HKAS 39 <i>Financial Instruments: Recognition and Measurement — Eligible Hedged Items</i> <sup>1</sup>  |
| HK(IFRIC) — Int 14 Amendments   | Amendments to HK(IFRIC) — Int 14 <i>Prepayments of a Minimum Funding Requirement</i> <sup>5</sup>  |
| HK(IFRIC) — Int 17  | <i>Distributions of Non-cash Assets to Owners</i> <sup>1</sup>   |
| HK(IFRIC) — Int 19  | <i>Extinguishing Financial Liabilities with Equity Instruments</i> <sup>4</sup>  |
| Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008 | Amendments to HKFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary</i> <sup>1</sup> |
| HK Interpretation 4 (Revised in December 2009)                                  | <i>Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i> <sup>2</sup>   |

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that except for the adoption of HKFRS 3 (Revised), HKFRS 9, HKAS 24 (Revised) and HKAS 27 (Revised) as further explained below, these new and revised HKFRSs are unlikely to have any significant impact on the Group's results of operations and financial position.

### 2.3 Issued but not yet effective Hong Kong Financial Reporting Standards (continued)

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect the accounting of future acquisitions, loss of control and transactions with minority interests.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety by the end of 2010. The Group expects to adopt HKFRS 9 from 1 January 2013.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly. The adoption of the revised standard has no effect on the financial position or results of operations of the Group. It does, however, result in certain presentational changes in the presentation and disclosures of financial statements.

### 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.

## 2.4 Summary of significant accounting policies (continued)

### Joint ventures

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

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

A joint venture is treated as:

- (a) a subsidiary, if the Group/Company, directly or indirectly, controls more than half of its voting power or issued share/registered capital or controls the composition of the board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to the joint venture's financial and operating policies;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

### A jointly-controlled entity

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

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

### Associates

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

## 2.4 Summary of significant accounting policies (continued)

### Associates (continued)

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

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

### Goodwill

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

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

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

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

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

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

#### *Goodwill previously eliminated against consolidated capital reserve*

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

## 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 the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

### Related parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

## 2.4 Summary of significant accounting policies (continued)

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

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

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

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

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

Construction in progress represents buildings and plant and machinery under construction (except for those property held for earning rental income and/or capital appreciation in the future), which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### Intangible assets (other than goodwill)

Intangible assets acquired separately are measured at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

## 2.4 Summary of significant accounting policies (continued)

### Intangible assets (other than goodwill) (continued)

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

### Investment properties

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

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

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

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

Property under construction for future use as investment property will also be measured at fair value with changes in fair value being recognised in the income statement when the fair value can be determined reliably. However, when the fair value is not reliably determinable, the property is measured at cost until the earlier of the date construction is completed and the date at which the fair value becomes reliably determinable.

### 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.



## 2.4 Summary of significant accounting policies (continued)

### Operating leases (continued)

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

### Investments and other financial assets

#### *Initial recognition and measurement*

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, or available-for-sale investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Group's financial assets include cash and bank balances, trade and other receivables, loans and receivables, quoted and unquoted financial instruments, and derivative financial instruments.

#### *Subsequent measurement*

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

#### **Loans and receivables**

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

#### **Available-for-sale investments**

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

## 2.4 Summary of significant accounting policies (continued)

### Investments and other financial assets (continued)

#### *Subsequent measurement (continued)*

#### **Available-for-sale investments (continued)**

After initial recognition, available-for-sale investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below.

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

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

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

### **Impairment of financial assets**

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

## 2.4 Summary of significant accounting policies (continued)

### **Impairment of financial assets (continued)**

#### *Financial assets carried at amortised cost*

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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

#### *Assets carried at cost*

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

#### *Available-for-sale investments*

For available-for-sale investments, the Group assesses at the balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale investments is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

## 2.4 Summary of significant accounting policies (continued)

### Impairment of financial assets (continued)

#### *Available-for-sale investments (continued)*

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

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

### Derecognition of financial assets

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

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

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

## 2.4 Summary of significant accounting policies (continued)

### Financial liabilities

#### *Initial recognition and measurement*

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

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

Financial liabilities including payables, other liabilities, derivative financial instruments, amounts due to minority shareholders of subsidiaries and interest-bearing bank borrowings.

#### *Subsequent measurement*

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

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

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement includes any interest charged on these financial liabilities.

#### **Loans and borrowings**

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

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

#### **Derecognition of financial liabilities**

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

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

## 2.4 Summary of significant accounting policies (continued)

### Offsetting of financial instruments

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

### Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

### Derivative financial instruments and hedging

#### *Initial recognition and subsequent measurement*

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

The fair value of 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.

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

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 of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

## 2.4 Summary of significant accounting policies (continued)

### Derivative financial instruments and hedging (continued)

#### *Initial recognition and subsequent measurement (continued)*

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

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

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

#### *Current versus non-current classification*

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

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the balance sheet date, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

### Inventories

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

### Cash and cash equivalents

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

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

## 2.4 Summary of significant accounting policies (continued)

### Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the 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 relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

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

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with interests in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with interests in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.



## 2.4 Summary of significant accounting policies (continued)

### Income tax (continued)

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. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be 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, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

### Dividends

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

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

### Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the 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 recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

## 2.4 Summary of significant accounting policies (continued)

### Foreign currencies (continued)

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

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

### Government grants

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

### Employee benefits

#### *Share-based payment transactions*

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a binomial lattice model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at 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 equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

## 2.4 Summary of significant accounting policies (continued)

### Employee benefits (continued)

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

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

#### *Retirement benefits schemes*

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

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

### Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the commissions from concessionaire sales are recognised upon the sale of goods by the department stores;
- (c) from the sale of electricity, based on the consumption recorded by meter readings;
- (d) from the sale of water:
  - (i) revenue from the sale of water to Dongguan and Shenzhen, based on the actual volume of water supplied; and
  - (ii) revenue from the sale of water to Hong Kong Special Administrative Region ("HKSAR"), based on a fixed amount for a target volume of water supplied.

## 2.4 Summary of significant accounting policies (continued)

### Revenue recognition (continued)

- (e) from hotel services income, based on the period in which such services have been rendered;
- (f) rental income, on a time proportion basis over the lease terms;
- (g) toll revenue, net of business tax when received;
- (h) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial assets; and
- (i) dividend income, when the shareholders' right to receive payment has been established.

## 3. Significant accounting judgements and estimates

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

### Judgements

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

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

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

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

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

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

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

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

#### Judgements (continued)

##### (iii) *Impairment of assets*

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

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

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

#### Estimation uncertainty

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

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

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

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

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

#### Estimation uncertainty (continued)

(ii) *Fair value of derivative financial instruments*

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

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

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

(iv) *Impairment of goodwill*

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

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

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

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

#### Estimation uncertainty (continued)

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

The Group classifies certain assets as available-for-sale and recognises movements in their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2009, the impairment losses recognised for available-for-sale investments was HK\$72,134,000 (2008: HK\$72,134,000). The carrying amount of available-for-sale investments was HK\$56,808,000 (2008: HK\$56,718,000). Further details are included in note 22 to the financial statements.

(vii) *Deferred tax assets*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2009 was HK\$14 million (2008: HK\$16 million). The amount of unrecognised tax losses at 31 December 2009 was HK\$458 million (2008: HK\$424 million). Further details are contained in note 31 to the financial statements.

(viii) *Deferred tax liabilities of withholding taxes*

Deferred tax liabilities are recognised in respect of the unremitted earnings of the PRC subsidiaries, associates and jointly-controlled entities generated subsequent to 1 January 2008, except to the extent that the parent, investor or venturer is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Significant management judgement is required to determine the amount of deferred tax liabilities that can be recognised, which is based upon the estimated timing of dividend distribution. Further details are contained in note 31 to the financial statements.

### 4. Operating segment information

For management purposes, the Group is organised into business units based on their products and services and has seven reportable operating segments as follows:

- (i) The property investment and development segment mainly invests in various properties in Hong Kong and Mainland China that are held for rental income purposes and engages in the development of properties in Mainland China. This segment also provides property management services 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 the provision of corporate services to other segments.

#### 4. Operating segment information (continued)

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

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

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

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

##### (a) Operating segments

###### Group

|   | Property Investment<br>and Development |                | Toll Roads and<br>Bridges |               | Water Distribution |                  |
|---|--|----------------|---------------------------|---------------|--------------------|------------------|
|   | 2009                                   | 2008           | 2009                      | 2008          | 2009               | 2008             |
|   | HK\$'000                               | HK\$'000       | HK\$'000                  | HK\$'000      | HK\$'000           | HK\$'000         |
| <b>Segment revenue:</b>                       |  |                |                           |               |                    |                  |
| Sales to external customers                   | 803,818                                | 722,856        | 20,947                    | 14,268        | 3,867,903          | 3,443,842        |
| Intersegment sales                            | 103,833                                | 91,614         | —                         | —             | —                  | —                |
| Other revenue from external<br>sources (note) | 15,986                                 | 14,715         | 114                       | 1,169         | 3,307              | 732,885          |
| Other revenue from intersegment<br>(note)     | —                                      | —              | —                         | —             | —                  | —                |
| Exchange differences, net                     | 8                                      | 738            | 79                        | 950           | (29)               | (47,341)         |
| <b>Total</b>                                  | <b>923,645</b>                         | <b>829,923</b> | <b>21,140</b>             | <b>16,387</b> | <b>3,871,181</b>   | <b>4,129,386</b> |
| <b>Segment results</b>                        | <b>841,097</b>                         | <b>135,723</b> | <b>974</b>                | <b>912</b>    | <b>2,222,627</b>   | <b>2,511,234</b> |
| Interest income                               |  |                |                           |               |                    |                  |
| Other unallocated gains, net                  |  |                |                           |               |                    |                  |
| Finance costs                                 |  |                |                           |               |                    |                  |
| Share of profits less losses of:              |  |                |                           |               |                    |                  |
| Jointly-controlled entity                     | —                                      | —              | 91,074                    | 134,084       | —                  | —                |
| Associates                                    | —                                      | —              | 7,300                     | 11,688        | —                  | —                |
| Profit before tax                             |  |                |                           |               |                    |                  |
| Tax   |  |                |                           |               |                    |                  |
| Profit for the year                           |  |                |                           |               |                    |                  |

Note: Excluding exchange differences, net



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

### 4. Operating segment information (continued)

#### (a) Operating segments (continued)

##### Group

|   | Electric Power<br>Generation |                  | Hotel Operations and<br>Management |                | Department Stores |                |
|---|------------------------------|------------------|------------------------------------|----------------|-------------------|----------------|
|   | 2009                         | 2008             | 2009                               | 2008           | 2009              | 2008           |
|   | HK\$'000                     | HK\$'000         | HK\$'000                           | HK\$'000       | HK\$'000          | HK\$'000       |
|   |                              |                  |                                    |                |                   | (Restated)     |
| <b>Segment revenue:</b>                       |                              |                  |                                    |                |                   |                |
| Sales to external customers                   | 435,392                      | 927,616          | 311,805                            | 371,352        | 475,893           | 433,266        |
| Intersegment sales                            | —                            | —                | —                                  | —              | —                 | —              |
| Other revenue from external<br>sources (note) | 9,332                        | 11,835           | 344                                | 516            | 27,679            | 17,863         |
| Other revenue from intersegment<br>(note)     | —                            | —                | —                                  | —              | —                 | —              |
| Exchange differences, net                     | (2,321)                      | 1,648            | 247                                | 4,069          | —                 | 2,882          |
| <b>Total</b>                                  | <b>442,403</b>               | <b>941,099</b>   | <b>312,396</b>                     | <b>375,937</b> | <b>503,572</b>    | <b>454,011</b> |
| <b>Segment results</b>                        | <b>(51,052)</b>              | <b>(281,404)</b> | <b>19,372</b>                      | <b>97,976</b>  | <b>190,391</b>    | <b>170,555</b> |
| Interest income                               |                              |                  |                                    |                |                   |                |
| Other unallocated gains, net                  |                              |                  |                                    |                |                   |                |
| Finance costs                                 |                              |                  |                                    |                |                   |                |
| Share of profits less losses of:              |                              |                  |                                    |                |                   |                |
| Jointly-controlled entity                     | —                            | —                | —                                  | —              | —                 | —              |
| Associates                                    | (10,637)                     | (35,254)         | —                                  | —              | 29,684            | 29,754         |
| Profit before tax                             |                              |                  |                                    |                |                   |                |
| Tax   |                              |                  |                                    |                |                   |                |
| Profit for the year                           |                              |                  |                                    |                |                   |                |

Note: Excluding exchange differences, net

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009



### 4. Operating segment information (continued)

#### (a) Operating segments (continued)

##### Group

|  | Others   |          | Eliminations |          | Consolidated |            |
|--|----------|----------|--------------|----------|--------------|------------|
|  | 2009     | 2008     | 2009         | 2008     | 2009         | 2008       |
|  | HK\$'000 | HK\$'000 | HK\$'000     | HK\$'000 | HK\$'000     | HK\$'000   |
|  |          |          |              |          |              | (Restated) |
| <b>Segment revenue:</b>                    |          |          |              |          |              |            |
| Sales to external customers                | —        | —        | —            | —        | 5,915,758    | 5,913,200  |
| Intersegment sales                         | —        | —        | (103,833)    | (91,614) | —            | —          |
| Other revenue from external sources (note) | 1,786    | 2,459    | —            | —        | 58,548       | 781,442    |
| Other revenue from intersegment (note)     | 3,584    | 3,595    | (3,584)      | (3,595)  | —            | —          |
| Exchange differences, net                  | (1,023)  | 2,760    | —            | —        | (3,039)      | (34,294)   |
| Total                                      | 4,347    | 8,814    | (107,417)    | (95,209) | 5,971,267    | 6,660,348  |
| <b>Segment results</b>                     | (57,191) | (28,759) | —            | —        | 3,166,218    | 2,606,237  |
| Interest income                            |          |          |              |          | 65,703       | 88,552     |
| Other unallocated gains, net               |          |          |              |          | (132,158)    | (17,558)   |
| Finance costs                              |          |          |              |          | (257,985)    | (380,278)  |
| Share of profits less losses of:           |          |          |              |          |              |            |
| Jointly-controlled entity                  | —        | —        | —            | —        | 91,074       | 134,084    |
| Associates                                 | —        | —        | —            | —        | 26,347       | 6,188      |
| Profit before tax                          |          |          |              |          | 2,959,199    | 2,437,225  |
| Tax  |          |          |              |          | (499,746)    | (442,422)  |
| Profit for the year                        |          |          |              |          | 2,459,453    | 1,994,803  |

Note: Excluding exchange differences, net

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

### 4. Operating segment information (continued)

#### (a) Operating segments (continued)

##### Group

|   | Property Investment<br>and Development |           | Toll Roads and Bridges |          | Water Distribution |            |
|---|--|-----------|------------------------|----------|--------------------|------------|
|   | 2009                                   | 2008      | 2009                   | 2008     | 2009               | 2008       |
|   | HK\$'000                               | HK\$'000  | HK\$'000               | HK\$'000 | HK\$'000           | HK\$'000   |
| Segment assets  | 5,972,669                              | 4,978,552 | 129,715                | 113,357  | 17,665,213         | 18,595,321 |
| Interests in associates   | —                                      | —         | 60,737                 | 73,114   | —                  | —          |
| Interests in a jointly-controlled<br>entity   | —                                      | —         | 909,136                | 994,757  | —                  | —          |
| Unallocated assets  |  |           |                        |          |                    |            |
| Total assets  |  |           |                        |          |                    |            |
| Segment liabilities   | 563,586                                | 560,543   | 87,043                 | 71,064   | 1,720,214          | 1,872,197  |
| Unallocated liabilities   |  |           |                        |          |                    |            |
| Total liabilities   |  |           |                        |          |                    |            |
| Other segment information:  |  |           |                        |          |                    |            |
| Depreciation and amortisation   | 32,007                                 | 28,971    | 5,453                  | 4,233    | 868,404            | 894,237    |
| Changes in fair value of<br>derivative financial<br>instruments not qualified as<br>hedges, net | —                                      | —         | —                      | —        | 132,158            | 25,310     |
| Impairment losses recognised in<br>the income statement   | —                                      | —         | —                      | —        | —                  | —          |
| Impairment losses reversed in<br>the income statement   | —                                      | —         | —                      | —        | —                  | —          |
| Other non-cash expenses/<br>(income), net   | (203,296)                              | 494,199   | —                      | —        | (79)               | (28)       |
| Capital expenditure*  | 709,412                                | 96,518    | 30,329                 | 18,045   | 3,163              | 6,881      |

