

The Directors submit their report together with the audited accounts for the year ended 31st December 2003.

Principal activities

The Company is an investment holding company. The principal activities of its subsidiaries, a jointly controlled entity and associated companies consist of investment in and development, operation and management of toll highways, expressways and bridges mainly in Guangdong Province, the Mainland of China (“China”).

Results and appropriations

The results for the year are set out in the consolidated profit and loss account on page 32.

The Directors have declared and now recommend the following dividends in respect of the year ended 31st December 2003:

	HK\$'000
Interim dividend of HK\$0.04 per share paid on 5th November 2003	44,206
Proposed final dividend of HK\$0.045 per share	50,144
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	94,350
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Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 20 to the accounts.

Donations

No charitable and other donations were made by the Group during the year.

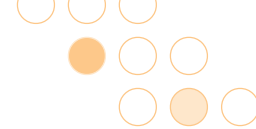
Fixed assets

Details of the movements in fixed assets of the Group and the Company are set out in note 14 to the accounts.

Share capital and options

Details of the movements in the issued share capital of the Company during the year are set out in note 19 to the accounts.

Details of the movements in the share options granted by the Company during the year and options outstanding as at 31st December 2003 are set out in note 19 to the accounts.



Five year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out below.

	Year ended 31st December				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Results					
Profit/(loss) attributable to shareholders	<u>223,822</u>	<u>142,498</u>	<u>203,939</u>	<u>125,270</u>	<u>(159,903)</u>
Assets and liabilities					
Total assets	<u>4,560,962</u>	<u>4,602,426</u>	<u>5,031,143</u>	<u>4,855,621</u>	<u>4,778,412</u>
Total liabilities	<u>(1,250,556)</u>	<u>(1,504,900)</u>	<u>(2,023,179)</u>	<u>(1,946,005)</u>	<u>(2,068,309)</u>
	<u>3,310,406</u>	<u>3,097,526</u>	<u>3,007,964</u>	<u>2,909,616</u>	<u>2,710,103</u>

Purchase, sale or redemption of the Company's shares

During the year, the Company has not redeemed any of its shares. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Principal subsidiaries

Details of the Company's principal subsidiaries as at 31st December 2003 are set out in the Group Structure section on pages 61 to 64.

Distributable reserves

As at 31st December 2003, the distributable reserves of the Company available for distribution amounted to HK\$2,159,667,000 (2002: HK\$2,118,194,000).

Directors

The Directors who held office during the year and up to the date of this report were:-

Executive directors

Mr Ou Bingchang	(appointed on 8th January 2003)
Mr Liu Jinxiang	(resigned on 8th January 2003)
Mr Yin Hui	(resigned on 18th March 2004)
Mr Xie Shuwen	(resigned on 23rd October 2003)
Mr Li Xinmin	
Mr Chen Guangsong	
Mr Chen Jiahong	
Mr Liang Ningguang	
Mr Xiao Boyan	
Mr Liang Yi	(appointed on 28th February 2003)
Mr Du Liangying	
Mr Du Xinrang	
Mr Zhong Ming	
Mr He Zili	
Mr Zhang Siyuan	

Non-executive directors

Mr Fung Ka Pun ¹
Mr Lau Hon Chuen Ambrose ¹
Mr Poon Jing
Mr Cheung Doi Shu ¹

¹ *Independent non-executive directors*

Messrs Chen Guangsong, Chen Jiahong, Liang Ningguang, Du Xinrang and Lau Hon Chuen Ambrose retire by rotation in accordance with Bye-law 99 of the Company's Bye-laws and, being eligible, offer themselves for re-election.

The Directors' Profiles are set out on pages 17 to 19.

Management contracts

Details of contracts of significance for the provision of services by the Company's holding company and a related party to the Group are set out in note 26 to the accounts.

Save as disclosed herein, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Directors' service contracts

Each of Messrs Li Xinmin, Du Xinrang, Chen Guangsong, Du Liangying, Ou Bingchang and Liang Yi had entered into a service agreement with the Company which is for an initial fixed term of one year commencing on 19th June 2001, 12th September 2001, 26th October 2001, 26th October 2001, 8th January 2003 and 28th February 2003 respectively unless terminated sooner by the Company giving to the relevant Director three months' prior written notice and thereafter, extendable for a further term of two years unless terminated sooner by the Company giving to the relevant Director three months' prior written notice or by the relevant Director giving to the Company six months' prior written notice.

