

Report of the Directors

The Directors herein present their report and the audited financial statements of Guangdong Investment Limited (the “Company”) and its subsidiaries (together the “Group”) for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and operations on core businesses being water distribution, electric power generation, toll roads and bridges, property investment and development, and hotel operations and management, with particular emphasis on the first three of these. Details of the principal activities of the principal subsidiaries, a jointly controlled entity and principal associates are set out in notes 17, 18 and 19 to the financial statements respectively.

During the year, the Group disposed of its entire interests in certain assets and had been discontinuing or discontinued certain operations, details of which are set out in notes 5 and 6 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2002 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 68 to 208.

The Board of Directors does not recommend the payment of any dividend with respect to the ordinary shares of HK\$0.50 each of the Company (the “Ordinary Shares”) for the year ended 31 December 2002 (2001 : nil).

Pursuant to the Articles of Association of the Company, dividends on the Ordinary Shares may not be paid until the accumulated and current dividends on the 3 $\frac{1}{4}$ % redeemable cumulative convertible preference shares of the Company (the “Preference Shares”) have been paid in full.

As at 31 December 2002, the accumulated (but undeclared) fixed dividends on the Preference Shares, amounted to HK\$92,236,000. Such accumulated dividends, in respect of the period starting from 7 October 1998, do not accrue interest.

Report of the Directors (continued)

SUMMARY OF FINANCIAL INFORMATION

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

Results

	2002 HK\$'000	Year ended 31 December			
		2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
TURNOVER					
Continuing operations	4,659,956	4,956,992	2,576,377	3,057,940	3,584,206
Discontinuing/Discontinued operations	2,077,069	2,314,526	2,371,607	2,301,502	2,696,694
	6,737,025	7,271,518	4,947,984	5,359,442	6,280,900
PROFIT/(LOSS) FROM OPERATING ACTIVITIES AFTER FINANCE COSTS	356,614	592,694	(1,168,591)	(2,463,046)	(1,924,761)
Share of profit of a jointly-controlled entity	62,320	39,320	15,397	10,603	13,526
Share of profits less losses of associates	111,208	28,332	8,298	51,318	(19,402)
	530,142	660,346	(1,144,896)	(2,401,125)	(1,930,637)
PROFIT/(LOSS) BEFORE TAX					
Continuing operations	452,862	652,975	(662,255)	(2,269,201)	(2,094,987)
Discontinuing/Discontinued operations	77,280	7,371	(482,641)	(131,924)	164,350
	530,142	660,346	(1,144,896)	(2,401,125)	(1,930,637)
TAX					
Continuing operations	(96,058)	(119,108)	(107,630)	(45,859)	(56,309)
Discontinuing/Discontinued operations	(17,234)	(11,542)	(19,448)	(5,706)	(11,494)
	(113,292)	(130,650)	(127,078)	(51,565)	(67,803)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	416,850	529,696	(1,271,974)	(2,452,690)	(1,998,440)
Minority interests	(135,742)	(244,154)	(84,328)	75,337	(21,219)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	281,108	285,542	(1,356,302)	(2,377,353)	(2,019,659)

Report of the Directors (continued)

SUMMARY OF FINANCIAL INFORMATION (continued)

Assets and Liabilities

	As at 31 December				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
FIXED ASSETS	9,860,868	10,364,378	10,826,482	6,725,972	7,730,038
PROPERTIES UNDER DEVELOPMENT	69,600	173,147	406,956	537,568	783,756
INVESTMENT PROPERTIES	2,289,280	2,332,118	2,894,255	3,234,067	3,510,396
GOODWILL, NET	(130,411)	(104,209)	—	—	—
INTEREST IN A JOINTLY-CONTROLLED ENTITY	1,019,064	972,344	929,662	872,157	867,684
INTERESTS IN ASSOCIATES	423,617	641,163	604,003	592,155	568,119
CONTRACTUAL JOINT VENTURES	135,345	245,598	245,725	324,878	459,736
INTANGIBLE ASSETS	13,628,236	14,123,023	14,622,619	35,000	37,000
OTHER ASSETS	4,950,567	4,630,970	5,387,077	4,579,090	5,894,337
TOTAL ASSETS	32,246,166	33,378,532	35,916,779	16,900,887	19,851,066
BONDS	(417,085)	(650,179)	(1,313,906)	(1,244,404)	(1,180,880)
FLOATING RATE NOTES	(245,282)	(382,349)	(826,726)	(823,811)	(819,804)
OTHER LOANS AND LIABILITIES	(19,625,306)	(20,556,930)	(22,325,476)	(8,383,068)	(9,712,429)
DEFERRED TAX	(2,285)	(2,285)	(2,285)	(2,739)	(2,739)
TOTAL LIABILITIES	(20,289,958)	(21,591,743)	(24,468,393)	(10,454,022)	(11,715,852)
MINORITY INTERESTS	(2,540,825)	(2,669,292)	(2,931,253)	(1,923,991)	(1,982,012)
NET ASSETS	9,415,383	9,117,497	8,517,133	4,522,874	6,153,202

Report of the Directors (continued)

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in fixed assets and investment properties of the Company and the Group during the year are set out in notes 14 and 16 to the financial statements, respectively.

PROPERTIES UNDER DEVELOPMENT

Details of movements in properties under development of the Group during the year are set out in note 15 to the financial statements.

