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GDH

GUANGDONG INVESTMENT LIMITED
(粵海投資有限公司)

*(Incorporated in Hong Kong with limited liability)*
(**Stock Code: 0270**)

# INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2012

**Unaudited financial highlights for the six months ended 30 June**

| | **2012** | 2011 | Changes |
|---|---|---|---|
| | **HK$' 000** | HK$' 000 | % |
| | | (Restated) | |
| **Revenue** | **3,993,359** | 3,597,977 | +11.0 |
| **Profit attributable to owners of the Company** | **1,870,895** | 1,626,273 | +15.0 |
| **Earnings per share – Basic** | **30.02 HK cents** | 26.10 HK cents | +15.0 |
| **Interim dividend per share** | **7.00 HK cents** | 7.00 HK cents | - |

## CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2012

The board of directors (the "Board") of Guangdong Investment Limited (the "Company" or "GDI") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group" or the "GDI Group") for the six months ended 30 June 2012 together with the comparative figures for the six months ended 30 June 2011. These results have not been audited, but have been reviewed by the Company's audit committee and the auditors, Messrs. Ernst & Young.

### CONDENSED CONSOLIDATED INCOME STATEMENT

***For the six months ended 30 June 2012***

| | Notes | For the six months ended 30 June 2012 (Unaudited) HK$'000 | 2011 (Unaudited) HK$'000 (Restated) |
|---|---|---|---|
| REVENUE | 3 | 3,993,359 | 3,597,977 |
| Cost of sales | | (1,280,196) | (1,127,762) |
| Gross profit | | 2,713,163 | 2,470,215 |
| Other income and gains | | 170,203 | 51,602 |
| Changes in fair value of investment properties | | 553,196 | 347,480 |
| Selling and distribution costs | | ( 83,432) | ( 60,918) |
| Administrative expenses | | ( 506,019) | ( 384,316) |
| Other operating expenses, net | | ( 6,252) | ( 9,134) |
| Finance costs | 4 | ( 87,148) | ( 80,421) |
| Share of profit of a jointly-controlled entity | | 44,176 | 42,147 |
| Share of profits less losses of associates | | 32,902 | 50,594 |
| PROFIT BEFORE TAX | 5 | 2,830,789 | 2,427,249 |
| Income tax expense | 6 | ( 543,020) | ( 533,272) |
| PROFIT FOR THE PERIOD | | 2,287,769 | 1,893,977 |
| Attributable to: | | | |
| Owners of the Company | | 1,870,895 | 1,626,273 |
| Non-controlling interests | | 416,874 | 267,704 |
| | | 2,287,769 | 1,893,977 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | 8 | | |
| Basic | | 30.02 HK cents | 26.10 HK cents |
| Diluted | | 29.91 HK cents | 26.01 HK cents |

Details of the dividends proposed for the period are disclosed in note 7 to the announcement.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

***For the six months ended 30 June 2012***

| | For the six months ended 30 June | |
|---|---|---|
| | 2012 | 2011 |
| | (Unaudited) | (Unaudited) |
| | HK$'000 | HK$'000 |
| | | (Restated) |
| PROFIT FOR THE PERIOD | 2,287,769 | 1,893,977 |
| Fair value gains on items of property, plant and equipment | - | 538 |
| Exchange differences on translation of foreign operations | ( 67,646) | 209,911 |
| Cash flow hedges: | | |
| Net movement on cash flow hedges | 58,285 | 43,541 |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD | ( 9,361) | 253,990 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 2,278,408 | 2,147,967 |
| Attributable to: | | |
| Owners of the Company | 1,877,008 | 1,832,596 |
| Non-controlling interests | 401,400 | 315,371 |
| | 2,278,408 | 2,147,967 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
***30 June 2012***

| | Notes | 30 June 2012 (Unaudited) HK$'000 | 31 December 2011 (Audited) HK$'000 (Restated) |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 3,187,357 | 3,294,283 |
| Investment properties | | 9,098,381 | 7,106,639 |
| Prepaid land lease payments | | 98,676 | 101,501 |
| Goodwill | | 266,146 | 266,146 |
| Investment in a jointly-controlled entity | | 778,796 | 806,620 |
| Investments in associates | | 1,465,078 | 1,346,244 |
| Intangible assets | | 14,531,510 | 14,933,423 |
| Prepayments and deposits | | 164,763 | 342,702 |
| Deferred tax assets | | 20,362 | 23,580 |
| Total non-current assets | | 29,611,069 | 28,221,138 |
| CURRENT ASSETS | | | |
| Available-for-sale investments | | 907,758 | 25 |
| Inventories | | 58,714 | 61,317 |
| Receivables, prepayments and deposits | 9 | 3,409,138 | 2,941,673 |
| Derivative financial instruments | | 32,071 | 64,453 |
| Cash and cash equivalents | | 3,838,100 | 3,542,958 |
| Total current assets | | 8,245,781 | 6,610,426 |
| CURRENT LIABILITIES | | | |
| Payables and accruals | 10 | ( 2,385,987) | ( 2,545,073) |
| Tax payable | | ( 236,973) | ( 399,606) |
| Derivative financial instruments | | ( 123,675) | ( 265,473) |
| Due to non-controlling shareholders of subsidiaries | | ( 313,407) | ( 317,919) |
| Interest-bearing bank borrowings | | ( 2,500,000) | ( 2,484,400) |
| Dividend payable | | ( 685,653) | - |
| Total current liabilities | | ( 6,245,695) | ( 6,012,471) |
| NET CURRENT ASSETS | | 2,000,086 | 597,955 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 31,611,155 | 28,819,093 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
***30 June 2012***

| | 30 June 2012 (Unaudited) HK$'000 | 31 December 2011 (Audited) HK$'000 (Restated) |
|---|---|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES | 31,611,155 | 28,819,093 |
| NON-CURRENT LIABILITIES | | |
| Interest-bearing bank borrowings | ( 1,489,484) | ( 1,346,206) |
| Other liabilities | ( 1,329,389) | ( 1,369,914) |
| Deferred tax liabilities | ( 1,764,503) | ( 1,602,308) |
| Total non-current liabilities | ( 4,583,376) | ( 4,318,428) |
| Net assets | 27,027,779 | 24,500,665 |
| EQUITY | | |
| Equity attributable to owners of the Company | | |
| Issued capital | 3,116,603 | 3,116,499 |
| Reserves | 19,300,672 | 17,849,068 |
| Proposed dividend | 436,324 | 685,630 |
| | 22,853,599 | 21,651,197 |
| Non-controlling interests | 4,174,180 | 2,849,468 |
| Total equity | 27,027,779 | 24,500,665 |

