

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 2003.

Principal Activities

The principal activities of the Company are investment holding and operations on core businesses, including water distribution, electric power generation, toll roads and bridges, property investment and development, hotel operations and management and retail, with particular emphasis on the first three businesses. 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 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 2003 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 58 to 181.

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 2003 (2002: Nil).

Report of the Directors

Summary of Financial Information

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

Results

	2003 HK\$'000	Year ended 31 December			
		2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
		(Restated)	(Note)	(Note)	(Note)
TURNOVER					
Continuing operations	4,825,784	4,659,956	4,956,992	2,576,377	3,057,940
Discontinued operations	338,159	2,077,069	2,314,526	2,371,607	2,301,502
	5,163,943	6,737,025	7,271,518	4,947,984	5,359,442
PROFIT/(LOSS) FROM OPERATING ACTIVITIES AFTER FINANCE COSTS	1,555,490	356,614	592,694	(1,168,591)	(2,463,046)
Share of profit of a jointly-controlled entity	63,359	62,320	39,320	15,397	10,603
Share of profits less losses of associates	53,713	111,208	28,332	8,298	51,318
	1,672,562	530,142	660,346	(1,144,896)	(2,401,125)
PROFIT/(LOSS) BEFORE TAX					
Continuing operations	1,650,584	452,862	652,975	(662,255)	(2,269,201)
Discontinued operations	21,978	77,280	7,371	(482,641)	(131,924)
	1,672,562	530,142	660,346	(1,144,896)	(2,401,125)
TAX					
Continuing operations	(221,793)	(217,359)	(119,108)	(107,630)	(45,859)
Discontinued operations	(1,794)	(20,559)	(11,542)	(19,448)	(5,706)
	(223,587)	(237,918)	(130,650)	(127,078)	(51,565)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	1,448,975	292,224	529,696	(1,271,974)	(2,452,690)
Minority interests	(342,254)	(97,320)	(244,154)	(84,328)	75,337
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	1,106,721	194,904	285,542	(1,356,302)	(2,377,353)

Report of the Directors

Summary of Financial Information (continued)

Assets, liabilities and minority interests

	2003 HK\$'000	As at 31 December			
		2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
		(Restated)	(Note)	(Note)	(Note)
FIXED ASSETS	12,737,077	9,860,868	10,364,378	10,826,482	6,725,972
PROPERTIES UNDER DEVELOPMENT	37,141	69,600	173,147	406,956	537,568
INVESTMENT PROPERTIES	2,106,139	2,289,280	2,332,118	2,894,255	3,234,067
GOODWILL AND NEGATIVE GOODWILL, NET	(120,767)	(130,411)	(104,209)	—	—
INTEREST IN A JOINTLY-CONTROLLED ENTITY	961,297	968,130	972,344	929,662	872,157
INTERESTS IN ASSOCIATES	371,404	423,617	641,163	604,003	592,155
CONTRACTUAL JOINT VENTURES	—	77,340	245,598	245,725	324,878
INTANGIBLE ASSETS	13,134,949	13,628,236	14,123,023	14,622,619	35,000
OTHER ASSETS	2,311,506	5,008,572	4,630,970	5,387,077	4,579,090
DEFERRED TAX ASSETS	3,617	37,896	—	—	—
TOTAL ASSETS	31,542,363	32,233,128	33,378,532	35,916,779	16,900,887
BONDS	(994,640)	(417,085)	(650,179)	(1,313,906)	(1,244,404)
FLOATING RATE NOTES	—	(245,282)	(382,349)	(826,726)	(823,811)
OTHER LOANS AND LIABILITIES	(18,764,207)	(19,625,306)	(20,556,930)	(22,325,476)	(8,383,068)
DEFERRED TAX	(881,907)	(819,016)	(2,285)	(2,285)	(2,739)
TOTAL LIABILITIES	(20,640,754)	(21,106,689)	(21,591,743)	(24,468,393)	(10,454,022)
MINORITY INTERESTS	(1,969,304)	(2,306,455)	(2,669,292)	(2,931,253)	(1,923,991)
NET ASSETS	8,932,305	8,819,984	9,117,497	8,517,133	4,522,874

Report of the Directors

Summary of Financial Information (continued)

Note: Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 12 (Revised) "Income taxes" ("SSAP 12 (Revised)") was first effective for accounting periods beginning on or after 1 January 2003. In order to comply with this revised statement, the Group adopted a new accounting policy for deferred tax in accordance with the requirement of SSAP 12 (Revised) in 2003. The amounts for the year 2002 have been adjusted accordingly. However, the directors opined that for years before 2002, as a result of the changes in the Group structure in those years and the inability to access the books and records of certain of the disposed companies, it is not practicable for the Group to restate the amounts in those years for comparison purposes.

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 notes 45 and 46 to the financial statements.