ORDINARY SHARE CAPITAL, PREFERENCE SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's ordinary share capital, preference share capital and share options during the year are set out in note 43 to the financial statements.

The Company has an obligation to issue a total of 264,000,000 Ordinary Shares to GDH Limited in accordance with an earnout agreement dated 22 December 2000 between the Company and GDH Limited (the "Earnout Agreement") upon the later of 21 December 2003 and the completion of the renovation project comprising the fourth expansion of the Dongshen Water Supply Project (the "Phase IV Renovation Project") which is expected to be completed in mid-2004. Details of the contingent issuance of Ordinary Shares are set out in note 45(b) to the financial statements.

SHARE PREMIUM ACCOUNTS AND RESERVES

Details of movements in the share premium accounts and reserves of the Company and the Group during the year are set out in note 45 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2002, the Company did not have any reserves available for distribution as calculated in accordance with the provisions of Section 79B of the Companies Ordinance.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$483,963 (2001 : HK\$63,000).

Report of the Directors (continued)

SHARE OPTIONS OF THE COMPANY AND ASSOCIATED CORPORATIONS

Due to the adoption of SSAP 34 "Employee benefits" (as defined in note 3 to the financial statements) during the year, most of the detailed disclosure relating to the share option schemes of the Company and the associated corporations have been moved to note 44 to the financial statements.

In assessing the theoretical aggregate value of the share options granted during the year, the Black-Scholes option pricing model has been used.

Share options granted during the year ended 31 December 2002:

(I)	Date of Grant	:	07/05/2002
	Vesting Period	:	07/05/2002 – 07/11/2002
	Exercise Period	:	08/11/2002 – 07/11/2007
	Exercise Price	:	HK\$0.814

	Number of Options At 07/05/02	Options Value At 07/05/02 HK\$	Number of Options At 31/12/02	Options Value At 31/12/02 HK\$
		(Note (2))		(Note (3))
Grantee:				
WU Jiesi	9,000,000	3,780,000	9,000,000	3,870,000
LI Wenyue	9,000,000	3,780,000	9,000,000	3,870,000
CHAN Cho Chak, John	1,000,000	420,000	1,000,000	430,000
LI Kwok Po, David	1,000,000	420,000	1,000,000	430,000
CHENG Mo Chi, Moses	1,000,000	420,000	1,000,000	430,000
FUNG, Daniel R.	1,000,000	420,000	1,000,000	430,000
YE Xuquan	9,000,000	3,780,000	9,000,000	3,870,000
LI Wai Keung	1,500,000	630,000	1,500,000	645,000
ZHANG Yaping	9,000,000	3,780,000	9,000,000	3,870,000
ZHAI Zhiming	1,000,000	420,000	1,000,000	430,000
WANG Man Kwan, Paul	1,500,000	630,000	1,500,000	645,000
GU Shunan	1,000,000	420,000	1,000,000	430,000
WANG Xiaofeng	1,000,000	420,000	1,000,000	430,000
Aggregate total of employees	14,300,000	6,006,000	13,800,000	5,934,000
Total	60,300,000	25,326,000	59,800,000	25,714,000

Report of the Directors (continued)

SHARE OPTIONS OF THE COMPANY AND ASSOCIATED CORPORATIONS (continued)

Notes:

- (1) The closing price of the shares of the Company immediately before the date on which the options were granted was HK\$0.81.
- (2) According to the Black-Scholes model^a, the total value of the options was estimated at HK\$25,326,000 as at 7 May 2002 (when the options were granted) with the following variables and assumptions:
- | | | |
|------------------------------|---|---|
| Risk Free Rate | : | 4.82%, being the approximate yield of 5-year Exchange Fund Note traded on 07/05/2002 |
| Expected Volatility | : | 50.9%, being the annualized volatility of the closing price of the shares of the Company from 07/05/2001 – 07/05/2002 |
| Expected Dividend Yield | : | Nil |
| Expected Life of the Options | : | 5.5 years |
| Assumptions | : | There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares of the Company over the period of 07/05/2001 – 07/05/2002. |
- (3) According to the Black-Scholes model^a, the total value of the options was estimated at HK\$25,714,000 as at 31 December 2002 with the following variables and assumptions:
- | | | |
|------------------------------|---|---|
| Risk Free Rate | : | 3.21%, being the approximate yield of 5-year Exchange Fund Note traded on 31/12/2002 |
| Expected Volatility | : | 39.5%, being the annualized volatility of the closing price of the shares of the Company from 31/12/2001 – 31/12/2002 |
| Expected Dividend Yield | : | Nil |
| Expected Life of the Options | : | 4.85 years |
| Assumptions | : | There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares of the Company over the period of 31/12/2001 – 31/12/2002. |
- (4) Options forfeited, if any, before expiry of the options will be treated as lapsed options which will be added back to the number of shares available to be issued under the relevant share option scheme.