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009



### 4. Operating segment information (continued)

#### (a) Operating segments (continued)

##### Group

|   | Electric Power<br>Generation |          | Hotel Operations and<br>Management |           | Department Stores |          |
|---|------------------------------|----------|------------------------------------|-----------|-------------------|----------|
|   | 2009                         | 2008     | 2009                               | 2008      | 2009              | 2008     |
|   | HK\$'000                     | HK\$'000 | HK\$'000                           | HK\$'000  | HK\$'000          | HK\$'000 |
| Segment assets  | 157,373                      | 168,383  | 1,561,006                          | 1,656,576 | 75,501            | 69,301   |
| Interests in associates   | 5,987                        | 103,484  | —                                  | —         | 117,797           | 97,520   |
| Interests in a jointly-controlled<br>entity   | —                            | —        | —                                  | —         | —                 | —        |
| Unallocated assets  | —                            | —        | —                                  | —         | —                 | —        |
| Total assets  | —                            | —        | —                                  | —         | —                 | —        |
| Segment liabilities   | 488,616                      | 408,533  | 52,439                             | 56,192    | 817,328           | 678,983  |
| Unallocated liabilities   | —                            | —        | —                                  | —         | —                 | —        |
| Total liabilities   | —                            | —        | —                                  | —         | —                 | —        |
| Other segment information:  | —                            | —        | —                                  | —         | —                 | —        |
| Depreciation and amortisation   | 5,547                        | 20,588   | 68,366                             | 70,412    | 5,709             | 4,724    |
| Changes in fair value of<br>derivative financial<br>instruments not qualified as<br>hedges, net | —                            | —        | —                                  | —         | —                 | —        |
| Impairment losses recognised in<br>the income statement   | 75,405                       | 189,271  | 36,674                             | 1,231     | —                 | —        |
| Impairment losses reversed in<br>the income statement   | (5,067)                      | —        | (113)                              | —         | —                 | —        |
| Other non-cash expenses/<br>(income), net   | —                            | —        | 216                                | (14)      | —                 | —        |
| Capital expenditure*  | 72,063                       | 9,803    | 14,929                             | 20,602    | 1,108             | 6,866    |

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

### 4. Operating segment information (continued)

#### (a) Operating segments (continued)

##### Group

|  | Others   |          | Eliminations |          | Consolidated |            |
|--|----------|----------|--------------|----------|--------------|------------|
|  | 2009     | 2008     | 2009         | 2008     | 2009         | 2008       |
|  | HK\$'000 | HK\$'000 | HK\$'000     | HK\$'000 | HK\$'000     | HK\$'000   |
| Segment assets   | 41,209   | 42,755   | —            | —        | 25,602,686   | 25,624,245 |
| Interests in associates  | —        | —        | —            | —        | 184,521      | 274,118    |
| Interests in a jointly-controlled entity   | —        | —        | —            | —        | 909,136      | 994,757    |
| Unallocated assets   |          |          |              |          | 4,090,811    | 4,351,571  |
| Total assets   |          |          |              |          | 30,787,154   | 31,244,691 |
| Segment liabilities  | 16,873   | 14,858   | —            | —        | 3,746,099    | 3,662,370  |
| Unallocated liabilities  |          |          |              |          | 7,590,153    | 10,100,690 |
| Total liabilities  |          |          |              |          | 11,336,252   | 13,763,060 |
| Other segment information:   |          |          |              |          |              |            |
| Depreciation and amortisation  | 270      | 245      | —            | —        | 985,756      | 1,023,410  |
| Changes in fair value of derivative financial instruments not qualified as hedges, net | —        | —        | —            | —        | 132,158      | 25,310     |
| Impairment losses recognised in the income statement                                   | —        | —        | —            | —        | 112,079      | 190,502    |
| Impairment losses reversed in the income statement                                     | —        | —        | —            | —        | (5,180)      | —          |
| Other non-cash expenses/ (income), net   | —        | —        | —            | —        | (203,159)    | 494,157    |
| Capital expenditure*   | 351      | 90       | —            | —        | 831,355      | 158,805    |

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

## 4. Operating segment information (continued)

## (b) Geographical information

The following table presents revenue and certain asset information for the Group's geographical information for the years ended 31 December 2009 and 2008.

**Group**

|  | <b>2009</b><br><b>HK\$'000</b> | 2008<br>HK\$'000<br>(Restated) |
|--|--------------------------------|--------------------------------|
| <b>Revenue from external customers</b> |                                |                                |
| Hong Kong                              | <b>179,768</b>                 | 222,483                        |
| Mainland China                         | <b>5,735,990</b>               | 5,690,717                      |
|  | <b>5,915,758</b>               | 5,913,200                      |

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

|                           | <b>2009</b><br><b>HK\$'000</b> | 2008<br>HK\$'000<br>(Restated) |
|---------------------------|--------------------------------|--------------------------------|
| <b>Non-current assets</b> |                                |                                |
| Hong Kong                 | <b>1,598,856</b>               | 1,603,850                      |
| Mainland China            | <b>24,495,967</b>              | 24,525,416                     |
|                           | <b>26,094,823</b>              | 26,129,266                     |

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

## (c) Information about a major customer

Revenue of approximately HK\$2,959,000,000 (2008: HK\$2,494,800,000) was derived from sales by the water distribution segment to a single customer.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

### 5. Revenue and other income/(loss)

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

An analysis of revenue and other income/(loss) is as follows:

|   | 2009<br>HK\$'000 | 2008<br>HK\$'000<br>(Restated) |
|---|------------------|--------------------------------|
| <b>Revenue</b>  |                  |                                |
| Sale of water and electricity   | 4,303,295        | 4,371,458                      |
| Sale of goods   | 56,427           | 71,463                         |
| Commissions from concessionaire sales (note)  | 419,466          | 361,803                        |
| Hotel and rental income   | 1,115,623        | 1,094,208                      |
| Toll revenue  | 20,947           | 14,268                         |
|   | <b>5,915,758</b> | <b>5,913,200</b>               |
| <b>Other income</b>   |                  |                                |
| Government subsidy*   | —                | 730,205                        |
| Bank interest income  | 65,703           | 88,552                         |
| Others  | 58,548           | 58,989                         |
|   | <b>124,251</b>   | <b>877,746</b>                 |
| <b>Other loss</b>   |                  |                                |
| Changes in fair value of derivative financial instruments<br>not qualified as hedges, net (note 27) | (132,158)        | (25,310)                       |
|   | <b>(7,907)</b>   | <b>852,436</b>                 |

Note:

The commissions from concessionaire sales is analysed as follows:

|   | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|---|------------------|------------------|
| Gross revenue from concessionaire sales | 2,317,092        | 2,039,315        |
| Commissions from concessionaire sales   | 419,466          | 361,803          |

\* The amount represented government grants in relation to subsidy for revenue from the sale of water to the HKSAR from 2005 to 2008, which was determined and finalised during the year ended 31 December 2008. There were no unfulfilled conditions or contingencies relating to these grants. During the year, HK\$67,669,000 (2008: HK\$434,257,000) was received and the remaining outstanding balance of HK\$228,279,000 has been included in other receivables as at 31 December 2009 (2008: HK\$295,948,000).

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009



### 6. Profit before tax

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

|   | Notes | 2009<br>HK\$'000 | 2008<br>HK\$'000<br>(Restated) |
|---|-------|------------------|--------------------------------|
| Cost of inventories sold*   |       | 319,655          | 907,783                        |
| Depreciation  | 14    | 157,511          | 190,191                        |
| Recognition of prepaid land lease payments  |       | 16,523           | 16,485                         |
| Amortisation of intangible assets*  | 21    | 811,716          | 816,722                        |
| Minimum lease payments under operating leases<br>in respect of land and buildings                                   |       | 41,054           | 15,815                         |
| Auditors' remuneration  |       | 6,643            | 6,620                          |
| Employee benefit expense (excluding directors' remuneration<br>— note 8)  |       |                  |                                |
| Wages and salaries  |       | 406,858          | 381,223                        |
| Equity-settled share option expense   | 33    | 9,867            | 1,865                          |
| Pension scheme contributions  |       | 45,738           | 34,568                         |
| Less: Forfeited contributions   |       | (10)             | (76)                           |
| Net pension scheme contributions <sup>#</sup>   |       | 45,728           | 34,492                         |
|   |       | 462,453          | 417,580                        |
| Gross rental income from investment properties  |       | (760,539)        | (618,788)                      |
| Direct operating expenses (including repairs and<br>maintenance) arising on rental-earning investment<br>properties |       | 64,937           | 19,707                         |
| Net rental income from investment properties  |       | (695,602)        | (599,081)                      |
| Foreign exchange differences, net   |       | 3,039            | 34,294                         |
| Changes in fair value of investment properties <sup>^</sup>   | 15    | (203,296)        | 494,199                        |
| Impairment of items of property, plant and equipment <sup>^</sup>   | 14    | 36,183           | 33,150                         |
| Impairment of intangible assets <sup>^</sup>  | 21    | —                | 56,193                         |
| Write-back of impairment of interests in an associate <sup>^</sup>  |       | (5,067)          | —                              |
| Impairment of interests in an associate <sup>^</sup>  |       | 75,405           | 99,928                         |
| Loss/(gain) on disposal of items of property, plant and<br>equipment, net <sup>^</sup>                              |       | (358)            | 12,557                         |
| Loss on disposal of items of intangible assets, net <sup>^</sup>  |       | 4,869            | —                              |
| Impairment of/(write-back of provision for) inventories, net <sup>^</sup>   |       | 137              | (42)                           |
| Write-back of provision for trade receivables <sup>^</sup>  | 24    | (113)            | —                              |
| Impairment of trade receivables <sup>^</sup>  | 24    | 491              | 1,231                          |

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

<sup>#</sup> As at 31 December 2009 and 2008, the Group had no material forfeited pension scheme contributions available to reduce its contributions to the pension schemes in future years.

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



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

### 7. Finance costs

An analysis of finance costs is as follows:

|   | Group<br>2009<br>HK\$'000 | 2008<br>HK\$'000 |
|---|---------------------------|------------------|
| Interest on bank borrowings wholly repayable <sup>(1)</sup> :                               |                           |                  |
| Within five years   | 74,037                    | 250,372          |
| Over five years   | 5,657                     | 20,592           |
| Total interest expense on financial liabilities not at<br>fair value through profit or loss | 79,694                    | 270,964          |
| Finance charges on cash flow hedges, net (note 27)  | 176,915                   | 107,644          |
| Other finance costs   | 1,376                     | 1,670            |
| Total finance costs for the year  | 257,985                   | 380,278          |

(1) Net of government grants of HK\$27,945,000 (2008: HK\$49,811,000) in respect of subsidies for interest expense arising from bank loans borrowed by the Group for the purpose of the Dongshen Water Supply Phase IV Renovation Project (the "Phase IV Renovation Project"). There are no unfulfilled conditions or contingencies relating to these grants.

## 8. Directors' remuneration

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

|   | <b>Group</b><br><b>2009</b><br><b>HK\$'000</b> | 2008<br>HK\$'000 |
|---|--|------------------|
| Fees:                                     |  |                  |
| Executive directors                       | —  | —                |
| Independent non-executive directors       | 1,114  | 1,114            |
| Non-executive director                    | 342  | 342              |
|   | <b>1,456</b>                                   | 1,456            |
| Other emoluments:                         |  |                  |
| Salaries, allowances and benefits in kind | 1,907  | 1,342            |
| Performance related bonuses               | 1,367  | 1,125            |
| Equity-settled share option expense       | 6,864  | 1,298            |
| Pension scheme contributions              | 401  | 324              |
| Less: Forfeited contributions             | —  | —                |
| Net pension scheme contributions          | 401  | 324              |
| Total directors' remuneration             | <b>11,995</b>                                  | 5,545            |

### (a) Independent non-executive directors

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

|                     | <b>2009</b><br><b>HK\$'000</b> | 2008<br>HK\$'000 |
|---------------------|--------------------------------|------------------|
| CHAN Cho Chak, John | 375                            | 375              |
| LI Kwok Po, David   | 397                            | 397              |
| FUNG Daniel R.      | 342                            | 342              |
|                     | <b>1,114</b>                   | 1,114            |

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

### 8. Directors' remuneration (continued)

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

|                          | Fees<br>HK\$'000 | Salaries,<br>allowances,<br>and benefits<br>in kind<br>HK\$'000 | Performance<br>related<br>bonuses<br>HK\$'000 | Equity-<br>settled<br>share<br>option<br>expense<br>HK\$'000 | Net pension<br>scheme<br>contributions<br>HK\$'000 | Total<br>remuneration<br>HK\$'000 |
|--------------------------|------------------|---|---|--|--|-----------------------------------|
| <b>2009</b>              |                  |   |   |  |  |                                   |
| Executive directors:     |                  |   |   |  |  |                                   |
| LI Wenyue                | —                | —   | —   | 1,542  | —  | 1,542                             |
| ZHANG Hui                | —                | 603   | 1,034   | 714  | 341  | 2,692                             |
| TSANG Hon Nam            | —                | 1,304   | 333   | 478  | 60   | 2,175                             |
|                          | —                | 1,907   | 1,367   | 2,734  | 401  | 6,409                             |
| Non-executive directors: |                  |   |   |  |  |                                   |
| CHENG Mo Chi, Moses      | 342              | —   | —   | 406  | —  | 748                               |
| HUANG Xiaofeng           | —                | —   | —   | 925  | —  | 925                               |
| XU Wenfang               | —                | —   | —   | 536  | —  | 536                               |
| ZHAI Zhiming             | —                | —   | —   | 632  | —  | 632                               |
| LI Wai Keung             | —                | —   | —   | 544  | —  | 544                               |
| SUN Yingming             | —                | —   | —   | 568  | —  | 568                               |
| WANG Xiaofeng            | —                | —   | —   | 519  | —  | 519                               |
|                          | 342              | 1,907   | 1,367   | 6,864  | 401  | 10,881                            |
| <b>2008</b>              |                  |   |   |  |  |                                   |
| Executive directors:     |                  |   |   |  |  |                                   |
| LI Wenyue                | —                | —   | —   | 291  | —  | 291                               |
| ZHANG Hui                | —                | 444   | 1,005   | 135  | 286  | 1,870                             |
| TSANG Hon Nam            | —                | 898   | 120   | 91   | 38   | 1,147                             |
|                          | —                | 1,342   | 1,125   | 517  | 324  | 3,308                             |
| Non-executive directors: |                  |   |   |  |  |                                   |
| CHENG Mo Chi, Moses      | 342              | —   | —   | 77   | —  | 419                               |
| HUANG Xiaofeng           | —                | —   | —   | 175  | —  | 175                               |
| XU Wenfang               | —                | —   | —   | 101  | —  | 101                               |
| ZHAI Zhiming             | —                | —   | —   | 120  | —  | 120                               |
| LI Wai Keung             | —                | —   | —   | 103  | —  | 103                               |
| SUN Yingming             | —                | —   | —   | 107  | —  | 107                               |
| WANG Xiaofeng            | —                | —   | —   | 98   | —  | 98                                |
|                          | 342              | 1,342   | 1,125   | 1,298  | 324  | 4,431                             |

## 8. Directors' remuneration (continued)

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

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

During the year ended 31 December 2008, share options were granted to certain directors in respect of their services to the Company, further details of which are included in the disclosures in note 33 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

## 9. Five highest paid employees

The five highest paid employees during the year included two (2008: one) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the other three (2008: four) non-director, highest paid employees for the year are as follows:

|   | <b>Group</b>    |              |
|---|-----------------|--------------|
|   | <b>2009</b>     | 2008         |
|   | <b>HK\$'000</b> | HK\$'000     |
| Salaries, allowances and benefits in kind | 2,368           | 3,552        |
| Performance related bonuses               | 2,940           | 2,832        |
| Equity-settled share option expense       | 1,558           | 368          |
| Pension scheme contributions              | 274             | 330          |
|   | <b>7,140</b>    | <b>7,082</b> |

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

|                             | <b>Number of employees</b> |          |
|-----------------------------|----------------------------|----------|
|                             | <b>2009</b>                | 2008     |
| HK\$1,000,001–HK\$1,500,000 | —                          | —        |
| HK\$1,500,001–HK\$2,000,000 | —                          | 3        |
| HK\$2,000,001–HK\$2,500,000 | 2                          | 1        |
| HK\$2,500,001–HK\$3,000,000 | 1                          | —        |
|                             | <b>3</b>                   | <b>4</b> |

During the year ended 31 December 2008, share options were granted to a non-director, highest paid employee in respect of her services to the Company, further details of which are included in the disclosures in note 33 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

### 10. Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) 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 the countries or jurisdictions in which the Group operates.

