

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report and the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The subsidiaries are principally engaged in investment holding and in the production, distribution and sale of beer.

There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to operating profit by principal activity and geographical location for the year ended 31 December 2001 are set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 35 to 78.

The Directors recommend the payment of a final dividend of 1.0 HK cent per share for the year ended 31 December 2001, to shareholders on the register of members on 31 May 2002. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within capital and reserves in the balance sheet. Further details of this accounting treatment are set out in note 12 to the financial statements.

FINANCIAL SUMMARY

The Company was incorporated in Bermuda on 21 March 1997 and became the ultimate holding company of the companies now comprising the Group as a result of the reorganisation which became effective on 22 July 1997. To ensure consistency of presentation and for comparison purposes, the proforma combined results for the year ended 31 December 1997 are presented below on the basis that the current Group structure had been in existence throughout that year.

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, is set out below. The amount for each year have been adjusted for the effects of the retrospective changes in accounting policy affecting dividends as detailed in notes 2 and 12 to the financial statements.

REPORT OF THE DIRECTORS (cont'd)

FINANCIAL SUMMARY (cont'd)

Results

	Consolidated				Proforma
	Year Ended 31 December				combined
	2001	2000	1999	1998	1997
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
		(Restated)	(Restated)	(Restated)	
Turnover	543,922	613,892	682,454	618,641	525,069
Cost of sales	(332,691)	(386,172)	(456,477)	(380,537)	(345,817)
Gross profit	211,231	227,720	225,977	238,104	179,252
Other revenue and gains	43,880	53,872	71,707	65,477	74,025
Selling and distribution expenses	(133,586)	(98,151)	(108,932)	(79,802)	(48,430)
Administrative expenses	(45,537)	(68,774)	(73,114)	(98,488)	(63,651)
Impairment of investment in an associate	(5,600)	(32,367)	-	-	-
Impairment of goodwill arising from an acquisition of an associate previously dealt with in reserves	-	(9,135)	-	-	-
Profit from operating activities	70,388	73,165	115,638	125,291	141,196
Finance costs	(7,857)	(30,483)	(45,250)	(30,275)	(22,829)
Share of results of an associate	(13,424)	(14,496)	(8,401)	1,398	-
Profit before tax	49,107	28,186	61,987	96,414	118,367
Tax	(12,067)	(19,042)	(9,991)	(12,772)	(10,217)
Profit before minority interests	37,040	9,144	51,996	83,642	108,150
Minority interests	(2,606)	1,098	716	610	(24,025)
Net profit from ordinary activities attributable to shareholders	34,434	10,242	52,712	84,252	84,125

REPORT OF THE DIRECTORS (cont'd)

FINANCIAL SUMMARY (cont'd)

Assets and Liabilities

	2001 HK\$'000	Consolidated			
		As at 31 December			
	2000 HK\$'000 (Restated)	1999 HK\$'000 (Restated)	1998 HK\$'000 (Restated)	1997 HK\$'000 (Restated)	
Total assets	1,360,661	1,605,929	1,844,575	1,915,603	1,876,435
Total liabilities	(217,115)	(486,608)	(728,485)	(852,410)	(884,454)
Minority interests	(34,496)	(31,866)	(37,849)	(39,778)	(46,863)
Net assets	<u>1,109,050</u>	<u>1,087,455</u>	<u>1,078,241</u>	<u>1,023,415</u>	<u>945,118</u>

FIXED ASSETS

Movements in fixed assets of the Company and the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the authorised and issued shares and share options of the Company during the year are set out in note 25 to the financial statements.

SHARE PREMIUM ACCOUNT AND RESERVES

Details of movements in the share premium account and reserves of the Company and the Group during the year are set out in note 26 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company's reserves available for distribution as calculated in accordance with the Companies Act 1981 of Bermuda amounted to HK\$77,148,000.

In addition, the Company's share premium may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$1,400 (2000: HK\$41,000).