^a The Black-Scholes model (the “Model”) is developed to estimate the fair value of publicly traded options that have no vesting restriction and are fully transferable. The Model is only one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

Report of the Directors (continued)

SHARE OPTIONS OF THE COMPANY AND ASSOCIATED CORPORATIONS (continued)

(II)	Date of Grant	:	03/06/2002
	Vesting Period	:	03/06/2002 – 20/12/2002
	Exercise Period	:	21/12/2002 – 03/06/2007
	Exercise Price	:	HK\$0.816

	Number of Options At 03/06/02	Options Value At 03/06/02 HK\$	Number of Options At 31/12/02	Options Value At 31/12/02 HK\$
		(Note (2))		(Note (3))
Grantee:				
Consultant	31,393,939	11,929,697	31,393,939	13,185,454

Notes:

- (1) The closing price of the shares of the Company immediately before the date on which the options were granted was HK\$0.81.
- (2) According to the Black-Scholes model^a, the total value of the options was estimated at HK\$11,929,697 as at 3 June 2002 (when the options were granted) with the following variables and assumptions:
- | | | |
|------------------------------|---|---|
| Risk Free Rate | : | 4.80%, being the approximate yield of 5-year Exchange Fund Note traded on 03/06/2002 |
| Expected Volatility | : | 47.5%, being the annualized volatility of the closing price of the shares of the Company from 03/06/2001 – 03/06/2002 |
| Expected Dividend Yield | : | Nil |
| Expected Life of the Options | : | 5 years |
| Assumptions | : | There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares of the Company over the period of 03/06/2001 – 03/06/2002. |

Report of the Directors (continued)

SHARE OPTIONS OF THE COMPANY AND ASSOCIATED CORPORATIONS (continued)

- (3) According to the Black-Scholes model^a, the total value of the options was estimated at HK\$13,185,454 as at 31 December 2002 with the following variables and assumptions:

Risk Free Rate	:	3.21%, being the approximate yield of 5-year Exchange Fund Note traded on 31/12/2002
Expected Volatility	:	39.5%, being the annualized volatility of the closing price of the shares of the Company from 31/12/2001 – 31/12/2002
Expected Dividend Yield	:	Nil
Expected Life of the Options	:	4.42 years
Assumptions	:	There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares of the Company over the period of 31/12/2001 – 31/12/2002.

- (4) Options forfeited, if any, before expiry of the options will be treated as lapsed options which will be added back to the number of shares available to be issued under the relevant share option scheme.

^a The Black-Scholes model (the "Model") is developed to estimate the fair value of publicly traded options that have no vesting restriction and are fully transferable. The Model is only one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

Report of the Directors (continued)

SHARE OPTIONS OF THE COMPANY AND ASSOCIATED CORPORATIONS (continued)

(III) Date of Grant	:	04/12/2002
Vesting Period	:	04/12/2002 – 04/03/2003
Exercise Period	:	05/03/2003 – 04/03/2008
Exercise Price	:	HK\$0.96

	Number of Options At 04/12/02	Options Value At 04/12/02 HK\$	Number of Options At 31/12/02	Options Value At 31/12/02 HK\$
		(Note (2))		(Note (3))
Grantee:				
WU Jiesi	6,000,000	2,340,000	6,000,000	2,340,000
LI Wenyue	6,000,000	2,340,000	6,000,000	2,340,000
ZHANG Hui	5,000,000	1,950,000	5,000,000	1,950,000
CHAN Cho Chak, John	1,000,000	390,000	1,000,000	390,000
LI Kwok Po, David	1,000,000	390,000	1,000,000	390,000
CHENG Mo Chi, Moses	1,000,000	390,000	1,000,000	390,000
FUNG, Daniel R.	1,000,000	390,000	1,000,000	390,000
YE Xuquan	6,000,000	2,340,000	6,000,000	2,340,000
LI Wai Keung	1,500,000	585,000	1,500,000	585,000
ZHANG Yaping	6,000,000	2,340,000	6,000,000	2,340,000
ZHAI Zhiming	1,000,000	390,000	1,000,000	390,000
WANG Man Kwan, Paul	1,500,000	585,000	1,500,000	585,000
GU Shunan	1,000,000	390,000	1,000,000	390,000
WANG Xiaofeng	1,000,000	390,000	1,000,000	390,000
Aggregate total of employees	67,900,000	26,481,000	67,900,000	26,481,000
Total	106,900,000	41,691,000	106,900,000	41,691,000

Report of the Directors (continued)

SHARE OPTIONS OF THE COMPANY AND ASSOCIATED CORPORATIONS (continued)

Notes:

- (1) The closing price of the shares of the Company immediately before the date on which the options were granted was HK\$0.96.
- (2) According to the Black-Scholes model^a, the total value of the options was estimated at HK\$41,691,000 as at 4 December 2002 (when the options were granted) with the following variables and assumptions:

Risk Free Rate	:	3.59%, being the approximate yield of 5-year Exchange Fund Note traded on 04/12/2002
Expected Volatility	:	39.0%, being the annualized volatility of the closing price of the shares of the Company from 04/12/2001 – 04/12/2002
Expected Dividend Yield	:	Nil
Expected Life of the Options	:	5.25 years
Assumptions	:	There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares of the Company over the period of 04/12/2001 – 04/12/2002.

- (3) According to the Black-Scholes model^a, the total value of the options was estimated at HK\$41,691,000 as at 31 December 2002 with the following variables and assumptions:

Risk Free Rate	:	3.21%, being the approximate yield of 5-year Exchange Fund Note traded on 31/12/2002
Expected Volatility	:	39.5%, being the annualized volatility of the closing price of the shares of the Company from 31/12/2001 – 31/12/2002
Expected Dividend Yield	:	Nil
Expected Life of the Options	:	5.17 years
Assumptions	:	There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares of the Company over the period of 31/12/2001 – 31/12/2002.