Under the PRC Corporate Income Tax Law (the "New CIT Tax Law"), which became effective from 1 January 2008, enterprises are subject to corporate income tax ("CIT") at a rate of 25%. According to the "Notice by the PRC State Council on the Implementation of the Grandfathering Preferential Policies under the PRC Income Tax Law", the applicable tax rates in the coming years for enterprises which previously enjoyed a lower CIT rate of 15% are 18% in 2008; 20% in 2009; 22% in 2010; 24% in 2011; and 25% in 2012 and thereafter.

The effect of the changes of the tax rate in CIT is not material to the Group for the year ended 31 December 2009.

|                                       | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|---------------------------------------|------------------|------------------|
| Group:                                |                  |                  |
| Current — Hong Kong                   |                  |                  |
| Charge for the year                   | 7,534            | 9,052            |
| Overprovision in prior years          | (59)             | (139)            |
| Current — Mainland China              |                  |                  |
| Charge for the year                   | 416,023          | 506,909          |
| Under/(over) provision in prior years | (92,736)         | 4,184            |
| Deferred (note 31)                    | 168,984          | (77,584)         |
| Total tax charge for the year         | 499,746          | 442,422          |

## 10. Tax (continued)

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

|  | 2009      |       |                |       |           |       |
|--|-----------|-------|----------------|-------|-----------|-------|
|  | Hong Kong |       | Mainland China |       | Total     |       |
|  | HK\$'000  | %     | HK\$'000       | %     | HK\$'000  | %     |
| Profit before tax  | 165,390   |       | 2,793,809      |       | 2,959,199 |       |
| Tax at the statutory tax rates   | 27,289    | 16.5  | 698,452        | 25.0  | 725,741   | 24.5  |
| Lower tax rates for specific provinces or enacted by local authority and as a result of tax holidays | —         | —     | (88,337)       | (3.2) | (88,337)  | (3.0) |
| Adjustments in respect of current tax of previous periods  | (59)      | —     | (92,736)       | (3.3) | (92,795)  | (3.1) |
| Profits attributable to a jointly-controlled entity and associates                                   | (16,295)  | (9.9) | (5,217)        | (0.2) | (21,512)  | (0.7) |
| Income not subject to tax  | (1,697)   | (1.0) | (158,863)      | (5.6) | (160,560) | (5.4) |
| Expenses not deductible for tax  | 10,983    | 6.6   | 12,473         | 0.4   | 23,456    | 0.8   |
| Effect of withholding tax at 5% on the distributable profits on the Group's PRC subsidiaries         | —         | —     | 105,757        | 3.8   | 105,757   | 3.6   |
| Tax losses utilised from previous periods  | (5,689)   | (3.4) | (193)          | —     | (5,882)   | (0.2) |
| Tax losses not recognised  | 14        | —     | 45,738         | 1.6   | 45,752    | 1.5   |
| Others   | (437)     | (0.3) | (31,437)       | (1.1) | (31,874)  | (1.1) |
| Tax charge at the Group's effective rate   | 14,109    | 8.5   | 485,637        | 17.4  | 499,746   | 16.9  |

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

### 10. Tax (continued)

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

The share of tax charge attributable to a jointly-controlled entity amounting to HK\$13,702,000 (2008: HK\$18,829,000) (*note 19*) and the share of tax charge attributable to associates amounting to HK\$8,154,000 (2008: tax credit of HK\$8,875,000) are included in "Share of profits of a jointly-controlled entity" and "Share of profits less losses of associates" in the consolidated income statement, respectively.

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

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2009 includes a profit of HK\$641,485,000 (2008: HK\$428,997,000) which has been dealt with in the financial statements of the Company (*note 34(b)*).

## 12. Dividends

|   | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|---|------------------|------------------|
| Interim — 5.0 HK cents (2008: 4.0 HK cents) per ordinary share        | 310,672          | 246,456          |
| Proposed final — 6.0 HK cents (2008: 6.0 HK cents) per ordinary share | 372,806          | 369,683          |
|   | 683,478          | 616,139          |

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

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

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

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

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

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

|   | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|---|------------------|------------------|
| Earnings:   |                  |                  |
| Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation | 2,044,254        | 1,876,682        |

|  | Number of shares<br>2009 | 2008          |
|--|--------------------------|---------------|
| Shares:  |                          |               |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | 6,188,452,455            | 6,144,064,027 |
| Effect of dilution — weighted average number of ordinary shares that assumed to have been issued:                    |                          |               |
| Share options  | 45,701,078               | 87,150,623    |
| For the purpose of diluted earnings per share calculation  | 6,234,153,533            | 6,231,214,650 |



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

### 14. Property, plant and equipment

#### Group — 2009

|   | Hotel<br>properties<br>HK\$'000 | Land and<br>buildings<br>HK\$'000 | Plant and<br>machinery<br>HK\$'000 | Furniture,<br>fixtures and<br>equipment<br>HK\$'000 | Leasehold<br>improvements<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Construction<br>in progress<br>HK\$'000 | Total<br>HK\$'000 |
|---|---------------------------------|-----------------------------------|------------------------------------|---|---------------------------------------|-------------------------------|---|-------------------|
| At 1 January 2009:  |                                 |                                   |                                    |   |                                       |                               |   |                   |
| Cost  | 1,041,360                       | 1,088,570                         | 1,678,234                          | 225,130   | 160,631                               | 21,283                        | 277,550                                 | 4,492,758         |
| Accumulated depreciation<br>and impairment                                | (331,662)                       | (497,666)                         | (1,081,461)                        | (194,413)   | (99,003)                              | (16,623)                      | —                                       | (2,220,828)       |
| Net carrying value  | 709,698                         | 590,904                           | 596,773                            | 30,717  | 61,628                                | 4,660                         | 277,550                                 | 2,271,930         |
| At 1 January 2009, net of<br>accumulated depreciation<br>and impairment   | 709,698                         | 590,904                           | 596,773                            | 30,717  | 61,628                                | 4,660                         | 277,550                                 | 2,271,930         |
| Additions   | 67                              | 1,935                             | 774                                | 13,678  | 10,765                                | 1,637                         | 211,325                                 | 240,181           |
| Disposals and write-offs  | (21)                            | (192)                             | (743)                              | (198)   | (33)                                  | (47)                          | (10)                                    | (1,244)           |
| Impairment (note 6)*  | (20,425)                        | —                                 | —                                  | (307)   | (15,336)                              | (115)                         | —                                       | (36,183)          |
| Depreciation provided during<br>the year (note 6)                         | (26,551)                        | (31,566)                          | (67,255)                           | (12,151)  | (19,042)                              | (946)                         | —                                       | (157,511)         |
| Reclassification  | —                               | —                                 | 3,744                              | —   | —                                     | —                             | (3,744)                                 | —                 |
| Surplus on revaluation on<br>transfer to investment<br>properties         | —                               | 1,708                             | —                                  | —   | —                                     | —                             | —                                       | 1,708             |
| Transfer to investment<br>properties (note 15)                            | —                               | (6,231)                           | —                                  | —   | —                                     | —                             | —                                       | (6,231)           |
| Exchange realignment  | 965                             | 698                               | —                                  | 2   | 109                                   | 10                            | 643                                     | 2,427             |
| At 31 December 2009, net of<br>accumulated depreciation<br>and impairment | 663,733                         | 557,256                           | 533,293                            | 31,741  | 38,091                                | 5,199                         | 485,764                                 | 2,315,077         |
| At 31 December 2009   |                                 |                                   |                                    |   |                                       |                               |   |                   |
| Cost  | 1,042,433                       | 1,085,014                         | 1,675,889                          | 237,286   | 169,283                               | 22,280                        | 485,764                                 | 4,717,949         |
| Accumulated depreciation<br>and impairment                                | (378,700)                       | (527,758)                         | (1,142,596)                        | (205,545)   | (131,192)                             | (17,081)                      | —                                       | (2,402,872)       |
| Net carrying value  | 663,733                         | 557,256                           | 533,293                            | 31,741  | 38,091                                | 5,199                         | 485,764                                 | 2,315,077         |

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009



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

#### Group — 2008

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

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

# During the year ended 31 December 2009, certain items of property, plant and equipment of certain wholly-owned subsidiaries of the Group, which were engaged in hotel operations and management in Mainland China, were impaired with reference to the recoverable amounts of these items. The recoverable amounts of these items of property, plant and equipment were determined as the value in use. The discount rate used in estimating the amount of the value in use was the weighted average cost of capital of the Group's hotel operations and management. Due to the change in market environment of the hotel operations and management business in Mainland China and cessation of certain hotel management business of certain subsidiaries in the near future, an impairment of HK\$36,183,000 was charged to the income statement during the year.

During the year ended 31 December 2008, certain items of property, plant and equipment of a non-wholly-owned subsidiary of the Group, which was engaged in power generation operation, were impaired with reference to the recoverable amounts of these items. The recoverable amounts of these items of property, plant and equipment were determined as the value in use. The discount rate used in estimating the amount of the value in use was the weighted average cost of capital of the Group's power generation operation. Due to the closure of the power generator of Shaoguan PPD in December 2008, an impairment of HK\$33,150,000 was charged to the income statement for year ended 31 December 2008.

#### Group

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

|                                      | Hotel properties |                  | Land and buildings |                  |
|--------------------------------------|------------------|------------------|--------------------|------------------|
|                                      | 2009<br>HK\$'000 | 2008<br>HK\$'000 | 2009<br>HK\$'000   | 2008<br>HK\$'000 |
| Long term leases in Hong Kong        | 119,605          | 123,955          | 99,119             | 99,141           |
| Medium term leases in Hong Kong      | 78,920           | 83,702           | 50,368             | 50,650           |
| Medium term leases in Mainland China | 465,208          | 502,041          | 407,769            | 441,113          |
|                                      | 663,733          | 709,698          | 557,256            | 590,904          |

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

## Company — 2009

|   | Furniture,<br>fixtures and<br>equipment<br>HK\$'000 | Leasehold<br>improvements<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Total<br>HK\$'000 |
|---|---|---------------------------------------|-------------------------------|-------------------|
| At 1 January 2009, net of<br>accumulated depreciation   | 318   | 103                                   | 3                             | 424               |
| Additions   | 36  | 30                                    | 284                           | 350               |
| Depreciation provided during the year                   | (186)   | (67)                                  | (17)                          | (270)             |
| At 31 December 2009, net of<br>accumulated depreciation | 168   | 66                                    | 270                           | 504               |
| At 31 December 2009:                                    |   |                                       |                               |                   |
| Cost  | 7,217   | 8,799                                 | 895                           | 16,911            |
| Accumulated depreciation                                | (7,049)   | (8,733)                               | (625)                         | (16,407)          |
| Net carrying amount                                     | 168   | 66                                    | 270                           | 504               |

## Company — 2008

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

### 15. Investment properties

#### Group

|  | Investment<br>properties<br>at fair value<br>HK\$'000 | Investment<br>property under<br>construction<br>at cost<br>HK\$'000 | Total<br>HK\$'000 |
|--|---|---|-------------------|
| Carrying amount at 1 January 2008                                      | 4,277,760   | —   | 4,277,760         |
| Additions  | 414   | —   | 414               |
| Net loss from fair value adjustments ( <i>note 6</i> )                 | (494,199)   | —   | (494,199)         |
| Transfer from property, plant and<br>equipment, net ( <i>note 14</i> ) | 19,745  | —   | 19,745            |
| Exchange realignment   | 228,978   | —   | 228,978           |
| Carrying amount at 31 December 2008 and<br>1 January 2009              | 4,032,698   | —   | 4,032,698         |
| Additions  | 255   | 562,165   | 562,420           |
| Net profit from fair value adjustments ( <i>note 6</i> )               | 203,296   | —   | 203,296           |
| Transfer from property, plant and<br>equipment, net ( <i>note 14</i> ) | 6,231   | —   | 6,231             |
| Exchange realignment   | 5,821   | —   | 5,821             |
| Carrying amount at 31 December 2009                                    | 4,248,301   | 562,165   | 4,810,466         |

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

|                                      | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|--------------------------------------|------------------|------------------|
| Long term leases in Hong Kong        | 497,420          | 467,180          |
| Medium term leases in Mainland China | 4,313,046        | 3,565,518        |
|                                      | 4,810,466        | 4,032,698        |

The Group's investment properties were revalued on 31 December 2009 by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, at an aggregate amount of HK\$4,248,301,000 on an open market, existing use basis. The investment properties are leased to third parties and GDH Limited and fellow subsidiaries under operating leases, further summary details of which are included in note 36(a) to the financial statements.

Included in the above investment properties was a land parcel located at Tianjin under development as a shopping mall with land and development costs amounting to HK\$562,165,000 (2008: nil). The investment property was carried at cost less any accumulated impairment losses as the directors are of the opinion that its fair value cannot be reliably determined due to the fact that the development project is still at its initial stage.

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

## 16. Prepaid land lease payments

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

|                                      | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|--------------------------------------|------------------|------------------|
| Long term leases in Hong Kong        | 484,327          | 488,449          |
| Medium term leases in Hong Kong      | 234,295          | 242,237          |
| Medium term leases in Mainland China | 103,581          | 107,903          |
|                                      | 822,203          | 838,589          |

## 17. Goodwill

|   | Group<br>2009<br>HK\$'000 | 2008<br>HK\$'000 |
|---|---------------------------|------------------|
| Cost and net carrying amount at 1 January   | 262,370                   | 256,119          |
| Acquisition of minority interests           | 3,776                     | 6,251            |
| Cost and net carrying amount at 31 December | 266,146                   | 262,370          |

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

The amounts of goodwill remaining in consolidated capital reserve, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, was HK\$303,703,000 as at 31 December 2008 and 2009. 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.

### Impairment testing of goodwill

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

The recoverable amount of the water supply cash-generating unit has been determined based on a value in use calculation using cash flow projections approved by the Company's directors covering the concession period of 30 years commencing from 18 August 2000. The discount rate applied to cash flow projections is 7% (2008: 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 2009. Based on the approved cash flow projections, the directors believe that any reasonably possible change in the key assumptions on which the recoverable amount of the water supply cash-generating unit is based would not cause the aggregate carrying amount of goodwill to exceed its recoverable amount.