DIRECTORS

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

YE Xuquan	(Appointed on 14 January 2002)
JIANG Guoqiang	(Appointed on 9 March 2001)
CHENG Mo Chi, Moses*	
Alan Howard SMITH*	
V-nee YEH*	
ZHANG Yaping	
WANG Man Kwan, Paul	
HO LAM Lai Ping, Theresa	
Michael WU	(resigned on 9 March 2001)
CHAU Kam Wing, Donald	(resigned on 5 April 2001)
ZHOU Dongxiang	(resigned on 14 January 2002)

* *Independent Non-Executive Director*

In accordance with bye-law 87 of the Company's Bye-laws, Messrs. Cheng Mo Chi, Moses and V-nee Yeh will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

The Non-Executive Directors have not been appointed for a specific term, but are subject to retirement by rotation pursuant to the Company's Bye-laws.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

The Directors of the Company as at the date of this report are as follows:

Directors

Mr. Ye Xuquan, aged 46, was appointed a director and the Chairman of the Company in January 2002. Mr. Ye graduated from the Department of Chinese Language and Literature and the Institute of Economy Research, South China Normal University and obtained a Master's degree of Economics from South China Normal University. Mr. Ye joined the Dongshen Water Bureau (the "Bureau") in 1978 and has 23 years' experience in the management and operation of water supply. Mr. Ye was a section chief of the Bureau in 1984, promoted as vice director of the Bureau in 1987, acted as deputy director of the Bureau in 1995 and acted as director of the Bureau from 1997 to 2000. He was Chairman of Guangnan (Holdings) Limited from November 2000 to January 2002. He is director and Deputy General Manager of both 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited), GDH Limited and director of Guangdong Investment Limited ("GDI"), Chairman of 廣東粵港供水有限公司 (Guangdong Yue Gang Water Supply Company Limited) and Chairman of 深圳東深投資控股有限公司 (Shenzhen Dongshen Investment Holding Co., Ltd.). He is also a member of Guangdong Political Consultative Conference and Vice President of both Entrepreneur Association for Water Consultative Conference of China and Shenzhen Chinese and Foreign Entrepreneur Association.

Mr. Jiang Guoqiang, aged 49, was appointed the Managing Director of the Company in January 2002 and previously was appointed a Director and the Chairman of the Company in March 2001. He is a deputy general manager of GDI. Mr. Jiang graduated from Shanghai Metallurgical Machinery School where he majored in metallurgical machinery. He is an engineer. In 1976 to 1988, Mr. Jiang worked for First Metallurgy Construction Company of the Ministry of Metallurgy. In 1988, he joined Zhongshan Zhongyue Tin-Plate Industrial Company Limited and Shanghai Industrial Co., Ltd. and he became a director and deputy general manager of both companies in 1991. Mr. Jiang was a director and the general manager of both companies from 1995 to March 2001. He was a deputy general manager of the strategic development department of GDH Limited from April 2000 to January 2001.

Mr. Cheng Mo Chi, Moses, JP aged 52, was appointed an Independent Non-Executive Director of the Company in July 1997. He is also an independent non-executive director of GDI. Mr. Cheng is a senior partner of Messrs. P.C. Woo & Co., a firm of solicitors and notaries in Hong Kong. Mr. Cheng was a member of the Legislative Council of Hong Kong between 1991 and 1995. He is currently the chairman of the Hong Kong Institute of Directors, the Board of Education and the Committee on the Promotion of Civic Education. He also serves on the boards of many other listed companies as independent non-executive director.

REPORT OF THE DIRECTORS (cont'd)

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (cont'd)

Directors (cont'd)

Mr. Alan Howard Smith, aged 58, was appointed an Independent Non-Executive Director of the Company in January 1999. Mr. Smith was vice chairman, Pacific Region, of Credit Suisse First Boston "CSFB"), a leading global investment bank from 1997 to 2001. Prior to joining CSFB, he was the chief executive of the Jardine Fleming Group from 1983 to 1994 and was chairman of the Jardine Fleming Group from 1994 to 1996. Mr. Smith has over twenty-five years investment banking experience in Asia. He was elected a council member of the Hong Kong Stock Exchange on two occasions. He was a member of the Hong Kong Special Administrative Region Government's Economic Advisory Committee from 1994 to 2001, and was for 10 years a member of the Hong Kong Government's Standing Committee on Company Law Reform.

Mr. V-nee Yeh, aged 43, was appointed an Independent Non-Executive Director of the Company in January 1999. He is deputy chairman of Hsin Chong Construction Group Ltd.; co-founder of Value Partners Limited and VP Private Equity Limited. Mr. Yeh is also a council member of the Hong Kong Stock Exchange until its merger into the Hong Kong Exchanges and Clearing Ltd. as well as a member of the Listing Committee. He also sits on the Takeovers and Mergers Panel and the Takeovers Appeals Committee of the Securities and Futures Commission.