Notes:

1. ACCOUNTING POLICIES

The unaudited interim financial information of the Group for the six months ended 30 June 2012 has been prepared in accordance with HKAS 34 *Interim Financial Reporting* and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

The accounting policies adopted in the preparation of the interim financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) as disclosed in note 2 to the announcement.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

| | |
|---|---|
| HKFRS 1 Amendments | Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* |
| HKAS 12 Amendments | Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* |

Other than as further explained below regarding the impact of HKAS 12 Amendments, the adoption of the new and revised HKFRSs has had no financial effect on these financial statements.

HKAS 12 Amendments (the "Amendments") clarify the determination of deferred tax for investment property measured at fair value. The Amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the Amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group has adopted the Amendments retrospectively and comparative amounts for the corresponding comparative prior periods have been restated.

In Hong Kong, land leases can typically be renewed without a payment of a market-based premium. Given this, it is difficult to assert with a high degree of confidence that the Group would consume substantially all of the economic benefits embodied in the investment property over time.

Consequently, as required by the Amendments, the Group re-measured the deferred tax relating to its investment properties based on the presumption that they are recovered entirely through sale as if this new policy had always been applied. The tax consequences in Hong Kong of a sale of the investment property and of the entity owning the investment property are not significantly different.

In Mainland China, the tax consequences of a sale of the investment property or of the entity owning the investment property may be different. The Group's business model is that the entity owning the investment property will recover the value through use and on this basis the presumption of sale has been rebutted. Consequently, the Group has continued to recognise deferred taxes on the basis that the values of its investment properties in Mainland China are recovered through use.

The Group has investment properties measured at their fair values totalling HK$7,106,639,000 as of 1 January 2012. As required by the amendment, the Group has re-measured the deferred tax relating to certain investment properties amounting to HK$615,410,000 according to the tax consequence on the presumption that they are recovered entirely by sale retrospectively.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The effects of the above changes are summarised below:

| | For the six months ended 30 June 2012 (Unaudited) HK$'000 | 2011 (Unaudited) HK$'000 |
|---|---|---|
| *Consolidated income statement for the six months ended 30 June* | | |
| Decrease in income tax expenses | 3,433 | 9,330 |

| | 30 June 2012 (Unaudited) HK$'000 | 31 December 2011 (Audited) HK$'000 | 1 January 2011 (Audited) HK$'000 |
|---|---|---|---|
| *Consolidated statement of financial position* | | | |
| Decrease in deferred tax liabilities | 55,952 | 52,519 | 39,888 |
| Increase in retained profits | (55,952) | (52,519) | (39,888) |
| | - | - | - |

The change in accounting policy had an immaterial impact on the basic and diluted earnings per share for the current and comparative periods.

3. OPERATING SEGMENT INFORMATION

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

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

(ii) The department stores segment operates department stores in Mainland China;

(iii) The water distribution segment operates water supply projects in Mainland China;

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

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

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

(vii) The "others" segment provides credit facilities in Hong Kong and Mainland China and engages in the provision of corporate services to other segments.

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

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. Intersegment sales are eliminated on consolidation.

## 3. OPERATING SEGMENT INFORMATION (continued)

The following table presents revenue and profit/(loss) information regarding the Group's operating segments for the six months ended 30 June 2012 and 2011.

| | Property investment and development | | Department stores | | Water distribution | |
|---|---|---|---|---|---|---|
| | For the six months ended 30 June | | For the six months ended 30 June | | For the six months ended 30 June | |
| | 2012 (Unaudited) HK$'000 | 2011 (Unaudited) HK$'000 | 2012 (Unaudited) HK$'000 | 2011 (Unaudited) HK$'000 | 2012 (Unaudited) HK$'000 | 2011 (Unaudited) HK$'000 |
| **Segment revenue:** | | | | | | |
| Sales to external customers | 498,475 | 450,985 | 391,247 | 359,539 | 2,539,274 | 2,337,271 |
| Intersegment sales | 51,235 | 49,229 | - | - | - | - |
| Other revenue from external sources (note) | 5,841 | 1,995 | 25,641 | 18,201 | 1,086 | 1,712 |
| Other revenue from intersegment (note) | - | - | - | - | - | - |
| Exchange gains/(losses), net | (224) | 719 | - | - | (8,729) | (5,122) |
| Total | 555,327 | 502,928 | 416,888 | 377,740 | 2,531,631 | 2,333,861 |
| **Segment results** | 945,945 | 707,171 | 144,886 | 178,975 | 1,544,792 | 1,458,887 |
| Interest income | | | | | | |
| Other unallocated losses, net | | | | | | |
| Finance costs | | | | | | |
| Share of profits less losses of: | | | | | | |
| A jointly-controlled entity | - | - | - | - | - | - |
| Associates | - | - | 15,353 | 28,133 | (13,000) | - |
| Profit before tax | | | | | | |
| Income tax expense | | | | | | |
| Profit for the period | | | | | | |