The carrying amount of goodwill allocated to the water supply cash-generating unit was HK\$265,788,000 (2008: HK\$262,012,000) as at 31 December 2009.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

### 18. Interests in subsidiaries

|                               | Company<br>2009<br>HK\$'000 | 2008<br>HK\$'000 |
|-------------------------------|-----------------------------|------------------|
| Unlisted investments, at cost | 4,840,444                   | 4,777,792        |
| Due from subsidiaries         | 3,792,159                   | 3,848,806        |
| Due to subsidiaries           | (44,043)                    | (55,467)         |
|                               | 8,588,560                   | 8,571,131        |
| Less: Impairments             | (1,583,263)                 | (1,599,920)      |
|                               | 7,005,297                   | 6,971,211        |

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

The recoverable amount of the cash-generating unit was estimated based on (i) the value in use of investment properties and hotel properties valued by Vigers Appraisal & Consulting Limited and (ii) present values of discounted cash flows of power operation at the discount rate of 8% (2008: 8% to 10%). As the recoverable amounts of certain of the interests in subsidiaries are lower than their respective carrying amounts, impairments have been made accordingly.

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\$242,342,000 (2008: HK\$260,498,000), which bear interest at the Hong Kong Dollar Prime Rate (the "Prime Rate") plus 1% or fixed rates of 8% (2008: Prime Rate plus 1% or fixed rates of 8%) per annum and are repayable within five years from 1 October 2008;
- (ii) an unsecured loan of HK\$81,479,000 (2008: HK\$81,479,000) which bears interest at fixed rate of 9% (2008: fixed rate of 9%) per annum and is repayable on demand;
- (iii) an unsecured loan of HK\$382,500,000 (2008: HK\$395,780,000) which bears interest at the Prime Rate minus 1.5% (2008: Prime Rate minus 1.5%) per annum and has no specific terms of repayment; and
- (iv) an unsecured loan of HK\$12,000,000 (2008: HK\$12,000,000) which bears interest at the Hong Kong Inter Bank Offered Rates (the "HIBOR") plus 0.6% (2008: HIBOR plus 0.6%) per annum and is repayable over five years from 24 April 2006.

## 18. Interests in subsidiaries (continued)

Particulars of the principal subsidiaries are as follows:

| Company   | Place of incorporation/<br>registration<br>and operations | Nominal value<br>of issued ordinary/<br>registered<br>share capital                                | Percentage of<br>equity attributable<br>to the Company |          | Principal activities                             |
|---|---|--|--|----------|--|
|   |   |  | Direct   | Indirect |  |
| Global Head Developments Limited  | British Virgin Islands/<br>Hong Kong                      | US\$1  | 100%   | —        | Property investment                              |
| Fill Success Investments Limited  | Hong Kong   | HK\$2 ordinary<br>HK\$2 non-voting<br>deferred   | —  | 100%     | Hotel ownership                                  |
| GH Water Supply (Holdings) Limited<br>("GH Water Holdings")*                          | Cayman Islands/<br>Hong Kong                              | HK\$1,000,000<br>ordinary<br>HK\$100 Class A<br>special shares<br>HK\$10 Class B<br>special shares | 89.08%   | —        | Investment holding                               |
| 廣東天河城(集團)股份有限公司<br>(Guangdong Teem (Holdings) Limited)<br>("GD Teem") <sup>(1)*</sup> | Mainland China  | RMB840,000,000   | 11.51%   | 64.49%   | Property investment<br>and investment<br>holding |
| Guangdong Hotel Limited   | Hong Kong   | HK\$2 ordinary<br>HK\$5,000,000 non-<br>voting deferred  | —  | 100%     | Hotel ownership and<br>operations                |
| Guangdong (International) Hotel<br>Management Holdings Limited<br>("GIHM")            | Hong Kong   | HK\$10,000,000   | 100%   | —        | Hotel management                                 |
| Guangdong Nan Fang (Holdings) Co. Ltd.<br>("Nan Fang Holdings")*                      | British Virgin Islands/<br>Mainland China                 | US\$10,000   | 56.34%   | —        | Property investment                              |
| Guangdong Power (International) Limited<br>("GPIL")                                   | British Virgin Islands/<br>Hong Kong                      | US\$31,286,250   | 51%  | —        | Investment holding                               |
| Guangdong Properties Holdings Limited   | Hong Kong   | HK\$2  | 100%   | —        | Investment holding                               |



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

### 18. Interests in subsidiaries (continued)

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

| Company  | Place of incorporation/<br>registration<br>and operations | Nominal value<br>of issued ordinary/<br>registered<br>share capital | Percentage of<br>equity attributable<br>to the Company |          | Principal activities              |
|--|---|---|--|----------|-----------------------------------|
|  |   |   | Direct   | Indirect |                                   |
| 廣東天河城百貨有限公司<br>(Guangdong Teemall Department Stores<br>Ltd.) <sup>(4)*</sup>     | Mainland China  | RMB8,000,000  | —  | 85.12%   | Department stores<br>operations   |
| Guangdong Yue Gang Water Supply<br>Company Limited ("WaterCo") <sup>(2)*</sup>   | Mainland China  | HK\$6,116,000,000   | —  | 88.19%   | Water supply<br>business          |
| Guangdong Yingde Highway Ltd. <sup>(2)*</sup>                                    | Mainland China  | RMB93,200,000   | —  | 70%      | Highway operations                |
| Sen International Ventures Corporation<br>(Hong Kong) Limited                    | Hong Kong   | HK\$2   | —  | 100%     | Hotel operations                  |
| 韶關發電廠有限公司<br>(Shaoguan Power Plant (D) Ltd.)<br>("Shaoguan PPD") <sup>(1)*</sup> | Mainland China  | US\$51,500,000  | —  | 45.9%**  | Power plant<br>operations         |
| 深圳粵海酒店企業有限公司<br>(Shenzhen Guangdong Hotel Enterprise<br>Ltd.) <sup>(2)*</sup>    | Mainland China  | HK\$114,787,016   | 99%  | —        | Hotel ownership and<br>operations |
| 珠海粵海酒店<br>(Guangdong Hotel (Zhu Hai)) <sup>(3)*</sup>                            | Mainland China  | US\$10,000,000  | —  | 100%     | Hotel ownership and<br>operations |
| Yue Sheng Finance Limited  | Hong Kong   | HK\$2   | 100%   | —        | Finance                           |
| Zhongshan Power (Hong Kong) Limited<br>("ZPHK")                                  | Hong Kong   | HK\$100   | 95%  | —        | Investment holding                |
| 中山火力發電有限公司<br>(Zhongshan Thermal Power Co., Ltd.)<br>("ZTP") <sup>(2)*</sup>     | Mainland China  | US\$35,000,000  | —  | 59.85%   | Power plant<br>operations         |
| 廣州市天河城萬博百貨有限公司 <sup>(4)*</sup>   | Mainland China  | RMB1,000,000  | —  | 85.12%   | Department stores<br>operations   |

Notes:

1. Sino-foreign equity joint venture

2. Sino-foreign co-operative joint venture

3. Wholly-foreign-owned enterprise

4. Limited company established in Mainland China

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

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

## 18. Interests in subsidiaries (continued)

During the years ended 31 December 2009 and 2008, the Group acquired additional interests in GH Water Holdings and GD Teem from minority interests.

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

## 19. Interests in a jointly-controlled entity

|                     | <b>Group</b>    |          |
|---------------------|-----------------|----------|
|                     | <b>2009</b>     | 2008     |
|                     | <b>HK\$'000</b> | HK\$'000 |
| Share of net assets | <b>909,136</b>  | 994,757  |

Particulars of the jointly-controlled entity are as follows:

| <b>Company</b>  | <b>Nominal value of<br/>issued ordinary/<br/>registered<br/>share capital</b> | <b>Place of<br/>incorporation/<br/>registration</b> | <b>Percentage of<br/>attributable<br/>equity interest<br/>held by the Group</b> | <b>Principal activity</b>                     |
|---|---|---|---|---|
| Guangdong Transport Investment<br>(BVI) Company Limited | US\$100,000   | British Virgin Islands                              | 51%   | Investments in highway<br>and bridge projects |

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

|  | <b>2009</b>     | 2008     |
|--|-----------------|----------|
|  | <b>HK\$'000</b> | HK\$'000 |
| Share of the jointly-controlled entity's assets and liabilities: |                 |          |
| Non-current assets   | <b>906,463</b>  | 981,173  |
| Current assets   | <b>3,445</b>    | 14,763   |
| Current liabilities  | <b>(772)</b>    | (1,179)  |
| Net assets   | <b>909,136</b>  | 994,757  |
| Share of the jointly-controlled entity's results:                |                 |          |
| Revenue  | —               | —        |
| Share of profits of jointly-controlled entities                  | <b>106,766</b>  | 169,832  |
|  | <b>106,766</b>  | 169,832  |
| Total expenses   | <b>(1,990)</b>  | (16,919) |
| Tax (note 10)  | <b>(13,702)</b> | (18,829) |
| Profit after tax   | <b>91,074</b>   | 134,084  |

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

### 20. Interests in associates

|                                    | Group     |           | Company   |           |
|------------------------------------|-----------|-----------|-----------|-----------|
|                                    | 2009      | 2008      | 2009      | 2008      |
|                                    | HK\$'000  | HK\$'000  | HK\$'000  | HK\$'000  |
| Unlisted investments, at cost      | —         | —         | 115,062   | 115,062   |
| Share of net assets                | 500,613   | 518,579   | —         | —         |
| Due from an associate (note 38(b)) | 5,987     | 7,280     | —         | —         |
|                                    | 506,600   | 525,859   | 115,062   | 115,062   |
| Less: Impairments                  | (322,079) | (251,741) | (115,062) | (115,062) |
|                                    | 184,521   | 274,118   | —         | —         |

The recoverable amount of the interests in associates was estimated based on the present value of discounted cash flows of power operation at the discount rate of 8% (2008: 8%). In view of the expected increase in coal price and operating costs but decrease in tariff in the coming years, an impairment has been made accordingly.

Particulars of the associates are as follows:

| Company   | Nominal value of issued ordinary/registered share capital | Place of incorporation/registration and operations | Percentage of ownership interest attributable to |        | Principal activities        |
|---|---|--|--|--------|-----------------------------|
|   |   |  | Company  | Group  |                             |
| 廣東吉之島天貿百貨有限公司<br>(Guangdong Jusco Teem Stores Co., Ltd.)*                             | RMB92,000,000   | Mainland China                                     | —  | 26.60% | 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<br>(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<br>(Guangdong Pan Yu Bridge Company Limited)*                              | RMB270,000,000  | Mainland China                                     | —  | 20%    | Toll bridge operations      |

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

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

|               | 2009        | 2008        |
|---------------|-------------|-------------|
|               | HK\$'000    | HK\$'000    |
| Assets        | 4,891,160   | 4,700,933   |
| Liabilities   | (3,184,466) | (2,905,753) |
| Revenues      | 4,347,906   | 3,851,849   |
| Profit/(loss) | 79,693      | (20,362)    |

## 21. Intangible assets

## Group — 2009

|   | Water<br>distribution<br>operation<br>HK\$'000 | Power<br>supply<br>operation<br>HK\$'000 | Toll road<br>operation<br>HK\$'000 | Total<br>HK\$'000 |
|---|--|--|------------------------------------|-------------------|
| At 1 January 2009:  |  |  |                                    |                   |
| Cost  | 23,566,452                                     | 213,695                                  | 287,734                            | 24,067,881        |
| Accumulated amortisation and impairment                             | (6,240,162)                                    | (189,122)                                | (183,799)                          | (6,613,083)       |
| Net carrying value  | 17,326,290                                     | 24,573                                   | 103,935                            | 17,454,798        |
| At 1 January 2009, net of accumulated amortisation and impairment   | 17,326,290                                     | 24,573                                   | 103,935                            | 17,454,798        |
| Additions   | 653  | 313                                      | 27,788                             | 28,754            |
| Disposals and write-offs  | (4,862)  | (7)                                      | —                                  | (4,869)           |
| Amortisation during the year (note 6)                               | (801,149)                                      | (5,383)                                  | (5,184)                            | (811,716)         |
| Exchange realignment  | —  | 33                                       | 163                                | 196               |
| As 31 December 2009, net of accumulated amortisation and impairment | 16,520,932                                     | 19,529                                   | 126,702                            | 16,667,163        |
| As 31 December 2009:  |  |  |                                    |                   |
| Cost  | 23,554,368                                     | 214,201                                  | 315,983                            | 24,084,552        |
| Accumulated amortisation and impairment                             | (7,033,436)                                    | (194,672)                                | (189,281)                          | (7,417,389)       |
| Net carrying value  | 16,520,932                                     | 19,529                                   | 126,702                            | 16,667,163        |

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

### 21. Intangible assets (continued)

#### Group — 2008

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

#### Water distribution operation

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

## 21. Intangible assets (continued)

### Water distribution operation (continued)

At 31 December 2009, the Group held certain temporary land use right certificates for the existing water supply operation issued from the Shenzhen and Dongguan Land Authorities. The procedures for the conversion from the temporary land use right certificates previously obtained in 2000 to the formal land use right certificates are in progress as at 31 December 2009. For land related to the Phase IV Renovation Project on the water distribution operation facilities, the application for land use right certificates has been submitted and these land use right certificates were not yet issued by the relevant offices of the Land Authorities in the PRC as at 31 December 2009. Notwithstanding this, the directors are of the opinion that the Group has obtained the beneficial title to these assets as at 31 December 2009 and the land use right certificates can be received.

### Power supply operation

During the year ended 31 December 2008, certain items of intangible assets of a non-wholly-owned subsidiary of the Group, which was engaged in power generation operation, were impaired with reference to the recoverable amounts of these items. The recoverable amounts of these items of intangible assets were determined as the value in use. The discount rate used in estimating the amount of the value in use was the weighted average cost of capital of the Group's power generation operation. Due to the change in the market environment of the power generation business in Mainland China, a further impairment of HK\$56,193,000 was charged to the consolidated income statement for the year ended 31 December 2008.

## 22. Available-for-sale investments

|   | Group<br>2009<br>HK\$'000 | 2008<br>HK\$'000 |
|---|---------------------------|------------------|
| Unlisted equity investment, at cost       | 72,134                    | 72,134           |
| Less: Impairments <sup>#</sup>            | (72,134)                  | (72,134)         |
| Net carrying value                        | —                         | —                |
| Unlisted equity investment, at fair value | 23                        | 23               |
| Unlisted debt investment, at fair value   | 56,785                    | 56,695           |
| Total available-for-sale investments      | 56,808                    | 56,718           |

<sup>#</sup> There was no change in the impairment account during the current and prior years.

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

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

### 23. Inventories

|                | Group<br>2009<br>HK\$'000 | 2008<br>HK\$'000 |
|----------------|---------------------------|------------------|
| Raw materials  | 35,908                    | 35,126           |
| Finished goods | 13,491                    | 15,064           |
|                | <b>49,399</b>             | 50,190           |

### 24. Receivables, prepayments and deposits

|  |       | Group<br>2009<br>HK\$'000 | 2008<br>HK\$'000 | Company<br>2009<br>HK\$'000 | 2008<br>HK\$'000 |
|--|-------|---------------------------|------------------|-----------------------------|------------------|
|  | Note  |                           |                  |                             |                  |
| Trade receivables, net of impairment           |       | 188,573                   | 247,955          | —                           | —                |
| Other receivables, prepayments and deposits    |       | 494,561                   | 470,634          | 35,554                      | 37,184           |
| Due from the immediate holding company         | 38(b) | —                         | 1,991            | —                           | 1,183            |
| Due from fellow subsidiaries                   | 38(b) | 292                       | 2,227            | 22                          | 21               |
|  |       | <b>683,426</b>            | 722,807          | <b>35,576</b>               | 38,388           |
| Less: Portion classified as non-current assets |       | <b>(120,111)</b>          | —                | —                           | —                |
|  |       | <b>563,315</b>            | 722,807          | <b>35,576</b>               | 38,388           |

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 30 days to 180 days of issue. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management. The Group's trade receivables relate principally to the electricity supply business (2008: electricity supply business) and the Group has a certain concentration of credit risk as 22% (2008: 28%) of the total trade receivables were due from one of the Group's major customers.