Mr. Zhang Yaping, aged 49, was appointed a director of the Company in August 2000. Mr. Zhang was appointed a director of GDH Limited since September 2000. He was appointed Deputy General Manager and Managing Director of GDI in June 2000 and March 2001 respectively. Mr. Zhang graduated from the Professional Finance Program in Jilin College of Finance and Trading and the Senior Management Program in the Economic Management College of Tianjin Nankai University. He has more than 20 years working experience in the banking and securities industries. Between 1990 and 1997, he had worked in the Bank of China Group. Prior to joining GDI, he was Deputy Commissioner in the Shenzhen Regulatory Commissioner's Office of the China Securities Regulatory Commission. He is now a Senior Economist in the PRC.

Mr. Wang Man Kwan, Paul, aged 45, was appointed a director of the Company in August 2000. He is a director of GDI (GDI, together with its subsidiaries, the "GDI Group") and the Chief Financial Officer of the GDI Group. Mr. Wang is a Certified Public Accountant in Hong Kong, a fellow of The Association of Chartered Certified Accountants and Hong Kong Society of Accountants. He is also an associate of Certified General Accountants of Canada, The Institute of Chartered Secretaries and Administrators, The Hong Kong Institute of Company Secretaries and the Hong Kong Institute of Taxation.

REPORT OF THE DIRECTORS (cont'd)

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (cont'd)

Directors (cont'd)

Mrs. Ho Lam Lai Ping, Theresa, aged 46, was appointed a director of the Company in August 2000. She is also a director of Guangdong Tannery Limited. She has been the Company Secretary of GDI since December 1992. She graduated from The Hong Kong Polytechnic and is an associate of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries.

Mr. Zhou Dongxiang, aged 49, was appointed a Director of the Company from June 1997 to January 2002. He graduated from Qi Qi Haer Light Industry College in the PRC. Mr. Zhou has been in charge of the development of Kingway Plant No. 2 since 1995. He was the general manager of Shenzhen Kingway Brewing Co., Ltd. from August 1997 to October 1998. He was the first deputy general manager of Shenzhen Kingway Brewery Co., Ltd. and Shenzhen Kingway Brewing Co., Ltd. from 1998 to 2000. He has been the general manager of Shenzhen Kingway Brewery Co., Ltd. and Shenzhen Kingway Brewing Co., Ltd. since April 2000. He was the deputy factory director of Jiamusi Winery, Heilongjiang Province and the factory director of Winery from 1976 to 1983. From 1985 to 1990, he was the deputy plant manager of Jiamusi Brewery and was the factory director of that brewery from 1990 to 1995. Mr. Zhou has over 17 years of experience in brewery industry.

Senior Management

During the year, Messrs. Jiang Guoqiang and Zhou Dongxiang were members of the Company's senior executives.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors had a beneficial interest in any contract of significance to the business of the Group, whether directly or indirectly, to which the Company, any of its holding companies, or any of its subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Zhang Yaping, a Director of the Company, is also a director of GDH Limited ("GDH") as at the balance sheet date. GDH engages in a wide range of business including brewing. However the Directors do not believe that the brewing business of GDH competes either directly or indirectly in any material respect with those of the Group.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2001, the interests of the Directors in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of The Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Director of Listed Companies under The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

I. Shares

(i) *The Company*

Name of Director	Type of interest	Number of ordinary shares held
Ho Lam Lai Ping, Theresa	Personal	80,000

(ii) *Guangdong Investment Limited*

Name of Director	Type of interest	Number of ordinary shares held
Ho Lam Lai Ping, Theresa	Personal	250,000
Zhou Dongxiang	Personal	40,000

As at 31 December 2001, Mr. V-nee Yeh, a Director of the Company, held US\$450,000 in principal amount of the Guaranteed Floating Rate Bonds due 2005 (the "2005 Guaranteed Bonds"), issued by Guangdong Investment Finance (Cayman) Limited and guaranteed by Guangdong Investment Limited. The 2005 Guaranteed Bonds are listed on the Luxembourg Stock Exchange and would be due in 2005.