- (4) Options forfeited, if any, before expiry of the options will be treated as lapsed options which will be added back to the number of shares available to be issued under the relevant share option scheme.

^a The Black-Scholes model (the "Model") is developed to estimate the fair value of publicly traded options that have no vesting restriction and are fully transferable. The Model is only one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

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

Report of the Directors (continued)

ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed “Share Options of the Company and Associated Corporations” and “Directors’ Interests in Securities” of this report, and in note 44 to the financial statements, at no time during the year was the Company, its holding companies or any of its subsidiaries or associated corporations, a party to any arrangements to enable the Directors of the Company or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS

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

WU Jiesi (Honorary President)

LI Wenyue (Chairman)

ZHANG Hui (Managing Director) (Appointed as Director effective 28 October 2002 and acted as Managing Director effective 5 December 2002)

ZHANG Yaping (Ceased to act as Managing Director effective 5 December 2002 and remained as Director)

*CHAN Cho Chak, John

*LI Kwok Po, David

*CHENG Mo Chi, Moses

*FUNG, Daniel Richard

YE Xuquan

WANG Man Kwan, Paul

LI Wai Keung

GU Shunan

ZHAI Zhiming (Appointed effective 18 January 2002)

WANG Xiaofeng (Appointed effective 18 January 2002)

YU Lai (Appointed effective 25 February 2003)

SU Qun (Resigned effective 18 January 2002)

ZHONG Guangchao (Retired effective 31 May 2002)

* Independent Non-Executive Director

Messrs. ZHANG Hui and YU Lai, who were appointed as Directors of the Company effective 28 October 2002 and 25 February 2003 respectively, in accordance with Article 73 of the Articles of Association of the Company, will hold office until the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Report of the Directors (continued)

DIRECTORS (continued)

Messrs. WU Jiesi, CHENG Mo Chi, Moses, FUNG, Daniel R. and ZHANG Yaping will retire in accordance with Article 77 of the Articles of Association of the Company. Messrs. WU Jiesi, CHENG Mo Chi, Moses, FUNG, Daniel R. and ZHANG Yaping will offer themselves for re-election at the forthcoming annual general meeting.

Messrs. CHENG Mo Chi, Moses and FUNG, Daniel R., Independent Non-Executive Directors, and Mr. ZHANG Yaping, Non-Executive Director, agree to stand for re-election and if re-elected to hold office from the date of re-election, to the earlier of (i) the conclusion of the annual general meeting of the Company to be held in 2006 and (ii) 30 June 2006 subject to earlier determination in accordance with the Articles of Association of the Company and/or applicable laws and regulations.

Biographical details of the Directors of the Company as at the date of this report are set out on pages 33 to 39 of this annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

None of the Directors had a material beneficial interest, whether directly or indirectly, in any significant contract to which the Company or any of its subsidiaries was a party during the year or as at 31 December 2002.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Messrs. WU Jiesi, LI Wenyue and YE Xuquan, Directors of the Company, are also directors of 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) ("Yue Gang Investment") and GDH Limited. Messrs. LI Wai Keung, ZHANG Yaping and ZHAI Zhiming, Directors of the Company, are also directors of GDH Limited. GDH Limited is a wholly-owned subsidiary of Yue Gang Investment. Yue Gang Investment and its subsidiaries other than the Group (the "Yue Gang Investment Group") have certain business interests which include property, hotels, infrastructure, brewing, water supply investment and money lending. There may be some overlapping between the scope of the aforementioned businesses of the Yue Gang Investment Group and that of the Group. However the Directors do not believe that there exist any direct or indirect competition in any material respect between the businesses of the Yue Gang Investment Group and those of the Group.

Report of the Directors (continued)

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2002, the interests of the Directors and their associates in the equity or debt securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules") were as follows:

I. Interests in shares

(i) *The Company*

<u>Name of Director</u>	<u>Type of interest</u>	<u>Number of Ordinary Shares held</u>
GU Shunan	Personal	76,000

(ii) *Guangdong Brewery Holdings Limited*

<u>Name of Director</u>	<u>Type of interest</u>	<u>Number of shares held</u>
LI Wenyue	Family*	400,000

* held by spouse of LI Wenyue

(iii) *Guangnan (Holdings) Limited*

<u>Name of Director</u>	<u>Type of interest</u>	<u>Number of shares held</u>
LI Kwok Po, David	Personal	150,000

Report of the Directors (continued)

DIRECTORS' INTERESTS IN SECURITIES (continued)