Note: Excluding exchange gains/(losses), net

3. OPERATING SEGMENT INFORMATION (continued)

| | Electric power generation | | Hotel operations and management | | Toll roads and bridges | |
|---|---|---|---|---|---|---|
| | For the six months ended 30 June | | For the six months ended 30 June | | For the six months ended 30 June | |
| | 2012 (Unaudited) HK$'000 | 2011 (Unaudited) HK$'000 | 2012 (Unaudited) HK$'000 | 2011 (Unaudited) HK$'000 | 2012 (Unaudited) HK$'000 | 2011 (Unaudited) HK$'000 |
| **Segment revenue:** | | | | | | |
| Sales to external customers | 242,601 | 241,901 | 308,024 | 190,576 | 13,738 | 17,705 |
| Intersegment sales | - | - | - | - | - | - |
| Other revenue from external sources (note) | 6,179 | 5,778 | 649 | 240 | 3 | 74 |
| Other revenue from intersegment (note) | - | - | - | - | - | - |
| Exchange gains/(losses), net | 64 | ( 257) | ( 629) | 39 | ( 241) | 867 |
| Total | 248,844 | 247,422 | 308,044 | 190,855 | 13,500 | 18,646 |
| **Segment results** | 40,006 | 28,552 | 62,309 | 36,112 | 2,963 | 7,558 |
| Interest income | | | | | | |
| Other unallocated losses, net | | | | | | |
| Finance costs | | | | | | |
| Share of profits less losses of: | | | | | | |
| A jointly-controlled entity | - | - | - | - | 44,176 | 42,147 |
| Associates | 28,278 | 20,163 | - | - | 2,271 | 2,298 |
| Profit before tax | | | | | | |
| Income tax expense | | | | | | |
| Profit for the period | | | | | | |

Note: Excluding exchange gains/(losses), net

3. OPERATING SEGMENT INFORMATION (continued)

| | Others | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|
| | For the six months ended 30 June | | For the six months ended 30 June | | For the six months ended 30 June | |
| | 2012 (Unaudited) HK$'000 | 2011 (Unaudited) HK$'000 | 2012 (Unaudited) HK$'000 | 2011 (Unaudited) HK$'000 | 2012 (Unaudited) HK$'000 | 2011 (Unaudited) HK$'000 (Restated) |
| **Segment revenue:** | | | | | | |
| Sales to external customers | - | - | - | - | 3,993,359 | 3,597,977 |
| Intersegment sales | - | - | (51,235) | (49,229) | - | - |
| Other revenue from external sources (note) | 21,209 | 767 | - | - | 60,608 | 28,767 |
| Other revenue from intersegment (note) | 1,790 | 1,763 | ( 1,790) | ( 1,763) | - | - |
| Exchange gains/(losses), net | ( 2,404) | 8,609 | - | - | ( 12,163) | 4,855 |
| Total | 20,595 | 11,139 | (53,025) | (50,992) | 4,041,804 | 3,631,599 |
| **Segment results** | ( 9,637) | (25,161) | - | - | 2,731,264 | 2,392,094 |
| Interest income | | | | | 109,599 | 34,361 |
| Other unallocated losses, net | | | | | ( 4) | ( 11,526) |
| Finance costs | | | | | ( 87,148) | ( 80,421) |
| Share of profits less losses of: | | | | | | |
| A jointly-controlled entity | - | - | - | - | 44,176 | 42,147 |
| Associates | - | - | - | - | 32,902 | 50,594 |
| Profit before tax | | | | | 2,830,789 | 2,427,249 |
| Income tax expense | | | | | ( 543,020) | ( 533,272) |
| Profit for the period | | | | | 2,287,769 | 1,893,977 |

Note: Excluding exchange gains/(losses), net

## 4. FINANCE COSTS

An analysis of finance costs is as follows:

| | For the six months ended 30 June 2012 (Unaudited) HK$'000 | 2011 (Unaudited) HK$'000 |
|---|---|---|
| Interest on bank borrowings wholly repayable[1] : | | |
| Within five years | 25,292 | 14,392 |
| Over five years | 547 | 3,664 |
| Total interest expense on financial liabilities not at fair value through profit or loss | 25,839 | 18,056 |
| Finance charges on cash flow hedges, net | 61,309 | 62,365 |
| Total finance costs for the period | 87,148 | 80,421 |

(1) For six months ended 30 June 2011, net of government grants of HK$6,167,000 in respect of subsidies for interest expense arising from bank loans borrowed by the Group for the purpose of Dongshen Water Supply Phase IV Renovation Project. There are no unfulfilled conditions or contingencies relating to these grants.

## 5. PROFIT BEFORE TAX

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

| | For the six months ended 30 June 2012 (Unaudited) HK$'000 | 2011 (Unaudited) HK$'000 |
|---|---|---|
| Interest income** | (109,599) | ( 34,361) |
| Changes in fair value of derivative financial instruments not qualified as hedges, net** | 4 | 11,526 |
| Cost of inventories sold* | 209,372 | 224,752 |
| Depreciation | 123,450 | 83,915 |
| Recognition of prepaid land lease payments | 2,354 | 2,301 |
| Amortisation of intangible assets* | 402,006 | 406,188 |
| Changes in fair value of investment properties | (553,196) | (347,480) |
| Impairment of items of property, plant and equipment^ | 3,664 | - |

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

** Included in "Other income and gains" on the face of the condensed consolidated income statement.

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

6. INCOME TAX EXPENSE

| | For the six months ended 30 June | |
|---|---|---|
| | 2012 | 2011 |
| | (Unaudited) | (Unaudited) |
| | HK$'000 | HK$'000 |
| | | (Restated) |
| Current - Hong Kong | 10,955 | 9,052 |
| Current - Mainland China | | |
| Charge for the year | 362,850 | 379,138 |
| Overprovision in prior years | ( 4,130) | - |
| Deferred | 173,345 | 145,082 |
| Total tax charge for the period | 543,020 | 533,272 |

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

7. DIVIDENDS

| | For the six months ended 30 June | |
|---|---|---|
| | 2012 | 2011 |
| | (Unaudited) | (Unaudited) |
| | HK$'000 | HK$'000 |
| Interim – 7.0 HK cents (2011: 7.0 HK cents) per ordinary share | 436,324 | 436,163 |

At a meeting of the board of directors held on 24 August 2012, the directors resolved to pay to shareholders an interim dividend of 7.0 HK cents (2011: 7.0 HK cents) per ordinary share for the six months ended 30 June 2012.