REPORT OF THE DIRECTORS (cont'd)

DIRECTORS' INTERESTS IN SECURITIES (cont'd)

II. Options

(i) *The Company*

Name of Director	Number of options held on 01/01/2001	Options granted during the year		Period during which option is exercisable *	Price per share to be paid on exercise of option (HK\$)	Number of options exercised during the year	Number of options held on 31/12/2001
		Date granted	Number granted				
Jiang Guoqiang	-	10/10/2001	10,000,000	11/04/2002-10/04/2007	0.383	-	10,000,000
Zhou Dongxiang	1,200,000	-	-	20/02/1998-19/02/2003	2.10	-	1,200,000
	-	10/10/2001	7,000,000	11/04/2002-10/04/2007	0.383	-	7,000,000

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

No consideration has been paid by the Directors for the options granted by the Company.

REPORT OF THE DIRECTORS (cont'd)

DIRECTORS' INTERESTS IN SECURITIES (cont'd)

II. Options (cont'd)

(ii) *Guangdong Investment Limited*

Name of Director	Number of options held on 01/01/2001	Options granted during the year		Period during which option is exercisable*	Price per share to be paid on exercise of option (HK\$)	Number of options exercised during the year	Number of options held on 31/12/2001
		Date granted	Number granted				
Jiang Guoqiang	-	10/08/2001	1,500,000	11/02/2002-10/02/2007	0.5312	-	1,500,000
Cheng Mo Chi, Moses	-	01/11/2001	1,000,000	02/05/2002-01/05/2007	0.74	-	1,000,000
Zhang Yaping	-	10/08/2001	12,000,000	11/02/2002-10/02/2007	0.5312	-	12,000,000
Wang Man Kwan, Paul	-	10/08/2001	1,500,000	11/02/2002-10/02/2007	0.5312	-	1,500,000
Ho Lam Lai Ping, Theresa	200,000	-	-	10/06/1997-09/06/2002	4.536	-	200,000
	500,000	-	-	19/08/1998-18/08/2003	2.892	-	500,000
	-	10/08/2001	1,200,000	11/02/2002-10/02/2007	0.5312	-	1,200,000
Zhou Dongxiang	150,000	-	-	17/09/1998-16/09/2003	3.024	-	150,000

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

No consideration has been paid by the Directors for the options granted by Guangdong Investment Limited.

REPORT OF THE DIRECTORS (cont'd)

DIRECTORS' INTERESTS IN SECURITIES (cont'd)

II. Options (cont'd)

(iii) Guangnan (Holdings) Limited

Name of Director	Number of options held on 01/01/2001	Options granted during the year		Period during which option is exercisable	Price per share to be paid on exercise of option (HK\$)	Number of options exercised during the year	Number of options held on 31/12/2001
		Date granted	Number granted				
Jiang Guoqiang	300,000	-	-	12/02/1999-10/02/2002	0.4295#	-	2,850,000#*

The exercise price and the number of outstanding share options which were granted prior to 16 January 2001 were adjusted as a result of completion of the open offer of Guangnan (Holdings) Limited.

* Expired and lapsed at 5:00 p.m. (Hong Kong time) on 10 February 2002.

No consideration has been paid by the Directors for the options granted by Guangnan (Holdings) Limited.

Save as disclosed above, as at 31 December 2001, none of the Directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance, including interests which they were deemed or taken to have under Section 31 or Part I of the Schedule to the SDI Ordinance, or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Other than "Directors' Interests in Securities" above and "Share Options of the Company, its Subsidiaries and Associated Corporation" below, at no time during the year was the Company, its holding companies or any of its subsidiaries or associated corporation 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.

SHARE OPTIONS OF THE COMPANY, ITS SUBSIDIARIES AND ASSOCIATED CORPORATION

(i) The Company

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Pursuant to the Share Option Scheme adopted on 22 July 1997, the Board of Directors may at their discretion offer to any executive and/or employee of the Group options to subscribe for Ordinary Shares of the Company. The Share Option Scheme will remain in force for a period of 10 years from 22 July 1997.

The maximum number of shares in respect of which options may be granted (including shares issued pursuant to options exercised and shares in respect of which any option remains outstanding) when aggregated with any shares subject to any other share option schemes under the Share Option Scheme may not exceed 10% of the issued shares (excluding any shares issued pursuant to the Share Option Scheme) at the time of grant of the option. As at 31 December 2001, the total number of shares issuable for option granted under the Share Option Scheme was 26,250,000, which represented approximately 2.1% of the Company's share in issue.

No option may be granted to any one person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Share Option Scheme exceeding 25% of the aggregate number of shares of the time being issued and issuable under the Share Option Scheme.

The offer of a grant of share options may be accepted within the date specified in the offer with no consideration being payable by the grantee. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period commencing on the first business day after six months from the date of grant of the option and expiring at the close of business day preceding the fifth anniversary thereof.