II. Interests in options relating to Ordinary Shares

Name of Director	Number of options held as at 1 January 2002	Options granted during the year		Period during which option is exercisable	Total consideration paid for share options HK\$	Price per Ordinary Share payable on exercise of options HK\$	Number of options exercised during the year	Number of options held as at 31 December 2002
		Date	Number					
WU Jiesi	12,000,000	—	—	02.05.2002 – 01.05.2007	—	0.74	—	12,000,000
	—	07.05.2002	9,000,000	08.11.2002 – 07.11.2007	—	0.814	—	9,000,000
	—	04.12.2002	6,000,000	05.03.2003 – 04.03.2008	1	0.96	—	6,000,000
LI Wenyue	12,000,000	—	—	11.02.2002 – 10.02.2007	—	0.5312	—	12,000,000
	—	07.05.2002	9,000,000	08.11.2002 – 07.11.2007	—	0.814	—	9,000,000
	—	04.12.2002	6,000,000	05.03.2003 – 04.03.2008	1	0.96	—	6,000,000
ZHANG Hui	—	04.12.2002	5,000,000	05.03.2003 – 04.03.2008	1	0.96	—	5,000,000

Report of the Directors (continued)

DIRECTORS' INTERESTS IN SECURITIES (continued)

II. Interests in options relating to Ordinary Shares (continued)

Name of Director	Number of options held as at 1 January 2002	Options granted during the year		Period during which option is exercisable	Total consideration paid for share options HK\$	Price per Ordinary Share payable on exercise of options HK\$	Number of options exercised during the year	Number of options held as at 31 December 2002
		Date	Number					
CHAN Cho Chak, John	1,000,000	—	—	02.05.2002 – 01.05.2007	—	0.74	—	1,000,000
	—	07.05.2002	1,000,000	08.11.2002 – 07.11.2007	—	0.814	—	1,000,000
	—	04.12.2002	1,000,000	05.03.2003 – 04.03.2008	1	0.96	—	1,000,000
LI Kwok Po, David	1,000,000	—	—	02.05.2002 – 01.05.2007	—	0.74	—	1,000,000
	—	07.05.2002	1,000,000	08.11.2002 – 07.11.2007	—	0.814	—	1,000,000
	—	04.12.2002	1,000,000	05.03.2003 – 04.03.2008	1	0.96	—	1,000,000
CHENG Mo Chi, Moses	1,000,000	—	—	02.05.2002 – 01.05.2007	—	0.74	—	1,000,000
	—	07.05.2002	1,000,000	08.11.2002 – 07.11.2007	—	0.814	—	1,000,000
	—	04.12.2002	1,000,000	05.03.2003 – 04.03.2008	1	0.96	—	1,000,000

Report of the Directors (continued)

DIRECTORS' INTERESTS IN SECURITIES (continued)

II. Interests in options relating to Ordinary Shares (continued)

Name of Director	Number of options held as at 1 January 2002	Options granted during the year		Period during which option is exercisable	Total consideration paid for share options HK\$	Price per Ordinary Share payable on exercise of options HK\$	Number of options exercised during the year	Number of options held as at 31 December 2002
		Date	Number					
FUNG, Daniel R.	1,000,000	—	—	02.05.2002 – 01.05.2007	—	0.74	—	1,000,000
	—	07.05.2002	1,000,000	08.11.2002 – 07.11.2007	—	0.814	—	1,000,000
	—	04.12.2002	1,000,000	05.03.2003 – 04.03.2008	1	0.96	—	1,000,000
YE Xuquan	12,000,000	—	—	11.02.2002 – 10.02.2007	—	0.5312	—	12,000,000
	—	07.05.2002	9,000,000	08.11.2002 – 07.11.2007	—	0.814	—	9,000,000
	—	04.12.2002	6,000,000	05.03.2003 – 04.03.2008	1	0.96	—	6,000,000
LI Wai Keung	1,500,000	—	—	02.05.2002 – 01.05.2007	—	0.74	—	1,500,000
	—	07.05.2002	1,500,000	08.11.2002 – 07.11.2007	—	0.814	—	1,500,000
	—	04.12.2002	1,500,000	05.03.2003 – 04.03.2008	1	0.96	—	1,500,000
ZHANG Yaping	12,000,000	—	—	11.02.2002 – 10.02.2007	—	0.5312	—	12,000,000
	—	07.05.2002	9,000,000	08.11.2002 – 07.11.2007	—	0.814	—	9,000,000
	—	04.12.2002	6,000,000	05.03.2003 – 04.03.2008	1	0.96	—	6,000,000

Report of the Directors (continued)

DIRECTORS' INTERESTS IN SECURITIES (continued)

II. Interests in options relating to Ordinary Shares (continued)

Name of Director	Number of options held as at 1 January 2002	Options granted during the year		Period during which option is exercisable	Total consideration paid for share options HK\$	Price per Ordinary Share payable on exercise of options HK\$	Number of options exercised during the year	Number of options held as at 31 December 2002
		Date	Number					
ZHAI Zhiming	—	07.05.2002	1,000,000	08.11.2002 – 07.11.2007	—	0.814	—	1,000,000
	—	04.12.2002	1,000,000	05.03.2003 – 04.03.2008	1	0.96	—	1,000,000
WANG Man Kwan, Paul	1,500,000	—	—	11.02.2002 – 10.02.2007	—	0.5312	500,000	1,000,000
	—	07.05.2002	1,500,000	08.11.2002 – 07.11.2007	—	0.814	—	1,500,000
	—	04.12.2002	1,500,000	05.03.2003 – 04.03.2008	1	0.96	—	1,500,000
GU Shunan	1,000,000	—	—	02.05.2002 – 01.05.2007	—	0.74	—	1,000,000
	—	07.05.2002	1,000,000	08.11.2002 – 07.11.2007	—	0.814	—	1,000,000
	—	04.12.2002	1,000,000	05.03.2003 – 04.03.2008	1	0.96	—	1,000,000
WANG Xiaofeng	—	07.05.2002	1,000,000	08.11.2002 – 07.11.2007	—	0.814	—	1,000,000
	—	04.12.2002	1,000,000	05.03.2003 – 04.03.2008	1	0.96	—	1,000,000

Note: 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).