Save as disclosed herein, none of the directors of the Company has a service contract with the Company which is not determinable by the employer within one year without payment of compensation, other than statutory compensation.

Independent non-executive Directors' fees

The independent non-executive directors of the Company received HK\$114,000 as directors' fee for the year ended 31st December 2003.

Pension scheme arrangements

The Group operates a pension scheme for Hong Kong employees. The scheme is a defined contribution scheme and is administered by independent trustees. In relation to each employee, the employee contributes 5 per cent and the Group contributes 5 per cent to 8 per cent respectively of employee's basic salary to the scheme. There were no forfeited contributions in respect of employees who left the scheme prior to vesting fully in the contributions during the year.

Subsidiaries of the Company in China are required to participate in a government-sponsored pension scheme for the benefits of their staff members and contribute annually to the scheme an amount not more than 20 per cent of the total basic salary of their staff members, except for a substantial number of staff members of five subsidiaries in China, who are employed by Guangzhou Highways Development Company ("GHDC"), the local partner, pursuant to fixed cost services agreements (the "Services Agreements") executed between these subsidiaries and GHDC. Pursuant to the Services Agreements, details of which are disclosed in note 26(b) to the accounts, GHDC assumes full responsibility for the salaries and all statutory benefits, insurance and welfare funds required to be paid pursuant to relevant laws and regulations of China to the staff members and workers employed by GHDC to perform their duties required under the Services Agreements.

The Group's contribution is charged to its profit and loss account and expenses incurred by the Group for the year amounted to HK\$534,000.

Directors' interest in contracts

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its holding companies or its fellow subsidiaries was a party and in which any director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Connected transactions

Significant related party transactions, which also constitute as connected transactions under the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), required to be disclosed in accordance with Chapter 14 of the Listing Rules, are disclosed in notes 25, 26(a) and 26(b) to the accounts. In respect of transactions disclosed in note 26(b), Messrs Fung Ka Pun, Lau Hon Chuen Ambrose and Cheung Doi Shu, the independent non-executive directors of the Company, have confirmed that the transactions had been performed in accordance with the terms of the agreements covering such transactions.

Bank loans and other borrowings

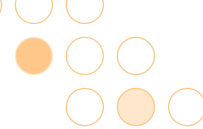
Analysis of bank loans and other borrowings of the Group as at 31st December 2003 is set out in note 22 to the accounts.

Interests of Directors

As at 31st December 2003, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), which are required to be recorded in the register maintained by the Company under Section 352 of the SFO or notified to the Company were as follows :

I. Long positions in shares of the Company and Guangzhou Investment Company Limited (“GZI”), the holding company of the Company :

Name of Director	Nature of interest	Beneficial interest in shares	Approximate % of interest
The Company			
Mr Yin Hui*	Personal	2,700,000	0.24
Mr Chen Jiahong	Personal	210,000	0.02
Mr Du Liangying	Personal	78,000	0.01
Mr Du Xinrang	Personal	488,000	0.04
Mr He Zili	Personal	3,000,000	0.27
Mr Zhang Siyuan	Personal	580,000	0.05
GZI			
Mr Liang Ningguang	Personal	400,000	0.01
Mr Xiao Boyan	Personal	500,000	0.01
Mr Zhang Siyuan	Personal	490,000	0.01