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

|                      | Group<br>2009<br>HK\$'000 | 2008<br>HK\$'000 |
|----------------------|---------------------------|------------------|
| Within 3 months      | 186,642                   | 247,296          |
| 3 months to 6 months | 347                       | 770              |
| 6 months to 1 year   | 1,365                     | 778              |
| More than 1 year     | 11,389                    | 11,372           |
|                      | <b>199,743</b>            | 260,216          |
| Less: Impairments    | <b>(11,170)</b>           | (12,261)         |
|                      | <b>188,573</b>            | 247,955          |

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

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

|  | <b>Group</b><br><b>2009</b><br><b>HK\$'000</b> | 2008<br>HK\$'000 |
|--|--|------------------|
| At 1 January                                   | 12,261   | 11,030           |
| Impairment reversed ( <i>note 6</i> )          | (113)  | —                |
| Amount written off as uncollectible            | (1,469)  | —                |
| Impairment losses recognised ( <i>note 6</i> ) | 491  | 1,231            |
| At 31 December                                 | 11,170   | 12,261           |

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK\$11,170,000 (2008: HK\$12,261,000) with the same carrying amount before provision as at the balance sheet date.

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

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

|                                    | <b>Group</b><br><b>2009</b><br><b>HK\$'000</b> | 2008<br>HK\$'000 |
|------------------------------------|--|------------------|
| Neither past due nor impaired      | 181,839  | 242,177          |
| Less than 1 month past due         | 2,450  | 1,788            |
| Equal to and over 1 month past due | 4,284  | 3,990            |
|                                    | 188,573  | 247,955          |

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

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

None of the above assets, except for trade receivables detailed as above, is either past due or impaired. These financial assets included in the above balances relate to receivables for which there was no recent history of default.

The Group's and the Company's trade and other receivables, prepayments and deposits are non-interest-bearing.



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

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

|  | Group            |           | Company        |          |
|--|------------------|-----------|----------------|----------|
|  | 2009             | 2008      | 2009           | 2008     |
|  | HK\$'000         | HK\$'000  | HK\$'000       | HK\$'000 |
| Cash and bank balances (notes (a) and (b))         | <b>1,179,732</b> | 1,269,832 | <b>46,434</b>  | 18,156   |
| Time deposits (notes (a) and (b))                  | <b>2,691,295</b> | 2,827,145 | <b>698,847</b> | 714,509  |
| Trust account                                      | —                | 2,831     | —              | —        |
|  | <b>3,871,027</b> | 4,099,808 | <b>745,281</b> | 732,665  |
| Less: Restricted cash and bank balances            | —                | (2,831)   | —              | —        |
| Cash and cash equivalents<br>(notes (c) and 35(b)) | <b>3,871,027</b> | 4,096,977 | <b>745,281</b> | 732,665  |

Notes:

- (a) A subsidiary of the Company is required to reserve certain cash and bank balances for, amongst other things, payment of interest, repayment of debts and distribution to shareholders of that subsidiary pursuant to an agreement entered into between the subsidiary and other parties. As at 31 December 2009, cash and bank balances retained for such purposes amounted to HK\$1,030,000 (2008: HK\$3,815,000).
- (b) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and more than three months depending on the immediate cash requirements of the Group and the Company, and earn interest at the respective time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.
- (c) At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK\$2,954,492,000 (2008: HK\$3,165,376,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

## 26. Payables, accruals and other liabilities

|                                      | Note  | Group            |                  | Company          |                  |
|--------------------------------------|-------|------------------|------------------|------------------|------------------|
|                                      |       | 2009<br>HK\$'000 | 2008<br>HK\$'000 | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
| Trade payables                       |       | 323,860          | 241,486          | —                | —                |
| Accruals and other liabilities       |       | 1,410,309        | 1,266,431        | 10,687           | 9,818            |
| Due to the immediate holding company | 38(b) | 1,762            | 2,592            | 256              | —                |
| Due to fellow subsidiaries           | 38(b) | 384              | 1,842            | —                | —                |
|                                      |       | 1,736,315        | 1,512,351        | 10,943           | 9,818            |

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            |                  |
|----------------------|------------------|------------------|
|                      | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
| Within 3 months      | 322,651          | 239,678          |
| 3 months to 6 months | 217              | 840              |
| 6 months to 1 year   | 992              | 968              |
|                      | 323,860          | 241,486          |

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

## 27. Derivative financial instruments

|   | Group<br>31 December 2009 |                         |
|---|---------------------------|-------------------------|
|   | Assets<br>HK\$'000        | Liabilities<br>HK\$'000 |
| Interest rate swap agreements           | 136,009                   | (573,481)               |
| Less: Portion classified as non-current | —                         | (155,988)               |
| Current portion                         | 136,009                   | (417,493)               |

|   | 31 December 2008   |                                       |
|---|--------------------|---------------------------------------|
|   | Assets<br>HK\$'000 | Liabilities<br>HK\$'000<br>(Restated) |
| Interest rate swap agreements           | 169,367            | (708,242)                             |
| Less: Portion classified as non-current | —                  | (395,472)                             |
| Current portion                         | 169,367            | (312,770)                             |

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

### 27. Derivative financial instruments (continued)

|   | 1 January 2008 |             |
|---|----------------|-------------|
|   | Assets         | Liabilities |
|   | HK\$'000       | HK\$'000    |
|   |                | (Restated)  |
| Interest rate swap agreements           | 78,516         | (277,647)   |
| Less: Portion classified as non-current | —              | (130,144)   |
| Current portion                         | 78,516         | (147,503)   |

The Group entered into certain interest rate swap agreements to hedge the interest rate risk arising from the Refinancing Facility A and the Refinancing Facility B (collectively, the "Refinancing Facilities") as detailed in note 29 to the financial statements.

The carrying amount of interest rate swap agreements is the same as its fair value. The fair value of interest rate swap agreements is the estimated amount that the Group would receive or pay to terminate the swap agreements at the balance sheet date, taking into account the current market conditions and the current creditworthiness of the swap counterparties. The above transactions involving derivative financial instruments are with creditworthy banks with no recent history of default.

#### Cash flow hedges

At 31 December 2009, the Group had certain interest rate swap agreements with a total notional amount of HK\$3,850 million (2008: HK\$5,200 million) designated and qualified as hedges in respect of the Group's Refinancing Facilities, whereby the Group receives interest at HIBOR per annum and pays interest at a range of fixed rates per annum on the notional amounts. The swap agreements converted the interest obligation arising from the Refinancing Facilities from the floating rate of HIBOR to a range of fixed interest rates per annum for the period from the effective dates of respective contracts to 2012.

The terms of these swap agreements have been negotiated to match the respective terms of the Refinancing Facilities. The cash flow hedges of the Refinancing Facilities were assessed to be highly effective and the net fair value gain on cash flow hedges of HK\$178,283,000 (2008: net fair value loss of HK\$286,447,000) included in the hedging reserve was as follows:

|  | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|--|------------------|------------------|
| Total fair value losses included in the hedging reserve  | (91,930)         | (431,217)        |
| Fair value losses reclassified from other comprehensive income and recognised in the income statement* | 292,389          | 107,644          |
| Net movement on cash flow hedges   | 200,459          | (323,573)        |
| Portion shared by minority interests   | (22,176)         | 37,126           |
| Net movement attributable to equity holders of the Company for the year ended 31 December              | 178,283          | (286,447)        |

\* Included in the balance were amounts of HK\$176,915,000 (note 7) (2008: HK\$107,644,000) charged to "Finance costs" upon realisation of certain interest rate swap agreements and of HK\$115,474,000 (2008: nil) charged to "Other income/(loss)" upon revocation of designation of certain interest rate swap agreements for hedge accounting during the year as a result of early repayment of bank loan, of which the forecast transaction is no longer expected to occur.

## 27. Derivative financial instruments (continued)

### Derivatives not qualified for hedge accounting

At 31 December 2009, 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\$132,158,000 (*note 5*) (2008: HK\$25,310,000) was charged to the consolidated income statement during the year.

Amounts payable under the interest rate swap agreements are senior in right of payment to the Refinancing Facilities as detailed in note 29 to the financial statements.

## 28. Due to minority shareholders of subsidiaries

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

|                                  | Group<br>2009<br>HK\$'000 | 2008<br>HK\$'000 |
|----------------------------------|---------------------------|------------------|
| Non-interest-bearing borrowings: |                           |                  |
| Current portion                  | 367,013                   | 346,825          |
| Non-current portion              | 11,574                    | 18,007           |
|                                  | <b>378,587</b>            | 364,832          |

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

|   | Group<br>2009<br>HK\$'000 | 2008<br>HK\$'000 |
|---|---------------------------|------------------|
| Within one year or no specific terms of repayment | 367,013                   | 346,825          |
| In the second year                                | 6,941                     | 6,770            |
| In the third to fifth years, inclusive            | 4,633                     | 11,237           |
|   | <b>378,587</b>            | 364,832          |

The balances due to minority shareholders of subsidiaries as at 31 December 2009 are unsecured and non-interest-bearing.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

### 29. Interest-bearing bank borrowings

|                      | 2009                    |           |                  | 2008                    |           |                  |
|----------------------|-------------------------|-----------|------------------|-------------------------|-----------|------------------|
|                      | Effective interest rate | Maturity  | HK\$'000         | Effective interest rate | Maturity  | HK\$'000         |
| <b>Current</b>       |                         |           |                  |                         |           |                  |
| Bank loan — secured  | 0.46%–4.38%             | 2010      | 1,584,903        | 4.51%–5.88%             | 2009      | 310,409          |
| <b>Non-current</b>   |                         |           |                  |                         |           |                  |
| Bank loans — secured | 0.65%–5.30%*            | 2011–2017 | 4,351,483        | 0.75%–5.88%*            | 2010–2017 | 8,083,401        |
|                      |                         |           | <b>5,936,386</b> |                         |           | <b>8,393,810</b> |

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

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

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

The maturities of the secured bank loans are analysed into:

|   | Group<br>2009<br>HK\$'000 | 2008<br>HK\$'000 |
|---|---------------------------|------------------|
| Within one year or on demand                    | 1,584,903                 | 310,409          |
| In the second year                              | 309,483                   | 1,584,409        |
| In the third to fifth years, inclusive          | 3,562,000                 | 5,858,992        |
| Over five years                                 | 480,000                   | 640,000          |
|   | <b>5,936,386</b>          | <b>8,393,810</b> |
| Less: Portion classified as current liabilities | <b>(1,584,903)</b>        | <b>(310,409)</b> |
| Non-current portion                             | <b>4,351,483</b>          | <b>8,083,401</b> |

Pursuant to a facility agreement entered into by the Group and certain banks 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 2009, included in the Group's secured bank loans was an outstanding bank loan of HK\$4,516 million (2008: HK\$6,664 million) drawn under the Refinancing Facility A, with aggregate amounts of HK\$3,242 million (2008: HK\$5,390 million) repayable in full in November 2012 and HK\$1,274 million (2008: HK\$1,274 million) repayable in full in December 2010. Included in the outstanding loan balance drawn under Refinancing Facility A as at 31 December 2009, an amount of HK\$3,242 million (2008: HK\$5,390 million) bears interest at 1, 2 or 3-month HIBOR plus 0.6% per annum and HK\$1,274 million (2008: HK\$1,274 million) bears interest at 1, 2 or 3-month HIBOR plus 0.4% per annum.

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

As at 31 December 2009, included in the Group's secured bank loans was another outstanding bank loan of HK\$800 million (2008: HK\$800 million) drawn under the Refinancing Facility B which bears interest at 3-month or 6-month HIBOR plus 0.6% (2008: 3-month or 6-month HIBOR plus 0.6%) per annum with the first repayment due in 2013.

At 31 December 2009, 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 (2008: from the floating rate of HIBOR to a range of fixed interest rates) for the respective periods up to various maturity dates in 2012 (2008: up to various maturity dates in 2012). Amounts payable under the interest rate swap agreements are senior in right of payment to the Refinancing Facility A and the Refinancing Facility B.

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

The remaining bank loans of HK\$620,386,000 (2008: HK\$929,810,000) are denominated in RMB and secured by a charge over the designated debt service accounts for the Phase IV Renovation Project as detailed in note 25(a) to the financial statements. These loans are repayable over four years in four annual consecutive instalments, with the first repayment date being 22 August 2008. They bear interest at 4.38% (2008: ranging from 4.51% to 5.88%) per annum and the interest rates will be adjusted according to the interest rate for 3–5 year term loans published by the People's Bank of China.

## 30. Other liabilities

At 31 December 2009, included in the other liabilities was a non-interest-bearing receipt in advance amounting to HK\$1,536,600,000 (2008: HK\$1,654,800,000). In a prior year, the Government of the HKSAR granted a loan facility with a principal amount of HK\$2,364 million (the "Loan Facility") to the GPG for the purpose of the Phase IV Renovation Project. Pursuant to the Concession Agreement, the Loan Facility was utilised for the construction of the Phase IV Renovation Project, and 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.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

### 31. Deferred tax

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

#### Deferred tax liabilities

##### Group

|   | 2009   |  |                             |                    |                   |
|---|--|--|-----------------------------|--------------------|-------------------|
|   | Depreciation allowance in excess of related depreciation<br>HK\$'000 | Revaluation of investment properties<br>HK\$'000 | Withholding tax<br>HK\$'000 | Others<br>HK\$'000 | Total<br>HK\$'000 |
| At 1 January 2009   | 371,463  | 340,465  | 1,080                       | 4,263              | 717,271           |
| Deferred tax charged to the income statement during the year (note 10)                          | 11,019   | 47,973   | 104,575                     | 4,828              | 168,395           |
| Exchange differences  | 565  | 540  | —                           | 10                 | 1,115             |
| Gross deferred tax liabilities recognised in the consolidated balance sheet at 31 December 2009 | 383,047  | 388,978  | 105,655                     | 9,101              | 886,781           |

#### Deferred tax assets

##### Group

|  | 2009   |  |                    |                   |
|--|--|--|--------------------|-------------------|
|  | Depreciation expense in excess of related depreciation allowance<br>HK\$'000 | Losses available for offsetting against future taxable profits<br>HK\$'000 | Others<br>HK\$'000 | Total<br>HK\$'000 |
| At 1 January 2009  | (776)  | (15,585)   | —                  | (16,361)          |
| Deferred tax charged/(credited) to the income statement during the year (note 10)          | 39   | 1,373  | (823)              | 589               |
| Exchange differences   | (1)  | —  | —                  | (1)               |
| Gross deferred tax assets recognised in the consolidated balance sheet at 31 December 2009 | (738)  | (14,212)   | (823)              | (15,773)          |
| Net deferred tax liabilities at 31 December 2009   |  |  |                    | 871,008           |

## 31. Deferred tax (continued)

## Deferred tax liabilities

## Group

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

## Deferred tax assets

## Group

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



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

### 31. Deferred tax (continued)

The Group has unrecognised tax losses arising in Hong Kong approximately of HK\$116,853,000 (2008: HK\$317,728,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of HK\$340,842,000 (2008: HK\$106,390,000) that will expire in one to five years for offsetting against future taxable profit. Deferred tax assets have not been recognised in respect of these losses as the directors considered that it is not probable that sufficient taxable profits will be available against which the unused tax losses can be utilised by the Group.