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculations of the basic and diluted earnings per share for the six months ended 30 June 2012 and 2011 are based on:

| | For the six months ended 30 June | |
|---|---|---|
| | 2012 | 2011 |
| | (Unaudited) | (Unaudited) |
| | HK$'000 | HK$'000 |
| | | (Restated) |
| Earnings: | | |
| Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculations | 1,870,895 | 1,626,273 |

| | For the six months ended 30 June | |
|---|---|---|
| | 2012 | 2011 |
| | (Unaudited) | (Unaudited) |
| | Number of shares | |
| Shares: | | |
| Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation | 6,233,036,741 | 6,230,898,071 |
| Effect of dilution - weighted average number of ordinary shares assumed to have been issued: | | |
| Share options | 22,416,392 | 20,935,662 |
| For the purpose of diluted earnings per share calculation | 6,255,453,133 | 6,251,833,733 |

9. RECEIVABLES, PREPAYMENTS AND DEPOSITS

Included in the Group's receivable, prepayments and deposits are trade receivables, net of impairments, from the Group's customers. The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 30 days to 180 days of issue. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management. The Group's trade receivables related principally to the water distribution and electricity supply businesses, giving rise to a certain concentration of credit risk whereby 44% (31 December 2011: 16%) of the total trade receivables was due from one of the Group's major customers. The Group does not hold any collateral or other credit enhancements over these balances.

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

| | 30 June 2012 (Unaudited) HK$'000 | 31 December 2011 (Audited) HK$'000 |
|---|---|---|
| Within 3 months | 653,057 | 292,251 |
| 3 months to 6 months | 12,790 | 15,786 |
| 6 months to 1 year | 25,409 | 5 |
| More than 1 year | 49,074 | 10,917 |
| | 740,330 | 318,959 |
| Less: Impairments | ( 10,341) | ( 10,794) |
| | 729,989 | 308,165 |

10. PAYABLES AND ACCRUALS

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

| | 30 June 2012 (Unaudited) HK$'000 | 31 December 2011 (Audited) HK$'000 |
|---|---|---|
| Within 3 months | 415,070 | 480,783 |
| 3 months to 6 months | 357 | 966 |
| 6 months to 1 year | 1,260 | 2,481 |
| | 416,687 | 484,230 |

# BUSINESS REVIEW, DISCUSSION AND ANALYSIS, AND PROSPECTS

## RESULTS

The Board is pleased to report the results of the Group for the six months ended 30 June 2012 (the "Period"). The Group's unaudited consolidated profit attributable to shareholders amounted to HK$1,871 million (2011: HK$1,626 million), an increase of 15.0% as compared with the same period last year. Basic earnings per share was 30.02 HK cents (2011: 26.10 HK cents), an increase of 15.0% over the same period last year.

## INTERIM DIVIDEND

The Board declares an interim dividend of 7.0 HK cents per share for the Period (2011: 7.0 HK cents).

## FINANCIAL OVERVIEW

The unaudited consolidated revenue of the Group for the Period was HK$3,993 million (2011: HK$3,598 million), an increase of 11.0% as compared with the same period last year. The growth was mainly contributed by the water distribution, hotel and the property investment businesses.

The unaudited consolidated profit attributable to shareholders of the Group for the Period increased by 15.0% to HK$1,871 million (2011: HK$1,626 million). The profit before tax increased by 16.6% or HK$404 million to HK$2,831 million (2011: HK$2,427 million). The growth was mainly contributed by property investment and water distribution businesses.

An increase in the fair value of investment properties of HK$553 million (2011: HK$347 million) was recorded during the Period. Because of the increase of financial borrowing of the Group, the finance cost increased by 8.4% to HK$87 million.

The basic earnings per share was 30.02 HK cents (2011: 26.10 HK cents), representing an increase of 15.0% as compared with the same period last year.

## BUSINESS OVERVIEW

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

### Water Distribution

*Dongshen Water Supply*

Profit contribution from the Dongshen Water Supply Project remained a significant part of the Group's profit. As at 30 June 2012, the Company's interest in GH Water Supply (Holdings) Limited ("GH Water Holdings") was 95.97% (31 December 2011: 94.47%). During the Period, the Company has acquired 1,491,649 shares in GH Water Holdings at HK$111 per share for a total consideration of HK$166 million. GH Water Holdings in turn has a 99% interest in Guangdong Yue Gang Water Supply Company Limited, owner of the Dongshen Water Supply Project.

The designed annual capacity of Dongshen Water Supply Project is 2.423 billion cubic meters. The total water supply to Hong Kong, Shenzhen and Dongguan during the Period amounted to 1.021 billion cubic meters (2011: 1.103 billion cubic meters), a decrease of 7.4%, generating revenue of HK$2,539,274,000 (2011: HK$2,337,271,000), an increase of 8.6%.

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

The Hong Kong water sales revenue for the Period increased by 5.8% to HK$1,930 million (2011: HK$1,824 million). The water sales revenue to Shenzhen and Dongguan areas for the Period increased by 18.7% to HK$609 million (2011: HK$513 million). The profit before tax for the Period was HK$1,484,795,000 (2011: HK$1,370,872,000), 8.3% higher than that in the same period last year.