II. Long positions in underlying shares of equity derivatives of the Company and GZI :

(1) The Company

Name of Director	Date of grant	Exercise price per share HK\$	Number of share options (a)				weighted average closing price (c) HK\$	outstanding as at 31st December 2003
			outstanding as at 1st January 2003	lapsed during the year (b)	exercised during the year	exercised during the year		
Mr Yin Hui*	06/08/1997	2.4080	600,000	600,000	—	—	N/A	—
	22/12/1999	0.9984	3,220,000	—	3,220,000	—	1.470	—
Mr Xie Shuwen**	07/04/2000	0.7520	560,000	—	560,000	—	1.230	—
	06/08/1997	2.4080	500,000	500,000	—	—	N/A	—
Mr Chen Jiahong	22/12/1999	0.9984	1,740,000	—	1,740,000	—	1.351	—
	06/08/1997	2.4080	500,000	500,000	—	—	N/A	—
Mr Liang Ningguang	22/12/1999	0.9984	8,130,000	—	8,130,000	—	1.282	—
	06/08/1997	2.4080	500,000	500,000	—	—	N/A	—
Mr Xiao Boyan	06/08/1997	2.4080	500,000	500,000	—	—	N/A	—
Mr Du Liangying	22/12/1999	0.9984	1,040,000	—	1,040,000	—	1.381	—
Mr Du Xinrang	06/08/1997	2.4080	980,000	980,000	—	—	N/A	—
	04/09/1998	0.7632	698,000	—	698,000	—	1.659	—
Mr He Zili	06/08/1997	2.4080	2,000,000	2,000,000	—	—	N/A	—
	04/09/1998	0.7632	3,000,000	—	3,000,000	—	2.250	—
	07/04/2000	0.7520	330,000	—	330,000	—	1.140	—
Mr Zhang Siyuan	06/08/1997	2.4080	980,000	980,000	—	—	N/A	—
	04/09/1998	0.7632	980,000	—	980,000	—	1.690	—
Mr Fung Ka Pun	06/08/1997	2.4080	400,000	400,000	—	—	N/A	—
Mr Lau Hon Chuen Ambrose	06/08/1997	2.4080	400,000	400,000	—	—	N/A	—
	06/08/1997	2.4080	400,000	400,000	—	—	N/A	—

Notes:

- (a) The share options are exercisable from the first anniversary of the date of grant to the business day preceding the sixth anniversary of the date of grant, of which a maximum of 30 per cent, 60 per cent and 100 per cent thereof are exercisable from the first, second and third anniversaries of the date of grant respectively.
- (b) The share options were lapsed on 5th August 2003.
- (c) The weighted average closing price per share immediately before the dates on which the options were exercised.

(2) GZI

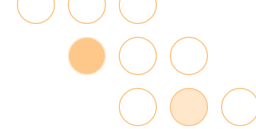
Name of Director	Date of grant	Exercise price per share HK\$	Number of share options				
			outstanding as at 1st January 2003	granted during the year (b)	exercised during the year	weighted average closing price (d) HK\$	outstanding as at 31st December 2003
Mr Ou Bingchang	02/06/2003	0.5400	—	9,000,000	—	N/A	9,000,000
Mr Xie Shuwen**	14/12/1999 (a)	0.5008	700,000	—	700,000	0.790	—
	02/06/2003	0.5400	—	8,000,000	—	N/A	8,000,000
Mr Chen Guangsong	02/06/2003	0.5400	—	8,000,000	—	N/A	8,000,000
Mr Liang Ningguang	14/12/1999 (a)	0.5008	840,000	—	840,000(c)	0.690	—
	02/06/2003	0.5400	—	7,000,000	—	N/A	7,000,000
Mr Xiao Boyan	14/12/1999 (a)	0.5008	700,000	—	700,000	0.690	—
	02/06/2003	0.5400	—	7,000,000	—	N/A	7,000,000
Mr Liang Yi	02/06/2003	0.5400	—	7,000,000	—	N/A	7,000,000
Mr He Zili	14/12/1999 (a)	0.5008	560,000	—	560,000	0.620	—
Mr Zhang Siyuan	14/12/1999 (a)	0.5008	490,000	—	490,000	0.790	—

Notes:

- (a) The share options are exercisable from 14th December 2000, the first anniversary of the date of grant, to the business day preceding the sixth anniversary of the date of grant, of which a maximum of 30 per cent and 100 per cent thereof are exercisable from the first and second anniversaries of the date of grant respectively.
- (b) The share options are exercisable from 2nd June 2003 to 1st June 2013, of which a maximum of up to (i) 30 per cent; and (ii) 60 per cent thereof are exercisable during the period (i) up to the first anniversary; and (ii) up to the second anniversary of the date of grant respectively.
- (c) These interests include options to subscribe for 140,000 shares in GZI exercised by his spouse during the year.
- (d) The weighted average closing price per share immediately before the dates on which the options were exercised.
- * Mr Yin Hui resigned as director of the Company with effect from 18th March 2004
- ** Mr Xie Shuwen resigned as director of the Company with effect from 23rd October 2003

Save as disclosed herein, as at 31st December 2003, none of the directors of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which are required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO or notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Save as disclosed herein, at no time during the year was the Company, its holding company, its subsidiaries, or its fellow subsidiaries a party to any arrangement to enable the directors of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.