Report of the Directors (continued)

DIRECTORS' INTERESTS IN SECURITIES (continued)

Save as disclosed above, as at 31 December 2002, 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 (within the meaning of the SDI Ordinance) which were required to be: (i) notified to the Company and the Hong Kong 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); (ii) entered in the register kept by the Company pursuant to Section 29 of the SDI Ordinance; (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 to the Listing Rules.

Save as disclosed above, the Company or any of its associated corporations did not grant to any Director or chief executive of the Company, their spouse or children under 18 years of age of any such Director or chief executive any right to subscribe for equity or debt securities of the Company or any of its associated corporations, nor had there been any exercise of such right by such persons during the year under review.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, the following interest of 10% or more of the issued ordinary share capital of the Company was 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 Ordinary Shares held	Approximate percentage of shareholding
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited)	2,984,584,738	57.81%
GDH Limited	2,984,584,738	57.81%
Guangdong Trust Ltd.	578,762,146	11.21%

Notes:

- 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 interest in GDH Limited.
- The interest in GDH Limited set out above includes attributable interest held through its wholly-owned subsidiary, Guangdong Trust Ltd..

Report of the Directors (continued)

SIGNIFICANT CONTRACTS WITH CONTROLLING SHAREHOLDER

The following contract of significance had been entered between the Company and a controlling shareholder of the Company during the year:

- (i) The Board proposed on 7 August 2002 and 19 August 2002 to amend the terms of the Preference Shares in the capital of the Company with a par value of US\$1.00 and a paid up value of US\$1,000 as detailed in Article 5A of the Articles of Association of the Company. In particular, the Board proposed that the terms of the Preference Shares be amended such that:
 - (a) a put option was provided for, permitting a holder of a Preference Share, or Preference Shares (as the case may be), to require, if it so desires, GDH Limited to buy some or all of the Preference Shares (as the case may be), held by it at a price equal to 135% of its/their paid up value of US\$1,000 during the period from and including 1 October 2002 to but excluding 31 October 2002 (the "Put Option");
 - (b) a call option was provided for, permitting GDH Limited to require all (but not some) of the holders of the Preference Shares to sell all (but not some) of the Preference Shares held by them to GDH Limited at a price equal to 135% of their paid up value of US\$1,000 during the period from and including 17 September 2002 to but excluding 31 January 2003 (the "Call Option"); and
 - (c) a change in dividend was provided for whereby the dividend carried by the Preference Shares on their redemption amount is reduced from 9.60% per annum to 6.60% per annum for the year from 8 April 2003 to 7 April 2004.

The Put Option and the Call Option are approved by the holders of Preference Shares and Ordinary Shares on 16 September 2002. As at the same date, the Company had 85,949 Preference Shares with a paid up value of US\$85,949,000 issued and outstanding. GDH Limited acquired all the Preference Shares under the Put Option and the Call Option, and became ultimately the only holder of the Preference Shares on 8 February 2003.

- (ii) A loan agreement dated 27 December 2002 relating to an unsecured loan in the amount of HK\$568,000,000 was entered into between GDH Limited and the Company, which bore interest at 1% above HIBOR per annum and was repayable within three years from the date of drawdown of the loan. A sum of HK\$152,964,000 was repaid in January and February 2003 while the remaining balance was fully offset and repaid on 31 March 2003 upon the completion of the disposal of the Group's entire interests in certain assets, details of which are set out in note 6(a) to the financial statements.

Report of the Directors (continued)

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its securities listed on the Hong Kong Stock Exchange save and except the followings:

- (i) the Company has issued 29,400,000 new Ordinary Shares to certain option holders at HK\$0.5312 per share at a total cash consideration of HK\$15,617,280 pursuant to the Company's share option scheme during the year; and
- (ii) in accordance with the Earnout Agreement, the Company has agreed to allot and issue to GDH Limited, 66,000,000 Ordinary Shares, for each year of five years commencing from 22 December 2000 (the "Earnout Period") (subject to adjustment, up to a total of 330,000,000 Ordinary Shares) upon the performance of 廣東粵港供水有限公司 (Guangdong Yue Gang Water Supply Company Limited) ("WaterCo") meeting the milestones as set out in the Earnout Agreement. As WaterCo has attained the performance milestones under the Earnout Agreement for the first four years of the Earnout Period, the Company has an obligation to issue a total of 264,000,000 Ordinary Shares to GDH Limited pursuant to the Earnout Agreement upon the later of 21 December 2003 and the completion of the Phase IV Renovation Project which is expected to be completed in mid-2004. The issuance of any further Ordinary Shares remains contingent upon WaterCo meeting its performance milestones under the Earnout Agreement in subsequent years.