*Nansha Water Supply*

On 8 March 2012, the Group acquired 49% of equity interest in Nansha GDH Water Co., Ltd. ("Nansha Water Co") at the consideration of RMB120.56 million in cash. The Nansha Water Co is a company established in the PRC and is principally engaged in the construction, operation and maintenance of water supply facilities and the supply of water to Nansha District, Guangzhou.

The annual capacity of Nansha Water Co is 71.90 million cubic meters. The total volume of water supply to user during the Period amounted to 26.32 million cubic meters (2011: 25.30 million cubic meters), an increase of 4.0%. Revenue for the Period was HK$60,888,000 (2011: HK$50,444,000), an increase of 20.7%. The loss before tax of Nansha Water Co for the Period was HK$28,101,000 (2011: HK$52,127,000), 46.1% less than that in the same period last year.

## Property Investment

### ***Mainland China***

*Teem Plaza*

As at 30 June 2012, the Group held an effective equity interest of 76.09% in 廣東天河城(集團)股份有限公司(Guangdong Teem (Holdings) Limited) ("GD Teem"), which owns the property Teem Plaza comprising of a shopping mall, an office building and a hotel. The shopping mall and the office building are investment properties of the Group. The Sheraton Guangzhou Hotel (粵海喜來登酒店), which was completed and opened in July 2011, is a owner-occupied hotel property.

During the Period, revenue of Teem Plaza, comprising rental income from both the shopping mall (including rentals from department store run by the Group) and the office building, reached HK$512,579,000 (2011: HK$464,058,000), an increase of 10.5%. The profit before tax for the Period, excluding the revaluation gain and net interest income, increased by 9.7% to HK$364,879,000 (2011: HK$332,495,000).

The Teemall, one of the most popular shopping malls in the prime area of Guangzhou, has a total gross floor area and lettable area of approximately 160,000 square meters and 97,000 square meters respectively. The mall is operated at a full capacity with an average occupancy rate of approximately 99% during the Period (2011: 99%). The mall is successful in retaining existing brand-name tenants and attracting new ones. The strong demands for shop spaces in the mall and the use of the open tender system for selecting tenants resulted in an increase of rental income.

The office building, known as the Teem Tower (粵海天河城大廈), is a 45-storey Grade A office tower with a total gross floor area and lettable area of approximately 102,000 square meters and 90,000 square meters respectively. With an occupancy rate of 98% (2011: 94%) as at 30 June 2012, the total rental income for the Period was HK$102,644,000 (2011: HK$87,265,000), an increase of 17.6%. The profit before tax for the Period increased to HK$88,651,000 (2011: HK$74,064,000), an increase of 19.7%.

*Tianjin Teem Shopping Mall*

GD Teem acquired a piece of land in Tianjin in 2009. The land will be developed into a large-scale modern shopping mall with a total gross floor area above ground and underground of approximately 137,100 square meters and 56,000 square meters respectively. It is anticipated that the construction work of the Tianjin Teem Shopping Mall will be completed around the end of 2016. The estimated total investment of the project is about RMB2.3 billion, of which approximately HK$1,266 million has been invested as at 30 June 2012.

*Panyu Wanbo CBD Project*

The Group's effective interest in 廣州市萬亞投資管理有限公司 (Guangzhou City Wanye Investment Management Company Limited) ("Wanye") is 31.04%. 廣州天河城投資有限公司 (Guangzhou Tianhecheng Investment Co., Ltd.) ("Tianhecheng Investco"), a 60% owned subsidiary of GD Teem, directly holds 68% interest in Wanye. Wanye owns a piece of land well located in 番禺萬博中央商務區 (Panyu Wanbo Central Business District), which is expected to be a growing commercial area in Guangzhou. The land will be developed into a large-scale integrated commercial project with gross floor area of approximately 260,000 square meters, comprising shopping centre, offices and shops. The aggregate amount to be invested by Tianhecheng Investco to Wanye is estimated to be about RMB1,944 million, of which approximately RMB304 million has been invested according to the cooperation agreement.

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

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

The Agreement provides that (i) the consideration payable by GD Teem, (ii) the amount of shareholders' loans provided by GD Teem to the Target Companies, and (iii) the contributions to the other valid claims and liabilities of, or in connection with, the Target Companies, to be responsible by GD Teem would not, in aggregate, exceed RMB2,460 million. In 2011, an amount of RMB135 million was paid by GD Teem to Guangdong Holdings for the transfer of equity interest in the Target Companies to GD Teem and an amount of RMB2,013 million was made to Guangdong Holdings for the transfer of 40% shareholders' loans made to the Target Companies by Guangdong Holdings.

On 27 June 2012, GD Teem and Guangdong Holdings entered into a supplemental agreement extending the period for completion of the registration procedures of the change in shareholder of the Target companies to GD Teem to 31 December 2012. As at 30 June 2012, the relevant registration procedures of the change in shareholder of the Target Companies were in progress.

Guangdong Sancheng owns a piece of land located in Zhujiang New City (廣州珠江新城), Guangzhou, which is intended to be developed as a commercial property project with a total gross floor area of approximately 234,600 square meters. Guangzhou Jindongyuan owns the Guangzhou Ming Cheng Commercial Plaza (廣州名城商業廣場), an 8-storey commercial building which is under construction with a total gross floor area of approximately 110,800 square meters. Guangzhou Tianyuan owns the Comic City, Guangzhou (廣州動漫星城廣場), a shopping mall complex located in the underground area of Guangzhou Metro with a total gross floor area of approximately 32,600 square meters.

***Hong Kong***

*Guangdong Investment Tower*

Average occupancy rate of the Guangdong Investment Tower for the Period was 99.6% (2011: 99%), which was 0.6% higher than that in the same period last year. Due to the increase in both the average occupancy rate and average rental, the total rental income for the Period was HK$17,769,000 (2011: HK$16,721,000), an increase of 6.3%.