Interests of substantial shareholders

As at 31st December 2003, the following persons have an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO :

Name	Note	Long position in shares	Approximate % of interest
Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu")	(a)	811,862,076	72.86
GZI	(a)	750,134,000	67.32
First Dynamic Limited	(a)	750,000,000	67.31
Round Table Holdings Limited	(a)	750,000,000	67.31
GZI Transport (Holdings) Limited	(a)	750,000,000	67.31
Housemaster Holdings Limited	(a)	367,500,000	32.98
Power Head Limited	(a)	157,500,000	14.14
Delta Force Holdings Limited	(a)	112,500,000	10.10
Lawson Enterprises Limited	(a)	112,500,000	10.10
J.P. Morgan Chase & Co.	(b)	76,182,000	6.84

Notes:

- (a) The capacity of Yue Xiu in holding the 811,862,076 shares was, as to 5,769 shares, as beneficial owner and, as to 811,856,307 shares, attributable to interests of controlled corporations.

Housemaster Holdings Limited, Power Head Limited, Delta Force Holdings Limited and Lawson Enterprises Limited were the beneficial owners of 367,500,000, 157,500,000, 112,500,000 and 112,500,000 shares of the Company respectively. These companies were wholly-owned by GZI Transport (Holdings) Limited which, by virtue of the SFO, was deemed to be interested in the 750,000,000 shares held by these subsidiaries.

GZI Transport (Holdings) Limited was owned as to 51 per cent by Round Table Holdings Limited and 49 per cent by First Dynamic Limited. First Dynamic Limited was wholly-owned by Yue Xiu which also through certain subsidiaries owned about 60 per cent of the issued share capital of GZI as at 31st December 2003. Round Table Holdings Limited was wholly-owned by GZI which also directly held 134,000 shares of the Company. By virtue of the SFO, GZI, Round Table Holdings Limited and First Dynamic Limited were deemed to be interested in the 750,000,000 shares.

- (b) The capacity of J.P. Morgan Chase & Co. in holding the 76,182,000 shares was, as to 44,862,000 shares, as investment manager and, as to 31,320,000 shares, as approved lending agent.
- (c) The number of the issued shares of the Company as at 31st December 2003 was 1,114,233,530.

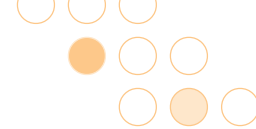
Share options

Pursuant to a share option scheme (the “Share Option Scheme”) approved by shareholders of the Company on 3rd January 1997, the board of directors of the Company (the “Board”) may, at their discretion, grant to directors and employees of the Company or any of its subsidiaries options to subscribe for ordinary shares in the Company. The Share Option Scheme is designed to act as an incentive to employees and executives of the Group. The exercise price is determined by the Board and being equal to the higher of (a) the nominal value of the share; and (b) not less than 80 per cent of the average closing prices of the shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of offer of an option. The cash consideration to be paid for each grant of option is HK\$10, with full payment of the exercise price to be made upon exercise of an option.

On 25th June 2002, the shareholders of the Company approved the resolutions relating to the termination of the Share Option Scheme and the adoption of a new share option scheme (the “2002 Share Option Scheme”). Upon termination of the Share Option Scheme, no further share options will be granted thereunder but all the outstanding share options granted prior to such termination continue to be valid and exercisable in accordance therewith, and only those provisions of the Share Option Scheme which are required to give effect to the outstanding share options continue to remain in force for such purpose. The 2002 Share Option Scheme complies with the amendments to Chapter 17 of the Listing Rules.