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its securities listed on the Luxembourg Stock Exchange (including the Preference Shares, the 2005 Guaranteed Bonds (as defined in note 37 to the financial statements) and the Amended 2001 FRNs (as defined in note 38 to the financial statements), and no Preference Shares were converted by way of redemption into Ordinary Shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 51.63% of the total sales for the year and sales to the largest customer included therein amounted to 36.64%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

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

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 53 to the financial statements.

Report of the Directors (continued)

CORPORATE GOVERNANCE

Board

The Board of Directors now comprises fifteen Directors, and among them, four are Independent Non-Executive Directors the independent status of all of whom is strictly in compliance with the Listing Rules. There were nine full Board meetings held during the year, and the average attendance rate of Directors stood at about 57%.

In accordance with the Articles of Association of the Company, all the Directors are subject to retirement and re-election at the annual general meeting in their first year of appointment and the provision requiring one-third (or the nearest number to but not exceeding one-third) of them to retire by rotation and to offer themselves for re-election at each annual general meeting thereafter. Each of the Non-Executive Directors is appointed for a specific term.

Audit Committee

The Company has established an audit committee since September 1998 comprising all of the Independent Non-Executive Directors (the "Audit Committee") in accordance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules (the "Code of Best Practice"). The principal duties of the Audit Committee include the review of the completeness, accuracy and fairness of the Company's financial reports and the effectiveness of the Company's internal control system.

During the year, two regular meetings of the Audit Committee have been held. In addition, pursuant to the "Guide for the Formation of an Audit Committee" issued by "the Audit Committee Task Force of the HKSA Corporate Governance Working Group", the Audit Committee held one private meeting with the Auditors without the presence of Executive Directors.

Internal Audit

The Company has established an audit department responsible for the overall internal monitoring of the Group. The key functions of this department include undertaking comprehensive audits, supervision and appraisal of the operational, financial and governance activities of each of the companies of the Group; commenting and making recommendation on such matters; and submitting regular reports to both the Chairman of the Board and the Audit Committee.

Report of the Directors (continued)

CORPORATE GOVERNANCE (continued)

Supervision of Management and Operation

The Group has introduced a series of rules and regulations to monitor the management and operation of all the members of the Group. These include:

- (i) total prohibition on the use of off-balance-sheet accounts;
- (ii) strengthening of the Board's supervision of management;
- (iii) maximisation of the control and supervisory functions of the checks and balances and thereby, the mutual monitoring among the board chairman, general manager and the financial controller; and
- (iv) strict regulation of investments, loans and guarantees with outside parties.

Code of Best Practice

Throughout the year, the Company has complied with the Code of Best Practice.

MODIFIED CALCULATION CONCESSION

Application of Chapter 14 of the Listing Rules to the Company

Chapter 14 of the Listing Rules requires listed companies to disclose details of certain categories of transactions, to send a circular to shareholders and to publish an announcement in the newspapers giving information about certain categories of transactions and, in the case of certain material transactions or certain transactions with connected persons (as defined in the Listing Rules), to obtain shareholders' prior approval. Certain categories of transactions are not subject to any disclosure or approval requirements at all.

The Group, based on its audited published annual accounts as of 31 December 2001 (and its unaudited interim report for the six months ended 30 June 2002 (the "Interim Report")), has a negative net tangible asset value as described in the Company's announcement dated 29 April 2002 (as adjusted in light of the balance sheet figures in the Interim Report as described in the Company's announcement dated 26 September 2002). The negative net tangible asset value of the Group does not arise as a result of operational losses in the ordinary and usual course of business during the current and/or prior financial year(s).

Report of the Directors (continued)

MODIFIED CALCULATION CONCESSION (continued)

Application of Chapter 14 of the Listing Rules to the Company (continued)

As a result of the negative net tangible asset value of the Group as described above, the Company may have difficulties in complying fully with those provisions of the Listing Rules which require comparisons to be made with its net tangible assets or net assets. Accordingly, the Company has applied for and has been granted waivers by the Hong Kong Stock Exchange from the application of certain provisions of the Listing Rules as described below.

Approval

Upon the application of the Company on 16 April 2002 the Hong Kong Stock Exchange granted its approval (the "Approval") with respect to the application of the "assets test" (as defined in Rule 14.09(1) of the Listing Rules) and the "consideration test" (as defined in Rule 14.09(3) of the Listing Rules) (together, the "Relevant Tests") to apply (i) the De-minimis Concession (as described in the Hong Kong Stock Exchange's announcement dated 3 May 2001), (ii) the Modified Calculation Concession (as described in the Hong Kong Stock Exchange's announcements dated 3 May 2001, 24 August 2001 and 9 October 2001) and (iii) the Modified Assets Basis (as defined below and as described in the Hong Kong Stock Exchange's announcements dated 24 August 2001 and 9 October 2001).

Details of the Approval were set out in the Company's announcement dated 29 April 2002 and details of the subsequent adjustment to the figures applicable to the Modified Calculation Concession and Modified Assets Basis in the Company's announcement dated 26 September 2002.

The Approval is valid from its date of grant to the publication of, or the due date of, the Company's next annual report, whichever is the earlier.

De-minimis Concession

The De-minimis Concession is such that each transaction (other than connected transactions) carried out in the normal and ordinary course of business of the Group, which is entered into on normal commercial terms, and where the consideration or value of the transaction does not exceed HK\$1,000,000, shall be considered as de-minimis. The Relevant Tests will not apply.