**Department Stores Operations**

As at 30 June 2012, the Group held an effective interest of approximately 85.18% in both 廣東天河城百貨有限公司 (Guangdong Teemall Department Stores Ltd.) ("GDTDS") and 廣州市天河城萬博百貨有限公司（"天河城萬博"）. GDTDS operates the Teemall Store in Teem Plaza, it also operates Teemall Store – Beijing road branch ("Ming Sheng Store"), 奧體歐萊斯名牌折扣店 ("Ao Ti Store"), 白雲新城百貨店 ("Baiyun New Town Store") and 東圃百貨店 ("Dong Pu Store"). 天河城萬博 operates the 天河城百貨歐萊斯折扣店 ("Wan Bo Store"). The 6 stores in aggregate with leased area of approximately 126,700 square meters (30 June 2011: 83,000 square meters) generated revenue of HK$391,247,000 (2011: HK$359,539,000), an increase of 8.8%. Due to the decrease in profit margin of Teemall Store and the negative contribution from the 3 stores newly opened in 2011, the profit before tax for the Period decreased by 22.9% to HK$147,017,000 (2011: HK$190,741,000).

The Teemall Store sells a wide range of products and is one of the high sale ranking major department stores in Guangzhou. Due to the keen competition of the retail market, the revenue of the Teemall Store decreased by 2.6% to HK$277,828,000 (2011: HK$285,188,000) during the Period.

The revenue of Ming Sheng Store for the Period was HK$32,041,000 (2011: HK$28,865,000), an increase of 11.0%. The Ao Ti Store, which is operated as an outlet mall, was opened in April 2011 and its revenue for the Period was HK$11,333,000 (2011: HK$4,269,000). The Baiyun New Town Store was opened in November 2011 and its revenue for the Period was HK$6,732,000. The Dong Pu Store was opened in December 2011 and its revenue for the Period was HK$16,006,000.

The Wan Bo Store, which is operated as an outlet mall, sells brand-name products at a substantial discount. The revenue of Wan Bo Store for the Period was HK$47,306,000 (2011: HK$41,217,000), an increase of 14.8%.

During the Period, 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 26.63% associate of the Group, amounted to HK$15,353,000 (2011: HK$28,133,000), a decrease of 45.4%.

**Hotel Operations and Management**

As at 30 June 2012, our hotel management team managed a total of 40 hotels (31 December 2011: 43 hotels), of which 2 were in Hong Kong, 1 in Macau and 37 in Mainland China. Of these 40 hotels, 7 were owned or lease owned by the Group (2 in Hong Kong, 2 in Shenzhen, 1 in Zhuhai, 1 in Zhengzhou and 1 in Changzhou). Another hotel, namely Sheraton Guangzhou Hotel, which was opened in July 2011, is owned by the Group and under the management of Sheraton Overseas Management Corporation.

Among the 8 hotels owned or lease owned by the Group, 5 are star-rated hotels and 3 are limited service hotels. During the Period, the average room rate of the star-rated hotels of the Group (excluding Sheraton Guangzhou Hotel) in Hong Kong, Shenzhen and Zhuhai was HK$747 (2011: HK$704), an increase of 6.1%, while Sheraton Guangzhou Hotel recorded an average room rate of HK$1,310 during the Period. The average occupancy rate of Sheraton Guangzhou Hotel and the remaining 4 star-rated hotels was 61.8% and 81.5%, respectively. The average room rate of the 3 limited service hotels of the Group in Shenzhen, Zhengzhou and Changzhou was HK$227 (2011: HK$208), an increase of 9.1%.

For the hotel operations and management business as a whole, the revenue for the Period increased by 61.6% to HK$308,024,000 (2011: HK$190,576,000), of which, HK$103,161,000 was contributed by Sheraton Guangzhou Hotel. Profit before tax for the Period increased by 65.6% to HK$62,520,000 (2011: HK$37,750,000) due to the reduce in pre-operating expenditure of Sheraton Guangzhou Hotel during the Period.

**Electric Power Generation**

*Zhongshan Power Plant*

The Group’s effective interest in 中山火力發電有限公司 (Zhongshan Thermal Power Co. Ltd.) (“ZTP”) is 59.85% (Zhongshan Power (Hong Kong) Limited (“ZPHK”), a 95% owned subsidiary of the Company holding a 63% interest in ZTP). ZTP has 2 power generation units with a total installed capacity of 110 MW and steam generation capacity of 80 tons per hour. Sales of electricity during the Period amounted to 322 million kwh (2011: 349 million kwh), a decrease of 7.7%. As a result of the increase in average electricity tariff, revenue for the Period amounted to HK$242,601,000 (2011: HK$241,901,000). Due to the decrease in coal price, the profit margin for the Period has increased as compared to the same period in 2011. The profit before tax for the Period was HK$41,713,000 (2011: HK$31,439,000), an increase of 32.7%.

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

During the Period, the construction of Zhongshan Project was approved by the relevant PRC authority. Further, ZPHK and Xing Zhong are in the course of applying for the extension of the term of the joint venture.

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

The Group has an indirect equity interest of 25% of Yudean Jinghai Power, which owns 2 power generation units with a total installed capacity of 1,200 MW. Sales of electricity for the Period amounted to 3,193 million kwh (2011: 3,185 million kwh), an increase of 0.3%. Revenue for the Period amounted to HK$1,750,784,000 (2011: HK$1,616,866,000), an increase of 8.3% which was mainly due to the increase in electricity tariff. Due to the increase in electricity tariff was higher than the increase in coal price, the profit margin for the Period had increased as compared to the same period last year. Profit before tax for the Period increased by 40.2% to HK$150,814,000 (2011:HK$107,533,000).