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

At 31 December 2009, except for withholding tax provided for under deferred tax liabilities, the aggregate amount of temporary differences associated with unremitted earnings that are subject to withholding taxes of the Group's subsidiaries, associates and jointly-controlled entities in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK\$1,049,569,000 at 31 December 2009 (2008: HK\$1,985,748,000).

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

### 32. Share capital

#### Shares

|   | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|---|------------------|------------------|
| Authorised:   |                  |                  |
| 8,000,000,000 (2008: 8,000,000,000)<br>ordinary shares of HK\$0.50 each | 4,000,000        | 4,000,000        |
| Issued and fully paid:  |                  |                  |
| 6,213,438,071 (2008: 6,161,388,071)<br>ordinary shares of HK\$0.50 each | 3,106,719        | 3,080,694        |

## 32. Share capital (continued)

### Shares (continued)

A summary of movements of the Company's issued and fully paid ordinary shares and ordinary share premium account is as follows:

|   | Number of<br>ordinary shares<br>in issue | Issued capital<br>HK\$'000 | Ordinary<br>share premium<br>account<br>HK\$'000 | Total<br>HK\$'000 |
|---|--|----------------------------|--|-------------------|
| At 1 January 2008                         | 6,103,938,071                            | 3,051,969                  | 2,339,544  | 5,391,513         |
| Share options exercised<br>(note (i))     | 57,450,000                               | 28,725                     | 34,613   | 63,338            |
| At 31 December 2008 and<br>1 January 2009 | 6,161,388,071                            | 3,080,694                  | 2,374,157  | 5,454,851         |
| Share options exercised<br>(note (i))     | 52,050,000                               | 26,025                     | 47,320   | 73,345            |
| At 31 December 2009                       | 6,213,438,071                            | 3,106,719                  | 2,421,477  | 5,528,196         |

Note:

- (i) The subscription rights attaching to 52,050,000 (2008: 57,450,000) share options were exercised at subscription prices ranging from HK\$1.250 to HK\$1.590 (2008: from HK\$0.960 to HK\$1.590) per ordinary share, resulting in the issue of 52,050,000 (2008: 57,450,000) ordinary shares for a total consideration, net of expenses, of HK\$73,345,000 (2008: HK\$63,338,000).

### Share options

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

## 33. Share option scheme

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

### 2002 Scheme

The 2002 Scheme was adopted by the Company for the purpose of providing incentives to the participants to contribute to the Group, to enable the Group to recruit and retain quality employees to serve the Group on a long term basis, to maintain a good relationship with its consultants, professional advisers, suppliers of goods or services and customers and to attract human resources that are valuable to the Group. Eligible participants of the 2002 Scheme include the Company's directors (including non-executive and independent non-executive directors), employees or executives of the Group, consultants or advisers of the Group, suppliers of goods or services to the Group, customers of the Group, and substantial shareholders of the Group.

### **33. Share option scheme (continued)**

#### **2002 Scheme (continued)**

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

The total number of ordinary shares issued and to be issued upon exercise of the share options granted and to be granted under the 2002 Scheme prior to its termination to each eligible participant (including both exercised and outstanding options) in any 12-month period up to the date of grant must not exceed 1% of ordinary shares in issue at the date of grant. Any further grant of share options under the 2002 Scheme prior to its termination in excess of this limit is subject to shareholders' approval in a general meeting of the Company.

Share options granted under the 2002 Scheme prior to its termination to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted under the 2002 Scheme prior to its termination to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of ordinary shares in issue at any time and with an aggregate value (based on the closing price of ordinary shares at the date of grant) in excess of HK\$5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting of the Company.

An offer of the grant of a share option under the 2002 Scheme prior to its termination may be accepted within 14 days from the date of the offer upon payment of a consideration of HK\$1.00 by the grantee. The exercise period of the share options granted under the 2002 Scheme prior to its termination is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of grant of the share options.

The exercise price of the share options granted under the 2002 Scheme prior to its termination is determinable by the directors, but must not be less than the highest of (i) the closing price of ordinary shares as stated in the Hong Kong Stock Exchange's daily quotation sheet on the date of grant of the share options, which must be a business day; (ii) the average closing price of ordinary shares as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the share options; and (iii) the nominal value of the ordinary shares.

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

The 52,050,000 (2008: 57,450,000) share options granted under the 2002 Scheme prior to its termination exercised in the year results in the issue of 52,050,000 (2008: 57,450,000) ordinary shares and new share capital of HK\$26,025,000 (2008: HK\$28,725,000) and ordinary share premium account of HK\$47,320,000 (2008: 34,613,000 after release of share option reserve), net of issue expenses, as detailed in note 32 to the financial statements.

Under the 2002 Scheme, no share options were granted, cancelled and lapsed, respectively, during the year ended 31 December 2009.

### 33. Share option scheme (continued)

#### 2002 Scheme (continued)

The exercise in full of the remaining share options under the 2002 Scheme as at 31 December 2009 would, under the present capital structure of the Company, result in the issue of 1,500,000 (2008: 53,550,000) new ordinary shares, which represented approximately 0.02% of ordinary shares in issue at that date, and increase share capital of HK\$750,000 (2008: HK\$26,775,000) and ordinary share premium account of HK\$4,358,000 (2008: HK\$51,725,000) (before issue expenses).

#### 2008 Scheme

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

The total number of ordinary shares which may be issued upon exercise of all share options to be granted under the 2008 Scheme (excluding any which have lapsed) and any other schemes of the Company must not, in aggregate, exceed 10% of the ordinary shares of the Company in issue as at the date of the adoption of the 2008 Scheme.

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

Share options granted to a director or chief executive of the Company, or any of their respective associates, under the 2008 Scheme must be approved by the independent non-executive directors of the Company. In addition, any share options granted to an independent non-executive director of the Company, or any of their respective associates, which would result in the ordinary shares issued and to be issued upon exercise of all share options already granted or to be granted under the 2008 Scheme (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant (i) representing in aggregate over 0.1% of the ordinary shares in issue; and (ii) having an aggregate value (based on the closing price of the ordinary shares at the date of grant) in excess of HK\$5,000,000, such grant of options by the board of directors must be approved by shareholders in a general meeting.

### 33. Share option scheme (continued)

#### 2008 Scheme (continued)

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

The exercise price of the share options under the 2008 Scheme is determinable by the board of directors of the Company and shall not be less than the highest of (i) the closing price of the ordinary shares as stated in the Hong Kong Stock Exchange's daily quotation sheet on the date of grant of the share options; (ii) the average closing price of the Company's ordinary shares as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the share options; and (iii) the nominal value of the ordinary shares.

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

During the year ended 31 December 2009, no share options were granted, exercised, lapsed or cancelled by the Company under the 2008 Scheme.

At 31 December 2009, the Company had 60,800,000 share options outstanding under the 2008 Scheme, which represented approximately 1% of ordinary shares in issue at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 60,800,000 additional ordinary shares and increase share capital of HK\$30,400,000 and share premium of HK\$83,904,000 (before issue expenses).

The total number of ordinary shares which may be issued upon exercise of share options yet to be granted under the 2008 Scheme (and thus not including those ordinary shares for share options already granted but yet to be exercised under both the 2002 Scheme and the 2008 Scheme) was 501,788,807 which represented approximately 8.08% of the issued share capital of the Company as at the date of approval of these financial statements.

At the date of approval of these financial statements, the Company had 58,600,000 share options outstanding under both the 2002 Scheme and the 2008 Scheme, which represented approximately 0.94% of the Company's shares in issue as at that date.

## 33. Share option scheme (continued)

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

|                           | 2009  |                              | 2008  |                              |
|---------------------------|---|------------------------------|---|------------------------------|
|                           | Weighted<br>average exercise<br>price<br>HK\$ per share | Number of<br>options<br>'000 | Weighted<br>average exercise<br>price<br>HK\$ per share | Number of<br>options<br>'000 |
| At 1 January              | 1.686   | 114,350                      | 1.244   | 180,500                      |
| Granted during the year   | —   | —                            | 1.880   | 60,800                       |
| Cancelled during the year | —   | —                            | 1.392   | (30,000)                     |
| Exercised during the year | 1.410   | (52,050)                     | 1.103   | (57,450)                     |
| Lapsed during the year    | —   | —                            | 1.036   | (39,500)                     |
| At 31 December            | 1.917   | 62,300                       | 1.686   | 114,350                      |

The weighted average share price at the date of exercise for share options exercised during the year was HK\$3.677 per share (2008: HK\$3.557 per share).

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

## 2009

| Number of options<br>'000 | Exercise price*<br>HK\$ per share | Exercise period<br>(dd.mm.yyyy) |
|---------------------------|-----------------------------------|---------------------------------|
| 1,500                     | 3.405                             | 11-06-2006 to 10-06-2011        |
| 24,320                    | 1.88                              | 24-10-2010 to 23-04-2014        |
| 18,240                    | 1.88                              | 24-10-2011 to 23-04-2014        |
| 6,080                     | 1.88                              | 24-10-2012 to 23-04-2014        |
| 12,160                    | 1.88                              | 24-10-2013 to 23-04-2014        |
| 62,300                    |                                   |                                 |

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

### 33. Share option scheme (continued)

2008

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

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

The fair value of the share options granted during the year ended 31 December 2008 was HK\$27,591,000 of which the Group recognised a share option expense of HK\$9,867,000 (2008: HK\$1,865,000) during the year ended 31 December 2009.

The fair value of equity-settled share options granted during the year ended 31 December 2008 was estimated as at the date of grant, using a binomial lattice model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

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

The expected life of the options was based on the historical data over the past 5.5 years and was not necessarily indicative of the exercise patterns that may occur. The expected volatility reflected the assumption that the historical volatility was 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 the fair value.

## 34. Reserves

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 55 to 56 of the financial statements.

- (i) One of the undertakings given to the High Court of the HKSAR by the Company in its capital reduction application (the "Undertaking") relates to the setting up of a special reserve on the terms that for so long as there shall remain outstanding any debt of or claim against the Company which would be admissible to proof in a notional winding-up of the Company when the Undertaking became effective on 24 December 2003 (the "Effective Date") and the person entitled to the benefit thereof shall not have consented to the said reduction of capital or agreed otherwise, the Company shall credit to 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 2009, the release of provision as determined above is HK\$1,084,523 (2008: nil); and no profit was distributed from the Company's subsidiaries as determined above (2008: nil), resulting in an aggregate transfer from retained profits to the Special Reserve of the Group and the Company of HK\$1,084,523 (2008: nil).

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

During the year, the reduction of the Special Reserve and the capitalisation of the same amount to retained profits, which resulted from the aggregate increase in paid-up share capital and ordinary share premium account due to the issue of the Company's ordinary shares in both the current year and prior years (before any share issue expenses), amounted to HK\$11,762,048 (2008: HK\$63,372,500). In effecting the reduction and capitalisation as aforesaid, the amount transferred from the Special Reserve is kept to an amount not exceeding the balance of the Special Reserve before such transfer.



### 34. Reserves (continued)

#### (a) Group (continued)

(i) (continued)

The amount credited to the Special Reserve shall not at any time exceed HK\$2,984,676,517 (the "Limit"). The Limit may be reduced by the amount of any increase, after the Effective Date, in the paid-up share capital or ordinary share premium account of the Company which results from an issue of shares as referred to above. The Limit may also be reduced by the amount of any non-permanent loss of the Company as at 30 June 2003 which subsequently turns into a permanent loss. During the year, no non-permanent loss was turned into a permanent loss of the Group and the Company (2008: Nil).

In the event that the amount standing to the credit of the Special Reserve at any time exceeds the Limit, the Company shall be at liberty to transfer the amount of any such excess to the general reserves of the Company and the same shall become available for distribution. All profits and write-backs of provisions made by the Company between 1 July 2003 and the Effective Date are subject to an undertaking in similar terms.

As at 31 December 2009, 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\$11,762,048 (2008: HK\$63,372,500); and (ii) the amount of a non-permanent loss of nil (2008: nil) which was turned into a permanent loss for the year ended 31 December 2009.

The Limit, as adjusted, was HK\$627,825,985 (2008: HK\$639,588,033) and the amount standing to the credit of the Group's and the Company's Special Reserve was nil (2008: HK\$10,676,525) as at 31 December 2009.

- (ii) The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the ordinary share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.
- (iii) The hedging reserve comprises the effective portion of the cumulative net gain or loss on the hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flows in accordance with the accounting policy adopted for cash flow hedges.
- (iv) Pursuant to the relevant laws and regulations for sino-foreign joint venture enterprises, a portion of the profits of the Group's subsidiaries which are established/registered in the Mainland China has been transferred to the expansion fund reserve which are restricted as to use.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009



### 34. Reserves (continued)

#### (b) Company

|   |          | Ordinary<br>share<br>premium<br>account | Capital<br>reserve | Share option<br>reserve | Exchange<br>fluctuation<br>reserve | Special<br>reserve | Retained<br>profits | Total            |
|---|----------|---|--------------------|-------------------------|------------------------------------|--------------------|---------------------|------------------|
| Notes   | HK\$'000 | HK\$'000                                | HK\$'000           | HK\$'000                | HK\$'000                           | HK\$'000           | HK\$'000            | HK\$'000         |
|   |          |   |                    | (note 34(a)(ii))        |                                    | (note 34(a)(i))    |                     |                  |
| At 1 January 2008   |          | 2,339,544                               | 1,733,711          | 1,485                   | (14,813)                           | 74,049             | 301,248             | 4,435,224        |
| Share options exercised,<br>net of issue expenses                                 | 32       | 34,613                                  | —                  | —                       | —                                  | —                  | —                   | 34,613           |
| Equity-settled share option arrangements  | 33       | —                                       | —                  | 1,865                   | —                                  | —                  | —                   | 1,865            |
| Total comprehensive income for the year   | 11       | —                                       | —                  | —                       | —                                  | —                  | 428,997             | 428,997          |
| Interim 2008 dividend paid  | 12       | —                                       | —                  | —                       | —                                  | —                  | (246,456)           | (246,456)        |
| Proposed final 2008 dividend  | 12       | —                                       | —                  | —                       | —                                  | —                  | (369,683)           | (369,683)        |
| Final 2007 dividend paid  |          | —                                       | —                  | —                       | —                                  | —                  | (2,067)             | (2,067)          |
| Transfer to retained profits upon issue of new<br>ordinary shares during the year | 34(a)(i) | —                                       | —                  | —                       | —                                  | (63,372)           | 63,372              | —                |
| At 31 December 2008   |          | 2,374,157                               | 1,733,711          | 3,350                   | (14,813)                           | 10,677             | 175,411             | 4,282,493        |
| At 1 January 2009   |          | <b>2,374,157</b>                        | <b>1,733,711</b>   | <b>3,350</b>            | <b>(14,813)</b>                    | <b>10,677</b>      | <b>175,411</b>      | <b>4,282,493</b> |
| Share options exercised,<br>net of issue expenses                                 | 32       | <b>47,320</b>                           | —                  | —                       | —                                  | —                  | —                   | <b>47,320</b>    |
| Equity-settled share option arrangements  | 33       | —                                       | —                  | <b>9,867</b>            | —                                  | —                  | —                   | <b>9,867</b>     |
| Total comprehensive income for the year   | 11       | —                                       | —                  | —                       | —                                  | —                  | <b>641,485</b>      | <b>641,485</b>   |
| Interim 2009 dividend paid  | 12       | —                                       | —                  | —                       | —                                  | —                  | <b>(310,672)</b>    | <b>(310,672)</b> |
| Proposed final 2009 dividend  | 12       | —                                       | —                  | —                       | —                                  | —                  | <b>(372,806)</b>    | <b>(372,806)</b> |
| Final 2008 dividend paid  |          | —                                       | —                  | —                       | —                                  | —                  | <b>(1,497)</b>      | <b>(1,497)</b>   |
| Transfer from retained profits in accordance<br>with the Undertaking              | 34(a)(i) | —                                       | —                  | —                       | —                                  | <b>1,085</b>       | <b>(1,085)</b>      | —                |
| Transfer to retained profits upon issue of new<br>ordinary shares during the year | 34(a)(i) | —                                       | —                  | —                       | —                                  | <b>(11,762)</b>    | <b>11,762</b>       | —                |
| At 31 December 2009   |          | <b>2,421,477</b>                        | <b>1,733,711</b>   | <b>13,217</b>           | <b>(14,813)</b>                    | —                  | <b>142,598</b>      | <b>4,296,190</b> |

### 35. Notes to the consolidated cash flow statement

#### (a) Major non-cash transaction

During the year, the Group settled the non-interest-bearing receipt in advance of an amount of HK\$118,200,000 (2008: HK\$118,200,000) by offsetting it against the water revenue receivable of WaterCo. Details of the non-interest-bearing receipt in advance are set out in note 30 to the financial statements.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

### 35. Notes to the consolidated cash flow statement (continued)

#### (b) Cash and cash equivalents

|  | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|--|------------------|------------------|
| Cash and cash equivalents for the purpose of the consolidated balance sheet as at 31 December ( <i>note 25</i> ) | 3,871,027        | 4,096,977        |
| Non-pledged time deposits with original maturity of more than three months when acquired                         | (1,383,325)      | (880,783)        |
| Restricted cash and bank balances  | —                | 2,831            |
| Cash and cash equivalents for the purpose of the consolidated cash flow statement as at 31 December              | 2,487,702        | 3,219,025        |

### 36. Operating lease arrangements

#### Group

##### (a) As lessor

The Group leases its investment properties (*note 15*) under operating lease arrangements, with leases negotiated for terms ranging from one to fifteen years (2008: one to fourteen years). The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2009, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

|   | Group<br>2009<br>HK\$'000 | 2008<br>HK\$'000 |
|---|---------------------------|------------------|
| Within one year                         | 600,113                   | 636,846          |
| In the second to fifth years, inclusive | 728,297                   | 1,037,230        |
| After five years                        | 21,629                    | 25,409           |
|   | 1,350,039                 | 1,699,485        |

### 36. Operating lease arrangements (continued)

(b) *As lessee*

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of one to fifteen years (2008: one to nineteen years).