Report of the Directors (continued)

MODIFIED CALCULATION CONCESSION (continued)

Modified Calculation Concession — Percentage Ratios and Monetary Thresholds for the Purposes of Rules 14.06, 14.09, 14.12 and 14.20

Based on the Group's unaudited published interim accounts as of 30 June 2002, the monetary thresholds against which the "gross assets less intangibles and current liabilities of the asset to be acquired or disposed of" for the "assets test" and the "consideration for the asset to be acquired or disposed of" for the "consideration test" are to be determined for the purposes of the Modified Calculation Concession to ascertain the type of notifiable transaction under Rules 14.06, 14.09, 14.12 and 14.20 of the Listing Rules are and, where stated, the relevant percentage ratios are, as follows:

- (i) ratio of 5% or above but below 15% (HK\$825,595,000 or above but below HK\$2,476,784,000) — the requirements for discloseable transactions will apply;
- (ii) ratio of 15% or above but below 25% (HK\$2,476,784,000 or above but below HK\$4,127,973,000) — the requirements for major transactions will apply;
- (iii) ratio of 25% or above (HK\$4,127,973,000 or above) — the requirements for very substantial acquisitions will apply; and
- (iv) for acquisition of assets (including securities but excluding cash) by the Company or any of its subsidiaries for consideration that includes securities for which listing will be sought, the requirements for share transactions will apply if the ratio is less than 5% (HK\$825,595,000).

For the avoidance of doubt, the "profits test" and "equity test" continue to apply to the Group without modification.

Modified Assets Basis only while Maintaining the Percentage Ratios Prescribed under the Relevant Rules

In relation to references to "net tangible assets" or "net assets" in the provisions of the Listing Rules set out below, the basis set out in the "modified assets test" under the Modified Calculation Concession, namely "the gross assets less intangibles and current liabilities" (the "Modified Assets Basis"), based on the Group's unaudited published interim accounts as of 30 June 2002, shall be the basis for calculating the net assets of the Group and, where stated, the relevant percentage ratios and monetary thresholds shall be as follows:

- (i) Paragraphs 17(2) of Appendix 7A — ratio of 15% (HK\$2,476,784,000);
- (ii) Paragraph 16(2) of Appendix 7C — ratio of 15% (HK\$2,476,784,000);
- (iii) Paragraph 36 of Appendix 16 — ratio of 15% (HK\$2,476,784,000);

Report of the Directors (continued)

MODIFIED CALCULATION CONCESSION (continued)

Modified Assets Basis only while Maintaining the Percentage Ratios Prescribed under the Relevant Rules (continued)

- (iv) Paragraph 5.1 of Practice Notice 13 — ratio of 15% (HK\$2,476,784,000); and
- (v) Paragraph 3(e)(ii) of Practice Notice 15 — ratio of 15% (HK\$2,476,784,000).

Practice Note 19 — Paragraph 1.3

In relation to Paragraph 1.3 of Practice Note 19, the Modified Assets Basis shall be the basis for calculating the “net assets” of the Group.

Application of Modified Assets Basis but Applying Different Percentage Ratios

In relation to references to “net tangible assets” or “net assets” in the provisions of the Listing Rules set out below, the Modified Assets Basis, based on the Group’s unaudited published interim accounts as of 30 June 2002, shall be the basis for calculating the net assets of the Group and, where stated, the relevant percentage ratios and monetary thresholds shall be as follows:

- (i) Paragraph 15.2 of Appendix 16 — ratio of 1% (HK\$165,119,000);
- (ii) Paragraph 23 of Appendix 16 — ratio of 5% (HK\$825,595,000);
- (iii) Paragraph 3.2.1 of Practice Note 19 — ratio of 8% (HK\$1,320,951,000);
- (iv) Paragraph 3.2.2 of Practice Note 19 — ratio of 3% (HK\$495,357,000); and
- (v) Paragraph 3.3 of Practice Note 19 — ratio of 8% (HK\$1,320,951,000).

Report of the Directors (continued)

MODIFIED CALCULATION CONCESSION (continued)

Connected Transactions

In relation to references to “net tangible assets” set out under Rules 14.24 and 14.25 for connected transactions, the Modified Assets Basis, based on the Group’s unaudited published interim accounts as of 30 June 2002, will be adopted. In addition, the monetary thresholds and percentage ratios to determine disclosure and/or shareholder approval requirements shall be amended as follows:

- (i) in Rule 14.24(5) the applicable threshold will be the higher of either (a) HK\$1,000,000, or (b) 0.01% of the Modified Assets Basis (HK\$1,651,000);
- (ii) in Rule 14.25(1) the applicable threshold will be the higher of either (a) HK\$10,000,000, or (b) 1% of the Modified Assets Basis (HK\$165,119,000); and
- (iii) by modifying the percentage threshold in Rule 14.25(2)(b)(i) to 5% of the Modified Assets Basis (HK\$825,595,000).

Period for which the De-minimis Concession, the Modified Calculation Concession and the Modified Assets Basis will Apply

The Hong Kong Stock Exchange’s approval for the use of the modified tests described above will remain in effect until the publication or the due date of the Company’s 2002 annual report, whichever is earlier.

AUDITORS

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

By order of the Board

LI Wenyue
Chairman

Hong Kong, 11 April 2003