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

The Group's effective interest in Yue Jiang Power is 11.48%. Yue Jiang Power has 2 power generation units with a total installed capacity of 600 MW. Sales of the electricity for the Period amounted to 1,450 million kwh (2011: 1,635 million kwh), a decrease of 11.3%. Revenue for the Period amounted to HK$888,953,000 (2011: HK$954,138,000) a decrease of 6.8%. Loss before tax for the Period amounted to HK$61,078,000 (2011: HK$96,740,000). As full provision was made against the investment in Yue Jiang Power in 2009, no further loss was shared from Yue Jiang Power in the Group for the Period.

*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 Period, no dividend income was received by GD Power Investment from this investment (2011: Nil).

**Toll Roads and Bridges**

*"2 Bridges"*

During the Period, the share of profit of a Group's 51% owned jointly-controlled entity (the "JCE") which holds interests in the "2 Bridges" project amounted to HK$44,176,000 in aggregate (2011: HK$42,147,000), an increase of 4.8%.

*(i) Humen Bridge*

The JCE has a profit sharing ratio of 23% in this project. During the Period, average daily traffic flow of this bridge increased by 6.4% to 75,440 vehicle trips (2011: 70,925 vehicle trips). Revenue for the Period amounted to HK$644,490,000 (2011: HK$613,189,000), an increase of 5.1%. Accordingly, the profit before tax for the Period increased by 3.9% to HK$497,546,000 (2011: HK$478,743,000).

*(ii) Shantou Haiwan Bridge*

The JCE holds a 30% interest in this project. During the Period, average daily traffic flow of this bridge increased by 9.1% to 17,098 vehicle trips (2011: 15,679 vehicle trips). Revenue for the Period increased by 11.8% to HK$129,627,000 (2011: HK$115,988,000). The profit before tax for the Period was HK$100,018,000 (2011: HK$89,337,000), an increase of 12.0%.

*Yingkeng Highway*

The Group's effective interest in this project is 70%. During the Period, average daily traffic flow of this highway increased by 7.1% to 4,683 vehicle trips (2011: 4,374 vehicle trips). Revenue decreased by 22.4% to HK$13,738,000 (2011: HK$17,705,000) as the increase in traffic flow comprised mainly light vehicles paying a lower tariff while traffic flow of heavy vehicles decreased during the Period. The profit before tax for the Period was HK$3,205,000 (2011: HK$6,691,000), a decrease of 52.1%. After a nation-wide review of the toll road industry by government authorities, Yingkeng Highway may be classified as non-commercial toll road and may be required to stop collecting toll shortly.

*Panyu Bridge*

The Group's effective interest in this project is 20%. During the Period, the average daily traffic flow of this bridge increased by 9.8% to 44,137 vehicle trips (2011: 40,215 vehicle trips). As a result, revenue for the Period increased by 17.1% to HK$59,944,000 (2011: HK$51,183,000). The profit before tax for the Period increased by 3.1% to HK$16,825,000 (2011: HK$16,320,000).

## LIQUIDITY, GEARING AND FINANCIAL RESOURCES

As at 30 June 2012, the cash and bank balances of the Group increased by HK$295 million to HK$3,838 million (31 December 2011: HK$3,543 million), of which 41.2% in Hong Kong dollars, 57.2% in Renminbi and 1.6% in US dollars.

During the Period, the Group's financial borrowing increased by HK$159 million mainly due to the drawdown of certain interest-bearing bank borrowings.

As at 30 June 2012, the Group's financial borrowings amounted to HK$5,290 million (31 December 2011: HK$5,131 million), of which 14.5% is in US dollars and 85.5% is in Hong Kong dollars, including the non-interest-bearing receipt in advance of HK$1,300 million. Of the Group's total financial borrowings, HK$2,618 million was repayable within one year while the remaining balance of HK$1,803 million and HK$869 million are repayable within two to five years and beyond five years from the end of reporting period, respectively.

The Group maintained credit facilities of RMB500 million as at 30 June 2012 (31 December 2011: USD20 million and RMB50 million ).

The gearing (i.e. net financial indebtedness/net asset value (excluded non-controlling interests)) of the Group as at 30 June 2012 was 8% (31 December 2011: 9%). The improvement is in fact a reflection of the increase in the net assets of the Group. The Group is in a healthy debt servicing position as the EBITDA/finance cost is 38.9 times (31 December 2011: 33.5 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 30 June 2012, 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 (31 December 2011: Nil).

## CAPITAL EXPENDITURE

The Group's capital expenditure during the Period amounted to HK$1,512 million which was principally related to the acquisition of Panyu Wanbo CBD Project and the land and development cost for the Tianjin Teem Shopping Mall.

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

As at 30 June 2012, total US dollars borrowings amounted to HK$768 million (31 December 2011: HK$609 million). The foreign currency risk exposure was considered to be minimal and no hedging was considered necessary.

As at 30 June 2012, the Group's total floating rate borrowings amounted to HK$3,990 million (31 December 2011: HK$3,831 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 (2011: HK$5,400 million), which will be terminated at the end of 2012.

## EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2012, the Group had a total of 4,289 employees, of which 805 were at the managerial level. Among the employees, 4,062 were employed by subsidiaries in Mainland China and 227 were employed by the head office and subsidiaries in Hong Kong. Total remuneration paid for the Period was approximately HK$266,055,000 (2011: HK$221,902,000).