At 31 December 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

|   | <b>Group</b>    |          |
|---|-----------------|----------|
|   | <b>2009</b>     | 2008     |
|   | <b>HK\$'000</b> | HK\$'000 |
| Within one year                         | <b>15,195</b>   | 26,238   |
| In the second to fifth years, inclusive | <b>55,451</b>   | 71,409   |
| After five years                        | <b>90,091</b>   | 116,757  |
|   | <b>160,737</b>  | 214,404  |

In addition to the operating lease arrangements as disclosed above, the Group leases certain leasehold properties for the department store operations of subsidiaries of the Group. The rental charge amounting to HK\$22,157,000 (2008: HK\$8,050,000) is calculated with reference to the revenue generated by the subsidiaries of the Group.

The Company did not have significant operating lease arrangements as at the balance sheet date (2008: Nil).

### 37. Commitments

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

|   | <b>Group</b>     |           |
|---|------------------|-----------|
|   | <b>2009</b>      | 2008      |
|   | <b>HK\$'000</b>  | HK\$'000  |
| (a) Capital commitments in respect of property, plant and equipment, investment properties and intangible assets: |                  |           |
| Contracted for  | <b>1,706,279</b> | 567,632   |
| Authorised, but not contracted for  | <b>5,252,338</b> | 1,015,919 |
|   | <b>6,958,617</b> | 1,583,551 |

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

### 37. Commitments (continued)

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

### 38. Related party transactions

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

#### (a) Transactions with related parties

|  | Notes | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|--|-------|------------------|------------------|
| Hotel management and other services fees received from fellow subsidiaries         | (i)   | (6,507)          | (7,180)          |
| Rental income from GDH Limited and certain of its subsidiaries                     | (ii)  | (5,996)          | (5,514)          |
| Dividend income received from an associate   | (iii) | (15,288)         | —                |
| Dividends paid to GDH Limited and certain of its subsidiaries by GH Water Holdings | (iv)  | 14,560           | 17,299           |
| Dividends paid to GDH Limited and certain of its subsidiaries by the Company       | (v)   | 414,235          | 376,577          |

Notes:

- (i) The income arose from the hotel management and other services rendered to certain fellow subsidiaries in accordance with the terms of agreements entered into between the Group's subsidiaries and those fellow subsidiaries.
- (ii) The rental income arose from the letting of certain of the Group's office premises to GDH Limited and certain of its subsidiaries in accordance with their respective tenancy agreements.
- (iii) In 2009, the Company recorded HK\$15,288,000 (2008: Nil) dividend income from an associate.
- (iv) During the year, out of the dividend distributions made by GH Water Holdings, a 89.08% subsidiary of the Group, to all its shareholders in accordance with their respective shareholdings in GH Water Holdings, the total dividend distributions of approximately HK\$14,560,000 (2008: HK\$17,299,000), was paid or payable to GDH Limited and certain of its subsidiaries as shareholders of GH Water Holdings.
- (v) During the year, the Company paid dividends, in aggregate of approximately HK\$414,235,000 (2008: HK\$376,577,000) to GDH Limited and certain of its subsidiaries as the Company's shareholders. The dividend payment was made to all shareholders of the Company in accordance with their respective shareholdings in the Company.

## 38. Related party transactions (continued)

## (b) Outstanding balances with related parties

| Notes                         | Group    |          | Company  |          |
|-------------------------------|----------|----------|----------|----------|
|                               | 2009     | 2008     | 2009     | 2008     |
|                               | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Balances due from:            |          |          |          |          |
| Immediate holding company (i) | —        | 1,991    | —        | 1,183    |
| Fellow subsidiaries (ii)      | 292      | 2,227    | 22       | 21       |
| Associate (iii)               | 5,987    | 7,280    | —        | —        |
| Balances due to:              |          |          |          |          |
| Immediate holding company (i) | (1,762)  | (2,592)  | (256)    | —        |
| Fellow subsidiaries (ii)      | (384)    | (1,842)  | —        | —        |

Notes:

- (i) The balances with the immediate holding company are unsecured, non-interest-bearing and have no specific terms of repayment.
- (ii) The balances with fellow subsidiaries are unsecured, non-interest-bearing and have no specific terms of repayment.
- (iii) The balance with an associate is unsecured, non-interest-bearing and has no specific terms of repayment.
- (iv) As at 31 December 2009, included in the amounts due from subsidiaries is an amount advanced by the Company to Nan Fang Holdings, a 56.34% owned subsidiary of the Company, of HK\$271,926,000 (2008: HK\$264,482,000). Included in the amount due from Nan Fang Holdings is an unsecured loan of HK\$81,479,000 (2008: HK\$81,479,000) which bears interest at a rate of 9% (2008: 9%) per annum and is repayable on demand. The remaining balance of HK\$190,447,000 (2008: HK\$183,003,000) is unsecured, interest-free and has no specific terms of repayment.
- (v) As at 31 December 2009, included in the amounts due from subsidiaries is an amount advanced by the Company to ZPHK, a 95% owned subsidiary of the Company, of HK\$111,710,000 (2008: HK\$109,390,000). The balance is unsecured, interest-free and has no specific terms of repayment.

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

|   | 2009     | 2008     |
|---|----------|----------|
|   | HK\$'000 | HK\$'000 |
| Short term employee benefits                        | 4,730    | 3,923    |
| Post-employment benefits                            | 401      | 324      |
| Equity-settled share option expense                 | 6,864    | 1,298    |
| Total compensation paid to key management personnel | 11,995   | 5,545    |

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

### 39. Connected transactions and continuing connected transactions

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

#### Connected transactions

- (a) On 22 July 2009, Zhongshan Power (Hong Kong) Limited ("ZPHK"), a 95% owned subsidiary of the Company, entered into two agreements with 中山興中集團有限公司 (Zhongshan Xingzhong Group Co., Ltd.) ("Xing Zhong") regarding a proposed project for the construction of two 300 MW heat and electricity supply plants (the "Zhongshan Project") utilising the existing land and certain auxiliary facilities of 中山火力發電有限公司 (Zhongshan Thermal Power Co., Ltd.) ("ZTP"), a 63% owned subsidiary of ZPHK. Pursuant to the aforesaid agreements, ZPHK and Xing Zhong have agreed to make additional contributions of RMB750 million (approximately HK\$852 million) and RMB250 million (approximately HK\$284 million), respectively, into ZTP in order to provide part of the funding for the Zhongshan Project, and their respective interests in ZTP will then be adjusted to 75% and 25%, after the completion of the contribution. ZPHK and Xing Zhong have also agreed to extend the original term of the joint venture, which will expire in 2013, for another 30 years from the issue of new business licence to ZTP after the approval of the Zhongshan Project by the relevant PRC authorities.
- (b) On 20 October 2009, the Company, Chun Wai Consultants Limited ("Chun Wai") (which is a wholly-owned subsidiary of GDH Limited) and GDH Limited entered into an agreement, under which, the Company agreed to acquire the entire issued share capital ("Sale Share") of Golden River Chain Limited ("Golden River"), a wholly-owned subsidiary of Chun Wai, and the shareholder's loan due from Golden River to Chun Wai ("Sale Loan"). In addition, GDH Limited agreed to guarantee the obligations of Chun Wai thereunder. Golden River had an indirect equity interests of 25% of 廣東粵電靖海發電有限公司 (Guangdong Yudean Jinghai Power Generation Co., Ltd.) ("Yudean Jinghai"), which owns and operates a coal-fired power plant with two 600 MW power generators located in Huilai Town, Jieyang City, Guangdong Province. The consideration for the Sale Share and the Sale Loan is HK\$84,289,000 and HK\$515,711,000, respectively, and was paid by the Company in cash on 4 January 2010 upon the completion of the transaction. In addition, the Company will make further capital contribution of RMB342 million (approximately HK\$388 million) in Yudean Jinghai.

#### Continuing connected transactions

##### (a) Hotel Management Agreements

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

On 31 December 2008, GIHM extended the management service agreement with Guangdong Assets No. 10 and Nam Yue for a further period from 1 May 2009 to 31 December 2010 for the same consideration;

### 39. Connected transactions and continuing connected transactions (continued)

#### Continuing connected transactions (continued)

##### (a) Hotel Management Agreements (continued)

###### (i) (continued)

On 9 June 2009, the ownership of Fu Hua Hotel was transferred to independent third parties and the transaction contemplated under the management service agreement dated 31 December 2008 ceased to be a continuing connected transaction of the Company with effect from 9 June 2009;

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

On 31 December 2008, GIHM renewed the management service agreement with Kwong Leung Hing for a further period from 1 January 2009 to the earlier of either the opening of the Guangdong Hotel (Zhengzhou) or 31 December 2009 for a consideration of RMB3,336,000. This agreement expired on 30 September 2009 upon the opening of the hotel in early October 2009;

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

On 30 October 2009, GIHM (China) extended the management service agreement with Take Win for a further period from 1 January 2010 to 31 December 2010 for the same consideration;

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

- (v) On 18 April 2008, GIHM (China) and Shenzhen Dongshen entered into a management service agreement in relation to the management of 深圳市東深投資控股有限公司粵海之星酒店 (GDH Inn Hotel (Donghu)) by GIHM (China) for the period from 1 January 2008 to 31 December 2010 for a consideration of 2% on total operating income plus 2% of GOP; subject to fulfillment of performance targets; and

- (vi) On 30 October 2009, GIHM (China) and Kwong Leung Hing entered into a management service agreement in relation to the management of Guangdong Hotel (Henan) (formerly known as Guangdong Hotel (Zhengzhou)) by GIHM (China) for the period from 1 October 2009 to 31 December 2010 for a consideration of 2% on total operating income plus 6% of GOP.

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



### **39. Connected transactions and continuing connected transactions (continued)**

#### **Continuing connected transactions (continued)**

##### *(a) Hotel Management Agreements (continued)*

During the year ended 31 December 2009, the total income arising from the hotel management and other services rendered to fellow subsidiaries in accordance with the terms of the Hotel Management Agreements amounted to HK\$6,291,000 (2008: HK\$7,180,000).

##### *(b) Deposit Arrangements*

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

During the year ended 31 December 2009, there has been no transaction between Shaoguan PPD and GY Finance and there has also been no payment to or from either Shaoguan PPD or GY Finance to the other.

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

The Company's auditors have confirmed in a letter to the board of directors of the Company that the continuing connected transactions for the year ended 31 December 2009:

- (1) had obtained the approval of the board of directors of the Company;
- (2) were in accordance with the pricing policies of the Group if such transactions involved provision of goods and services by the Group;
- (3) were entered into in accordance with the terms of the relevant agreements governing such transactions; and
- (4) did not exceed the respective cap amounts as referred to in the previous announcements.

### **40. Pledge of assets**

At 31 December 2009, none of the Group's property, plant and equipment, investment properties, intangible assets, and bank deposits was pledged to secure the interest-bearing bank borrowings, and the general banking facilities granted to the Group (2008: Nil).

## 41. Financial instruments by category

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

2009

### Financial assets

|   | Group  |                          |                                       |           |
|---|--|--------------------------|---------------------------------------|-----------|
|   | Financial assets<br>at fair value<br>through profit or<br>loss — held for<br>trading | Loans and<br>receivables | Available-<br>for-sale<br>investments | Total     |
|   | HK\$'000   | HK\$'000                 | HK\$'000                              | HK\$'000  |
| Available-for-sale investments  | —  | —                        | 56,808                                | 56,808    |
| Financial assets included in receivables,<br>prepayments and deposits | —  | 549,487                  | —                                     | 549,487   |
| Due from an associate   | —  | 5,987                    | —                                     | 5,987     |
| Derivative financial instruments                                      | 136,009  | —                        | —                                     | 136,009   |
| Cash and cash equivalents   | —  | 3,871,027                | —                                     | 3,871,027 |
|   | 136,009  | 4,426,501                | 56,808                                | 4,619,318 |

### Financial liabilities

|   | Financial<br>liabilities at fair<br>value through<br>profit or loss<br>— held for<br>trading | Financial<br>liabilities<br>at amortised<br>cost | Derivative<br>financial<br>instruments<br>for hedge | Total       |
|---|--|--|---|-------------|
|   | HK\$'000   | HK\$'000   | HK\$'000  | HK\$'000    |
| Financial liabilities included in payables,<br>accruals and other liabilities | —  | (1,554,022)                                      | —   | (1,554,022) |
| Derivative financial instruments  | (260,444)  | —  | (313,037)   | (573,481)   |
| Due to minority shareholders of subsidiaries                                  | —  | (378,587)  | —   | (378,587)   |
| Interest-bearing bank borrowings  | —  | (5,936,386)                                      | —   | (5,936,386) |
| Financial liabilities included in other liabilities                           | —  | (106,863)  | —   | (106,863)   |
|   | (260,444)  | (7,975,858)                                      | (313,037)   | (8,549,339) |

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

### 41. Financial instruments by category (continued)

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

2008

#### Financial assets

|   | Group  |                                      |   |                   |
|---|--|--------------------------------------|---|-------------------|
|   | Financial assets<br>at fair value<br>through profit or<br>loss — held for<br>trading<br>HK\$'000 | Loans and<br>receivables<br>HK\$'000 | Available-<br>for-sale<br>investments<br>HK\$'000 | Total<br>HK\$'000 |
| Available-for-sale investments  | —  | —                                    | 56,718  | 56,718            |
| Financial assets included in receivables,<br>prepayments and deposits | —  | 698,086                              | —   | 698,086           |
| Due from an associate   | —  | 7,280                                | —   | 7,280             |
| Derivative financial instruments                                      | 169,367  | —                                    | —   | 169,367           |
| Restricted cash and bank balances                                     | —  | 2,831                                | —   | 2,831             |
| Cash and cash equivalents   | —  | 4,096,977                            | —   | 4,096,977         |
|   | 169,367  | 4,805,174                            | 56,718  | 5,031,259         |