The price per ordinary share payable on the exercise of an option under the Share Option Scheme as determined by the Directors will be a price being equal to the higher of the nominal value of the ordinary shares and an amount not less than 80% of the average of the closing prices of the ordinary shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of grant of the option.

SHARE OPTIONS OF THE COMPANY, ITS SUBSIDIARIES AND ASSOCIATED CORPORATION (cont'd)

(i) The Company (cont'd)

With effect from 1 September 2001, the Stock Exchange requires that the exercise price of options to be at least the higher of the closing price of the shares on the Stock Exchange on the date of grant and the average closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of grant. Up to the date of this report, certain options were granted to the directors and employees of the Group pursuant to the new requirements after 1 September 2001.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the directors and employees, because in the absence of a readily market value of the share options on the ordinary shares of the Company, the directors were unable to arrive at an assessment of the value of these share options.

REPORT OF THE DIRECTORS (cont'd)

SHARE OPTIONS OF THE COMPANY, ITS SUBSIDIARIES AND ASSOCIATED CORPORATION (cont'd)

(i) The Company (cont'd)

The following share options were outstanding under the Share Option Scheme during the year:

Name or category of participant	Number of share options				Date of grant of share options*	Exercise period of share options#	Exercise price of share options** HK\$	Price of Company's shares at grant date of options*** HK\$
	At 1 January 2001	Granted during the year	Cancelled during the year	At 31 December 2001				
Directors								
Jiang Guoqiang	-	10,000,000	-	10,000,000	10-10-2001	11-04-2002 to 10-04-2007	0.383	0.38
Zhou Dongxiang	1,200,000	-	-	1,200,000	20-08-1997	20-02-1998 to 19-02-2003	2.10	2.725
	-	7,000,000	-	7,000,000	10-10-2001	11-04-2002 to 10-04-2007	0.383	0.38
	<u>1,200,000</u>	<u>17,000,000</u>	<u>-</u>	<u>18,200,000</u>				
Other employees								
In aggregate	8,250,000	-	(5,600,000)	2,650,000	20-08-1997	20-02-1998 to 19-02-2003	2.10	2.725
	-	5,400,000	-	5,400,000	10-10-2001	11-04-2002 to 10-04-2007	0.383	0.38
	<u>8,250,000</u>	<u>5,400,000</u>	<u>(5,600,000)</u>	<u>8,050,000</u>				
	<u>9,450,000</u>	<u>22,400,000</u>	<u>(5,600,000)</u>	<u>26,250,000</u>				

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

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

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the closing price on the Stock Exchange on the trading day on which the options were granted.

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

SHARE OPTIONS OF THE COMPANY, ITS SUBSIDIARIES AND ASSOCIATED CORPORATION (cont'd)

(ii) Guangdong Investment Limited ("GDI")

GDI, the Company's immediate holding company, operates a share option scheme (the "GDI Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of its operations. Pursuant to the GDI Scheme adopted on 2 February 1994 and amended on 29 December 1997, and which will expire on 1 February 2004, the board of directors of GDI may at their discretion offer to any director and/or employee of GDI and its subsidiaries options to subscribe for ordinary shares of GDI. The GDI Scheme will remain in force for a period of ten years from 2 February 1994.

The maximum number of GDI's ordinary shares in respect of which options may be granted (including shares issued pursuant to options exercised and shares in respect of which any option remains outstanding) when aggregated with any shares subject to any other share option schemes under the GDI Scheme may not exceed 10% of the issued ordinary shares (excluding any shares issued pursuant to the GDI Scheme) at the time of grant of the option.

No option may be granted to any one person which, if exercised in full, would result in the total number of GDI's ordinary shares already issued and issuable to him under the GDI Scheme exceeding 25% of the aggregate number of ordinary shares of the time being issued and issuable under the GDI Scheme. As at 31 December 2001, the total number of ordinary shares issuable for options granted under the GDI Scheme was 199,345,000 which represented approximately 3.88% of the GDI's ordinary shares in issue.

The offer of a grant of share options may be accepted within the date specified in the offer with no consideration being payable by the grantee. An option may be exercised in accordance with the terms of the GDI Scheme at any time during the period commencing on the first business day after six months from the date of grant of the option and expiring at the close of business day preceding the fifth anniversary thereof.