In 2012, facing the challenges of the Euro debt crisis and the slowdown of economic growth across the globe, the Group aimed at strengthening its competitiveness to maximize economic benefits, reinforcing internal control as well as maintaining a strategy of stable development, and growing an enterprise with immense competitive advantage by way of an asset and business restructuring. During the first half of the year, the Group continued to implement a corporate culture that incorporates such core values as "Credibility, Integrity and Profitability", as well as a set of people-oriented human resources strategies that aim at perfecting the performance appraisal, assessment, incentive mechanisms and human resources management system, creating an ideal environment for nurturing, training and developing competent management and technical personnel to cope with the rapid development of the enterprise. With its geographical advantage and attractiveness to outstanding talents, Hong Kong will be treated by the Group as a platform to recruit high-caliber talents at home and abroad. In addition, the Group will strive to build a good environment for them to prove their worth and grow along with the Group. The Group has put in place a mechanism for regular performance appraisals and feedback for the senior management so as to ensure their integrity and efficiency. Remuneration and incentive packages for our staff are commensurate with the operating results of the entities to which they are attached by reference to the operating net cash flows and profits after tax. 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 their individual performance. The Group has also adopted a share option scheme to reward and retain 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 promotes self-enhancement of the staff by subsidizing their professional development and training programs. The Group also provides its staff with training courses on corporate culture and various disciplines to upgrade their quality thereby laying a solid foundation for the long term development of the Group in the years ahead.

## PROSPECTS

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

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

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions and, where appropriate, the applicable recommended best practices set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) (collectively the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 June 2012, save for new code provision A.6.7 of the CG Code as several Non-Executive Directors were unable to attend the annual general meeting of the Company held on 1 June 2012 as they were out of town or they had other engagements.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors' securities transactions. All Directors have confirmed, upon specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2012.

## BOARD OF DIRECTORS

At present, the Board comprises three Executive Directors, being Mr. Huang Xiaofeng, Mr. Zhang Hui and Mr. Tsang Hon Nam, six Non-Executive Directors, being Dr. Cheng Mo Chi, Moses, Mr. Huang Zhenhai, Mr. Wu Jianguo, Ms. Xu Wenfang, Ms. Zhao Chunxiao and Mr. Li Wai Keung, and three Independent Non-Executive Directors, being Dr. Chan Cho Chak, John, Dr. Li Kwok Po, David and Mr. Fung, Daniel R. During the six months ended 30 June 2012, Mr. Li Wenyue and Mr. Sun Yingming retired as Non-Executive Directors on 1 June 2012. Mr. Huang Zhenhai was appointed as a Non-Executive Director on 20 July 2012.

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

## AUDIT COMMITTEE

The Audit Committee was established in 1998 and its terms of reference are in line with the CG Code. The Audit Committee comprises Dr. Li Kwok Po, David, Dr. Chan Cho Chak, John, Mr. Fung, Daniel R. and Dr. Cheng Mo Chi, Moses. Dr. Li Kwok Po, David is the Chairman of the Audit Committee. The principal duties of the Audit Committee include, inter alia, the review of the completeness, accuracy and fairness of the Company's financial reports and the Group's internal controls and risk management systems.

## REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited interim financial information of the Group and the Company's interim report for the six months ended 30 June 2012. In addition, the Company's external auditors, Messrs. Ernst & Young, have also reviewed the aforesaid unaudited interim financial information.

## REMUNERATION COMMITTEE

The Remuneration Committee was established in 2005 and its terms of reference are in line with the CG Code. The Remuneration Committee comprises Dr. Chan Cho Chak, John, Dr. Li Kwok Po, David, Mr. Fung, Daniel R. and Dr. Cheng Mo Chi, Moses. Dr. Chan Cho Chak, John is the Chairman of the Remuneration Committee. The principal duties of the Remuneration Committee include, inter alia, making recommendations to the Board relating to the Company's policy for the Directors' and senior management's remuneration, determining the Executive Directors' and senior management's remuneration packages, reviewing and approving their performance-based remuneration and compensation payable for their loss or termination of offices.

## NOMINATION COMMITTEE

The Company established the Nomination Committee in March 2012 and its terms of reference are in line with the CG Code. The Nomination Committee comprises Mr. Huang Xiaofeng, Dr. Chan Cho Chak, John, Dr. Li Kwok Po, David, Mr. Fung, Daniel R. and Dr. Cheng Mo Chi, Moses. Mr. Huang Xiaofeng is the Chairman of the Nomination Committee. The principal duties of the Nomination Committee include, inter alia, identifying individuals suitably qualified to become Board members, considering the re-appointment of the Directors and succession planning for Directors and making recommendations to the Board in respect of the aforesaid matters.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2012, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities listed on The Stock Exchange of Hong Kong Limited save and except that the Company has issued the following new ordinary shares to an option holder during the period pursuant to the Company's share option scheme adopted on 24 October 2008:

| Total number of new ordinary share issued | Exercise price per ordinary share HK$ | Total cash consideration HK$ |
|---|---|---|
| 207,000 | 1.880 | 389,160 |

## INTERIM DIVIDEND

The Board has resolved to declare the payment of an interim dividend of 7.0 HK cents (2011: 7.0 HK cents) per ordinary share for the six months ended 30 June 2012. The interim dividend will be paid to the shareholders whose names appear on the register of members of the Company on Friday, 28 September 2012. The interim dividend will be paid on Friday, 26 October 2012.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on Thursday, 27 September 2012 and Friday, 28 September 2012. During these two days, no transfer of shares will be registered.

In order to qualify for the interim 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 Wednesday, 26 September 2012.

By Order of the Board
**HUANG Xiaofeng**
*Chairman*

Hong Kong, 24 August 2012

*As at the date of this announcement, the Board of the Company comprises three Executive Directors, Mr. HUANG Xiaofeng, Mr. ZHANG Hui and Mr. TSANG Hon Nam; six Non-Executive Directors, Dr. CHENG Mo Chi, Moses, Mr. HUANG Zhenhai, Mr. WU Jianguo, Ms. XU Wenfang, Ms. ZHAO Chunxiao and Mr. LI Wai Keung; and three Independent Non-Executive Directors, Dr. CHAN Cho Chak, John, Dr. the Honourable LI Kwok Po, David and Mr. FUNG, Daniel R.*