#### Financial liabilities

|   | Financial<br>liabilities at fair<br>value through<br>profit or loss<br>— held for<br>trading<br>HK\$'000 | Financial<br>liabilities<br>at amortised<br>cost<br>HK\$'000 | Derivative<br>financial<br>instruments<br>for hedge<br>HK\$'000 | Total<br>HK\$'000 |
|---|--|--|---|-------------------|
| Financial liabilities included in payables,<br>accruals and other liabilities | —  | (1,384,464)  | —   | (1,384,464)       |
| Derivative financial instruments  | (194,747)  | —  | (513,495)   | (708,242)         |
| Due to minority shareholders of<br>subsidiaries                               | —  | (364,832)  | —   | (364,832)         |
| Interest-bearing bank borrowings  | —  | (8,393,810)  | —   | (8,393,810)       |
| Financial liabilities included in other<br>liabilities                        | —  | (143,472)  | —   | (143,472)         |
|   | (194,747)  | (10,286,578)   | (513,495)   | (10,994,820)      |

#### 41. Financial instruments by category (continued)

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

##### Financial assets

|  | Company               |           |
|--|-----------------------|-----------|
|  | Loans and receivables |           |
|  | 2009                  | 2008      |
|  | HK\$'000              | HK\$'000  |
| Due from subsidiaries  | 3,792,159             | 3,848,806 |
| Financial assets included in receivables, prepayments and deposits | 33,413                | 35,021    |
| Cash and cash equivalents  | 745,281               | 732,665   |
|  | 4,570,853             | 4,616,492 |

##### Financial liabilities

|  | Financial liabilities at amortised cost |          |
|--|---|----------|
|  | HK\$'000                                | HK\$'000 |
| Due to subsidiaries  | (44,043)                                | (55,467) |
| Financial liabilities included in payables, accruals and other liabilities | (2,009)                                 | (5,256)  |
|  | (46,052)                                | (60,723) |

#### 42. Fair value hierarchy

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

- Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

### 42. Fair value hierarchy (continued)

As at 31 December 2009, the Group held the following financial instruments measured at fair value:

*Assets measured at fair value as at 31 December 2009:*

|                                  | Level 1<br>HK\$'000 | Level 2<br>HK\$'000 | Level 3<br>HK\$'000 | Total<br>HK\$'000 |
|----------------------------------|---------------------|---------------------|---------------------|-------------------|
| Available-for-sale investments   | —                   | —                   | 56,808              | 56,808            |
| Derivative financial instruments | —                   | 136,009             | —                   | 136,009           |
|                                  | —                   | 136,009             | 56,808              | 192,817           |

*Liabilities measured at fair value as at 31 December 2009:*

|                                  | Level 1<br>HK\$'000 | Level 2<br>HK\$'000 | Level 3<br>HK\$'000 | Total<br>HK\$'000 |
|----------------------------------|---------------------|---------------------|---------------------|-------------------|
| Derivative financial instruments | —                   | 573,481             | —                   | 573,481           |

During the year ended 31 December 2009, there were no transfers of fair value measurements between Level 1 and Level 2.

The movement in fair value measurements in Level 3 during the year are as follows:

|   | HK\$'000  |
|---|-----------|
| Available-for-sale investments — unlisted:                                  |           |
| At 1 January 2009   | 56,718    |
| Interest income recognised in the income statement included in other income | 2,933     |
| Exchange differences recognised in other comprehensive income               | 90        |
| Purchases   | 204,246   |
| Proceeds from disposals   | (207,179) |
| At 31 December 2009   | 56,808    |

As at 31 December 2009, the Company did not hold any financial instrument measured at fair value. During the year ended 31 December 2009, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

### 43. Financial risk management objectives and policies

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

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

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

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

##### (i) Interest rate risk

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

The Group's policy is to manage its interest cost using an appropriate mix of fixed and floating rate borrowings. To manage this mix in a cost-effective manner, the Group enters into interest rate swap agreements, in which the Group agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swap agreements are designated to hedge the Group's obligation to the Refinancing Facilities as detailed in note 29 to the financial statements.

At 31 December 2009, the Group had interest rate swap agreements with an aggregate notional contract amount of HK\$3,850 million (2008: HK\$5,200 million) which qualified as hedges. The swap agreements will mature over the next three years (2008: four years) matching the maturity of the Refinancing Facilities and have fixed swap interest rates ranging from 4.43% to 4.70% (2008: 4.43% to 4.70%) per annum.

The net fair value of these interest rate swap agreements entered into (including those not qualified as hedges) at 31 December 2009 was HK\$437,472,000 (2008: HK\$538,875,000). These amounts are recognised as derivative financial instruments in the consolidated financial statements.

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

##### *Derivative financial instruments*

|                  | Increase/<br>(decrease) in<br>basis points | Increase/<br>(decrease) in<br>profit before tax<br>HK\$'000 | Increase/<br>(decrease) in<br>equity<br>HK\$'000 |
|------------------|--|---|--|
| <b>2009</b>      |  |   |  |
| Hong Kong dollar | 50   | 22,463  | 55,697   |
| Hong Kong dollar | (9)  | (4,043)   | (10,025)   |
| <b>2008</b>      |  |   |  |
| Hong Kong dollar | 50   | 3,766   | 97,919   |
| Hong Kong dollar | (50)                                       | (3,766)   | (97,919)   |

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2009

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

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

*Interest-bearing bank borrowings*

##### Hong Kong dollar bank loans

|                  | Increase/<br>(decrease) in<br>basis points | Increase/<br>(decrease) in<br>profit before tax<br>HK\$'000 | Increase/<br>(decrease) in<br>equity<br>HK\$'000 |
|------------------|--|---|--|
| <b>2009</b>      |  |   |  |
| Hong Kong dollar | 100  | 840   | 840  |
| Hong Kong dollar | (5)  | (42)  | (42)   |
| <b>2008</b>      |  |   |  |
| Hong Kong dollar | 200  | (41,280)  | (41,280)   |
| Hong Kong dollar | (15)                                       | 3,096   | 3,096  |

#### (ii) Foreign currency risk

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

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

|  | Increase/<br>(decrease) in<br>RMB rate<br>% | Increase/<br>(decrease) in<br>profit before tax<br>HK\$'000 | Increase/<br>(decrease) in<br>equity<br>HK\$'000 |
|--|---|---|--|
| <b>2009</b>                                    |   |   |  |
| If Hong Kong dollar weakens against RMB        | 3   | (9,217)   | (9,217)  |
| If Hong Kong dollar<br>strengthens against RMB | (1)   | 3,072   | 3,072  |
| <b>2008</b>                                    |   |   |  |
| If Hong Kong dollar weakens against RMB        | 2   | (4,786)   | (4,786)  |
| If Hong Kong dollar<br>strengthens against RMB | (2)   | 4,786   | 4,786  |

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

## (iii) Credit risk

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

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

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

## (iv) Liquidity risk

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

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

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

| Year ended 31 December 2009  | On demand<br>HK\$'000 | Less than<br>3 months<br>HK\$'000 | 3 to<br>12 months<br>HK\$'000 | 1 to 5 years<br>HK\$'000 | > 5 years<br>HK\$'000 | Total<br>HK\$'000 |
|--|-----------------------|-----------------------------------|-------------------------------|--------------------------|-----------------------|-------------------|
| Financial liabilities included in payables, accruals and other liabilities | 407,911               | 780,653                           | 365,458                       | —                        | —                     | 1,554,022         |
| Derivative financial instruments, net                                      | —                     | —                                 | 240,494                       | 457,925                  | —                     | 698,419           |
| Due to minority shareholders of subsidiaries                               | —                     | —                                 | 367,013                       | 11,574                   | —                     | 378,587           |
| Interest-bearing bank borrowings   | —                     | —                                 | 1,624,568                     | 3,940,077                | 496,728               | 6,061,373         |
| Financial liabilities included in other liabilities                        | —                     | —                                 | —                             | 106,863                  | —                     | 106,863           |
|  | 407,911               | 780,653                           | 2,597,533                     | 4,516,439                | 496,728               | 8,799,264         |

| Year ended 31 December 2008  | On demand<br>HK\$'000 | Less than<br>3 months<br>HK\$'000 | 3 to<br>12 months<br>HK\$'000 | 1 to 5 years<br>HK\$'000 | > 5 years<br>HK\$'000 | Total<br>HK\$'000 |
|--|-----------------------|-----------------------------------|-------------------------------|--------------------------|-----------------------|-------------------|
| Financial liabilities included in payables, accruals and other liabilities | 427,802               | 582,585                           | 374,077                       | —                        | —                     | 1,384,464         |
| Derivative financial instruments, net                                      | —                     | —                                 | 169,942                       | 493,530                  | —                     | 663,472           |
| Due to minority shareholders of subsidiaries                               | —                     | —                                 | 346,825                       | 18,007                   | —                     | 364,832           |
| Interest-bearing bank borrowings   | —                     | —                                 | 440,711                       | 7,640,377                | 851,489               | 8,932,577         |
| Financial liabilities included in other liabilities                        | —                     | —                                 | —                             | 143,472                  | —                     | 143,472           |
|  | 427,802               | 582,585                           | 1,331,555                     | 8,295,386                | 851,489               | 11,488,817        |



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

#### (iv) Liquidity risk (continued)

##### *Capital management*

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 31 December 2008.

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

|  | 2009<br>HK\$'000 | 2008<br>HK\$'000 |
|--|------------------|------------------|
| Due to minority shareholders of subsidiaries         | 378,587          | 364,832          |
| Interest-bearing bank borrowings                     | 5,936,386        | 8,393,810        |
| Less: Cash and cash equivalents                      | (3,871,027)      | (4,096,977)      |
| Net debt   | 2,443,946        | 4,661,665        |
| Equity attributable to equity holders of the Company | 17,030,023       | 15,395,522       |
| Hedging reserve                                      | 258,981          | 437,264          |
| Total adjusted capital                               | 17,289,004       | 15,832,786       |
| Net debt to adjusted capital ratio                   | 14%              | 29%              |

### 44. Post balance sheet event

Subsequent to the balance sheet date, on 4 January 2010, the Company, in accordance with the agreement among the Company, Chun Wai and GDH Limited (note 39(b) under the section of "Connected transactions"), completed the acquisition of the Sale Share and Sale Loan of Golden River at a consideration of HK\$84,289,000 and HK\$515,711,000, respectively, in cash. As a result of the acquisition, the Group has an indirect equity interest of 25% of Yudean Jinghai, which owns and operates a coal-fired power plant with two 600 MW power generators located in Huilai Town, Jieyang City, Guangdong Province. Upon completion of the transaction, the Group has further capital commitment amounting to RMB342 million (approximately HK\$388 million) in Yudean Jinghai.

### 45. Comparative amounts

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

### 46. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 8 April 2010.

## DETAILS OF MAJOR PROPERTIES HELD BY THE GROUP

31 December 2009

### Details of Property, Plant and Equipment

| Property  | Lot No.  | Category of lease | Use  |
|---|--|-------------------|--|
| The Wharney Guang Dong Hotel<br>Hong Kong<br>57-73 Lockhart Road<br>and 84-88 Jaffe Road<br>Wan Chai<br>Hong Kong   | Subsection 1 of Section E and<br>Subsection 2 of Section D of<br>Inland Lot No. 2819, Section F<br>of Inland Lot No. 2818, the<br>remaining portion of Inland Lot<br>No. 2817, Section G of Inland<br>Lot No. 2818 and the remaining<br>portion of Section D of Inland<br>Lot No. 2817 | Long term         | Hotel  |
| Guangdong Hotel (Hong Kong)<br>18 Prat Avenue<br>Tsimshatsui<br>Kowloon<br>Hong Kong  | Kowloon Inland Lot Nos. 8340,<br>8342, 8550, 8748 and 8915   | Medium term       | Hotel  |
| Guangdong Hotel (Shen Zhen)<br>Shennan East Road<br>Luohu District<br>Shenzhen<br>Guangdong Province<br>Mainland China  | N/A  | Medium term       | Hotel  |
| Guangdong Hotel (Zhu Hai)<br>No. 1145 Yuehai Road East<br>Gongbei, Zhuhai<br>Guangdong Province<br>Mainland China   | N/A  | Medium term       | Hotel, offices and<br>serviced<br>apartments |
| Shaoguan Power Plant D<br>Wushi Town, Qujiang County<br>Shaoguan City<br>Guangdong Province<br>Mainland China   | N/A  | Short term        | Factory                                      |
| Flat Roof of 2nd Floor,<br>28th Floor, Units A and<br>B2 on 29th Floor,<br>Unit A1 on 30th Floor<br>Guangdong Investment Tower<br>148 Connaught Road Central<br>Hong Kong | Part of Marine Lot No. 332,<br>Marine Lot No. 333,<br>Section A and the remaining<br>portion of Marine Lot No. 334,<br>Marine Lot No. 335,<br>Section A and the remaining<br>portion of Marine Lot No. 336,<br>Inland Lot No. 2142 and<br>Inland Lot No. 2143                          | Long term         | Office                                       |

## DETAILS OF MAJOR PROPERTIES HELD BY THE GROUP (CONTINUED)

31 December 2009



### Details of Investment Properties

| Description   | Interest in property attributable to the Group | Category of lease | Existing use                 |
|---|--|-------------------|------------------------------|
| Units 901, 905-08, 1101, 1108,<br>10th Floor, 17th Floor,<br>19th-22nd Floors<br>Guangdong Group Building<br>555 Dongfeng Dong Road<br>Guangzhou<br>Guangdong Province<br>Mainland China  | 100%   | Medium term       | Commercial                   |
| Teem Tower and Teemall<br>No. 208 Tianhe Road<br>Tianhe District<br>Guangzhou<br>Guangdong Province<br>Mainland China   | 76.00%   | Medium term       | Commercial and shopping mall |
| Ground Floor, 1st Floor, 5th-10th Floors,<br>Unit A and B2 of 11th Floor,<br>12th Floor, 16th Floor,<br>19th Floor, Unit B on 20th Floor,<br>22nd-23rd Floors,<br>25th-27th Floor, Unit B1 on 29th Floor<br>and Units A2 and B on 30th Floor<br>Guangdong Investment Tower<br>148 Connaught Road Central<br>Hong Kong | 100%   | Long term         | Commercial                   |
| 18th Floor, Guangdong Investment Tower<br>148 Connaught Road Central<br>Hong Kong   | 51%  | Long term         | Commercial                   |
| 1st-4th Floor<br>Guangzhou Exchange Plaza<br>Guangzhou<br>Guangdong Province<br>Mainland China  | 56.34%   | Medium term       | Shopping mall                |

## DETAILS OF MAJOR PROPERTIES HELD BY THE GROUP (CONTINUED)

31 December 2009

### Details of Investment Properties (continued)

| Description  | Interest in property attributable to the Group | Category of lease | Existing use               |
|--|--|-------------------|----------------------------|
| At the junction of Heping Road and Chifeng Dao<br>Heping District<br>Tianjin<br>Mainland China | 76.00%   | Medium term       | Property under development |

### Details of Intangible Assets

| Property   | Lot No. | Category of lease | Use          |
|--|---------|-------------------|--------------|
| Water Supply Project's<br>(from Dongguan to Shenzhen)<br>land use rights, reservoirs<br>and related buildings                                  | N/A     | Medium term       | Water Supply |
| Zhongshan Power Plant<br>Lands and various buildings and structures of Huang Pu Town<br>Zhongshan City<br>Guangdong Province<br>Mainland China | N/A     | Short term        | Factory      |



**Guangdong Investment Limited**

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