Pursuant to the 2002 Share Option Scheme, the Board may grant to any person being an employee, officer, director, agent, consultant or representative of GZI, Yue Xiu, the Company or any of their respective subsidiaries (“Participants”) options to subscribe for shares in the Company. The purpose of the 2002 Share Option Scheme is to provide incentives to Participants to contribute to the Group and to enable the Group to recruit, retain and motivate high-calibre employees and attract human resources that are valuable to the Group. The maximum number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme is 10 per cent of the number of shares in issue as at 25th June 2002. The maximum entitlement of each Participant upon exercise of the options granted or to be granted within any 12-month period immediately preceding the proposed date of grant is limited to 1 per cent of the number of shares in issue as at the proposed date of grant. Any further grant of options in excess of this limit is subject to shareholders’ approval in general meeting. The share options are exercisable from the commencement date of the option period (which shall be a period to be notified by the Board at the time of the grant of an option, such period to commence on the date of grant or such later date as the Board may decide and expire on the last day of the period, which in any event shall not exceed 10 years from the date of grant), of which a maximum of up to (i) 30 per cent; and (ii) 60 per cent (inclusive of any options exercised under (i)), of the options granted under the relevant grant are exercisable during the period (i) up to the first anniversary; and (ii) up to the second anniversary of the commencement date of the option period respectively. After the second anniversary of the commencement date of the option period the restrictions will cease. In respect of a Participant who is an employee of GZI, Yue Xiu, the Company or any of their respective subsidiaries, the same limits on the exercise of the share options as described above shall also apply, except that the periods referred to in (i) and (ii) above shall commence from the later of: (a) the date of completion by such Participant of one year of continuous employment as permanent member of the staff of GZI, Yue Xiu, the Company or any of their respective subsidiaries, as the case may be; and (b) the commencement date of the option period, and the date when the restrictions cease shall be modified accordingly. The exercise price is determined by the Board and must be at least the highest of (a) the closing price of the shares as stated in the Stock Exchange’s daily quotation sheets on the date of grant; (b) the average closing price of the shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares. The cash consideration to be paid for each grant of option is HK\$10, with full payment of the exercise price to be made upon exercise of an option. No such options have been granted to any person since its adoption as required to be disclosed under the Listing Rules.

The Directors consider it is inappropriate to value the share options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the share options based on various speculative assumptions would be meaningless and could be misleading to the shareholders.



Movements during the year of the options granted under the Share Option Scheme to the employees of the Group other than the directors of the Company as disclosed on page 25 were as follows :

Number of share options				Exercise price per share HK\$	Date of grant	Exercisable period ^(c)	Weighted average closing price ^(d) HK\$
outstanding as at 1st January 2003	lapsed during the year	exercised during the year	outstanding as at 31st December 2003				
16,240,000	16,240,000	—	—	2.4080	06/08/1997	06/08/1998 - 05/08/2003	N/A
18,740,000	—	18,740,000	—	0.7632	04/09/1998	04/09/1999 - 03/09/2004	1.953
16,566,000	—	16,566,000	—	0.9984	22/12/1999	22/12/2000 - 21/12/2005	1.343
10,974,000	—	9,444,000	1,530,000	0.7520	07/04/2000	07/04/2001 - 06/04/2006	1.633

Notes:

- (a) No options have been granted or cancelled during the year.
- (b) All options are exercisable in 3 tranches.
- (c) If the last day of the exercisable period is not a business day, the exercisable period will expire on the business day preceding thereof.
- (d) The weighted average closing price per share immediately before the dates on which the options were exercised.

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 laws of Bermuda.

Major customers and suppliers

No disclosure with regard to the Group's major customers and suppliers are made since the aggregate percentages of sales and purchases attributable to the Group's five largest customers and suppliers are less than 30 per cent of the Group's total sales and purchases during the current and previous years.

Compliance with the Code of Best Practice of the Listing Rules

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in appendix 14 of the Listing Rules throughout the year ended 31st December 2003, except that the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation at the annual general meeting of the Company in accordance with the Company's Bye-laws. In the opinion of the Directors, this meets the same objective of the Code of Best Practice.

Audit committee

Pursuant to the Listing Rules, an audit committee (the “Audit Committee”), comprising two independent non-executive directors, namely Mr Lau Hon Chuen Ambrose and Mr Cheung Doi Shu, was established.

By reference to “A Guide for The Formation of An Audit Committee” published by the Hong Kong Society of Accountants, written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted by the Board. The principal activities of the Audit Committee include the review and supervision of the Group’s financial reporting process and internal controls.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Ou Bingchang

Chairman

Hong Kong, 14th April 2004