The price per ordinary share payable on the exercise of an option under the GDI Scheme as determined by the directors of GDI will be a price being equal to the higher of the nominal value of the ordinary shares and an amount not less than 80% of the average of the closing prices of the ordinary shares as stated in the daily quotation sheets of Stock Exchange for the five business days immediately preceding the date of grant of the option.

With effect from 1 September 2001, the Stock Exchange requires that the exercise price of options to be at least the higher of the closing price of the shares on the Stock Exchange on the date of grant and the average closing prices of the shares of GDI on the Stock Exchange for the five trading days immediately preceding the date of grant. Up to the date of this report, certain options were granted to the directors of GDI pursuant to the new requirements after 1 September 2001.

SHARE OPTIONS OF THE COMPANY, ITS SUBSIDIARIES AND ASSOCIATED CORPORATION (cont'd)

(iii) Guangdong Tannery Limited ("GD Tannery")

GD Tannery, a fellow subsidiary of the Company, operates a share option scheme (the "GD Tannery Scheme") for the purposes of providing incentives to participants to contribute to the GD Tannery and its subsidiaries ("GD Tannery Group"), to enable the GD Tannery Group to recruit and retain quality employees to serve the GD Tannery Group on a long-term basis. Pursuant to the GD Tannery Scheme adopted on 26 November 1996 which will expire on 25 November 2006, the board of directors of GD Tannery may at their discretion offer to any executive and/or employee of the GD Tannery Group options to subscribe for ordinary shares of GD Tannery. The GD Tannery Scheme will remain in force for a period of ten years from 26 November 1996.

The maximum number of shares in respect of which options may be granted (including shares issued pursuant to options exercised and shares in respect of which any option remains outstanding) when aggregated with any shares subject to any other share option schemes under the GD Tannery Scheme may not exceed 10% of the issued shares (excluding any shares issued pursuant to the GD Tannery Scheme) at the time of grant of the option. As at 31 December 2001, the total number of shares issuable for options granted under the GD Tannery Scheme was 6,400,000, which represented approximately 1.22% of the GD Tannery's ordinary shares in issue.

No option may be granted to any one person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the GD Tannery Scheme exceeding 25% of the aggregate number of shares of the time being issued and issuable under the GD Tannery Scheme.

The offer of a grant of share options may be accepted within the date specified in the offer with no consideration being payable by the grantee. An option may be exercised in accordance with the terms of the GD Tannery Scheme at any time during the period commencing on the first business day after six months from the date of grant of the option and expiring at the close of business day preceding the fifth anniversary thereof.

The price per ordinary share payable on the exercise of an option under the GD Tannery Scheme as determined by the directors will be a price being equal to the higher of the nominal value of the ordinary shares and an amount not less than 80% of the average of the closing prices of the ordinary shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer of the option.

With effect from 1 September 2001, the Stock Exchange requires that the exercise price of options to be at least the higher of the closing price of the shares on the Stock Exchange on the date of grant and the average closing prices of the shares of GD Tannery on the Stock Exchange for the five trading days immediately preceding the date of grant. Up to the date of this report, GD Tannery has not granted any options on or after 1 September 2001.

SHARE OPTIONS OF THE COMPANY, ITS SUBSIDIARIES AND ASSOCIATED CORPORATION (cont'd)

(iv) Guangnan (Holdings) Limited ("Guangnan")

On 21 November 1994, in order to align the interests of directors and employees with those of the shareholders of Guangnan, an associated corporation of the Company, adopted a share option scheme (the "1994 Share Option Scheme") pursuant to which the directors of Guangnan are authorized, at their discretion, to invite directors or employees of Guangnan and its subsidiaries to take up options to subscribe for shares of Guangnan. Offers of options under the 1994 Share Option Scheme may be accepted in writing within 21 days from the date of making such offer. Options granted under the 1994 Share Option Scheme is exercisable within a period commencing twelve months after the date of acceptance of options and expiring on the last day of a four year period from such acceptance date or 20 November 2004, whichever is earlier. The 1994 Share Option Scheme shall expire on 20 November 2004.

On 24 August 2001, for the purpose of having a new share option scheme with terms compatible with modern practice and providing greater flexibility to the directors, Guangnan adopted a new share option scheme (the "2001 Share Options Scheme"). Pursuant to the 2001 Share Option Scheme, the directors of Guangnan are authorized, at their discretion, to invite full-time employees of Guangnan and its subsidiaries, including executive directors but excluding non-executive directors to take up options to subscribe for shares of Guangnan. A grant of options under the 2001 Share Option Scheme may be accepted in writing and upon payment of a consideration of HK\$10 in total by the grantee to Guangnan within 21 days from the date of grant. Options granted under the 2001 Share Option Scheme is exercisable within a period of five years commencing on the business day immediately following the expiry of three months after the date of grant and expiring at the close of business on the last business day of such five year period. The 2001 Share Option Scheme shall expire on 23 August 2011.

The total number of shares in respect of which options may be granted under the 1994 Share Option Scheme and the 2001 Share Option Scheme (collectively the "Schemes") may not exceed 10% of the issued share capital of Guangnan at the time of grant of options (excluding any shares issued upon exercise of options granted under the Schemes). As at 31 December 2001, the number of shares issuable for options granted under the Schemes was 302,200,000 which represented approximately 3.38% of Guangnan's share in issue.

The maximum entitlement of each participant under the Schemes will not exceed 25% of the aggregate number of shares of Guangnan for the time being issued and issuable under the Schemes.

SHARE OPTIONS OF THE COMPANY, ITS SUBSIDIARIES AND ASSOCIATED CORPORATION (cont'd)

(iv) Guangnan (Holdings) Limited (cont'd)

The exercise price of the options under the Schemes is determinable by the directors of Guangnan in their discretion, but may not be less than the higher of (i) the nominal value of the shares of Guangnan; and (ii) 80% of the average of the closing prices per share of Guangnan as state in the Stock Exchange's quotation sheets for the five trading days immediately preceding the date of grant of an option.

Details of the options of the Company, GDI and Guangnan held by the Directors of the Company are set out in the section headed "Directors' Interests in Securities" of this report.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of shareholder	Number of Shares Held	Percentage Holding
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited)	900,000,000	72%
GDH Limited ("GDH")	900,000,000	72%
Guangdong Investment Limited ("GDI")	900,000,000	72%

Notes:

1. The attributable interest which 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) has in the Company is held through its 100% direct interests in GDH.
2. The attributable interest which GDH has in the Company is held through its subsidiary, GDI.

CONNECTED TRANSACTIONS

Details of the connected transactions for the year are set out in note 31 to the financial statements. The Independent Non-Executive Directors of the Company had reviewed the connected transaction set out in note 31(i) for which the Stock Exchange has granted a waiver from the relevant requirements of the Listing Rules and confirmed that:

- (a) the transaction was entered into by the Group in the ordinary and usual course of its business;
- (b) the transaction was entered into on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (c) the transaction was entered into either (i) in accordance with terms of the agreements governing such transaction, or (ii) on terms no less favourable than terms available to or from independent third parties; and
- (d) the aggregate value of the malt purchased by the Group during the year from Guangzhou Malting Co., Ltd. in which Guangdong Investment Limited, the Company's immediate holding company, has an approximately 51.6% interest, does not exceed 30% of the total cost of production of the Group.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws and there are no restrictions against such rights under the law of Bermuda, being the jurisdiction in which the Company is incorporated.

MAJOR CUSTOMERS AND SUPPLIERS

Purchases from the largest supplier and the five largest suppliers represent 19.6% and 36.4% of the Group's total purchases for the year, respectively.

Sales attributable to the largest customer and the five largest customers represent 13.4% and 54.3% of the Group's total sales for the year, respectively.

REPORT OF THE DIRECTORS (cont'd)

MAJOR CUSTOMERS AND SUPPLIERS (cont'd)

None of the Directors, their respective associates or shareholders (which to the knowledge of the Directors) owning more than 5% of the issued share capital of the Company, have any interests in the five largest customers of the Group.

Apart from Guangzhou Malting Co., Ltd., none of the Directors, their respective associates or shareholders (which to the knowledge of the Directors) owning more than 5% of the issued share capital of the Company, have any interests in the five largest suppliers of the Group.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

During the year, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Stock Exchange except that the Non-Executive Directors are not appointed for a specific term as they are subject to retirement by rotation in accordance with the Company's By-laws.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the Code of Best Practice. The Audit Committee comprises the three independent non-executive directors and a non-executive director of the Company. The Audit Committee meets every six months mainly to consider the nature and scope of audit reviews, the effectiveness of the internal control systems and compliance with the relevant rules and regulations.

AUDITORS

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

On behalf of the Board

Ye Xuquan

Chairman

Hong Kong, 12 April 2002