The Company has an obligation to issue a total of 330,000,000 Ordinary Shares to GDH Limited ("GDH") in accordance with an earnout agreement dated 22 December 2000 between the Company and GDH (the "Earnout Agreement"). 198,000,000 Ordinary Shares were allotted and credited as fully paid on 27 February 2004 to GDH pursuant to the Earnout Agreement. Further details of the Earnout Agreement and issuance of Ordinary Shares pursuant thereto are set out in notes 13, 47 and 55 to the financial statements, respectively.

Share Premium Accounts and Reserves

Details of movements in the share premium accounts and reserves of the Company and the Group during the year are set out in notes 45 and 47 to the financial statements.

Distributable Reserves

As at 31 December 2003, the Company's reserves available for distribution as calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance and in light of the undertakings more particularly referred to in note 47(b) to the financial statements amounted to HK\$7,712,000.

Charitable Contributions

The Group made no charitable contributions during the year (2002: HK\$483,963).

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Share Options of the Company

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 2003:

Date of Grant	:	07/05/2003
Vesting Period	:	07/05/2003 – 07/08/2003
Exercise Period	:	08/08/2003 – 07/08/2008
Exercise Price	:	HK\$1.22 per share

	Number of Options At 07/05/03	Options Value At 07/05/03 HK\$	Number of Options At 31/12/03	Options Value At 31/12/03 HK\$
		(Note (2))		(Note (3))
Grantee:				
WU Jiesi	3,000,000	1,440,000	3,000,000	2,190,000
LI Wenyue	3,000,000	1,440,000	3,000,000	2,190,000
ZHANG Hui	3,000,000	1,440,000	3,000,000	2,190,000
CHAN Cho Chak, John	1,000,000	480,000	1,000,000	730,000
LI Kwok Po, David	1,000,000	480,000	1,000,000	730,000
CHENG Mo Chi, Moses	1,000,000	480,000	1,000,000	730,000
FUNG, Daniel R.	1,000,000	480,000	1,000,000	730,000
YE Xuquan	3,000,000	1,440,000	3,000,000	2,190,000
LI Wai Keung	1,500,000	720,000	1,500,000	1,095,000
ZHANG Yaping	1,000,000	480,000	1,000,000	730,000
ZHAI Zhiming	1,000,000	480,000	1,000,000	730,000
WANG Man Kwan, Paul	1,500,000	720,000	1,500,000	1,095,000
GU Shunan	1,000,000	480,000	1,000,000	730,000
WANG Xiaofeng	1,000,000	480,000	1,000,000	730,000
YU Lai	1,000,000	480,000	1,000,000	730,000
Aggregate total of employees	31,900,000	15,312,000	29,200,000	21,316,000
Total	55,900,000	26,832,000	53,200,000	38,836,000

Notes:

- (1) The closing price of the Ordinary Shares of the Company immediately before the date on which the options were granted was HK\$1.22.

Report of the Directors

Share Options of the Company (continued)

- (2) According to the Black-Scholes model¹, the total value of the options was estimated at HK\$26,832,000 as at 7 May 2003 (when the options were granted) with the following variables and assumptions:

Risk Free Rate	:	2.95%, being the approximate yield of the 5-year Exchange Fund Note traded on 07/05/2003
Expected Volatility	:	38.6%, being the annualised volatility of the closing price of the Ordinary Shares of the Company from 07/05/2002 to 07/05/2003
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 Ordinary Shares of the Company over the period from 07/05/2002 to 07/05/2003.

- (3) According to the Black-Scholes model¹, the total value of the options was estimated at HK\$38,836,000 as at 31 December 2003 with the following variables and assumptions:

Risk Free Rate	:	3.16%, being the approximate yield of the 5-year Exchange Fund Note traded on 31/12/2003
Expected Volatility	:	40.7%, being the annualised volatility of the closing price of the Ordinary Shares of the Company from 01/01/2003 to 31/12/2003
Expected Dividend Yield	:	Nil
Expected Life of the Options	:	4.6 years
Assumptions	:	There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the Ordinary Shares of the Company over the period from 01/01/2003 to 31/12/2003.

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

¹ 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 and Short Positions in Securities" of this report.

Report of the Directors

Arrangement to Acquire Shares or Debentures

Save as disclosed in the sections headed “Share Options of the Company” and “Directors’ Interests and Short Positions in Securities” of this report, and in note 46 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)	
*CHAN Cho Chak, John	
*LI Kwok Po, David	
*CHENG Mo Chi, Moses	
*FUNG, Daniel Richard	
LI Wai Keung	
ZHAI Zhiming	
WANG Man Kwan, Paul	
GU Shunan	
WANG Xiaofeng	
YE Xuquan	(resigned on 27 February 2004)
ZHANG Yaping	(resigned on 27 February 2004)
YU Lai	(appointed on 25 February 2003 and resigned on 27 February 2004)

* Independent Non-Executive Director

Messrs. LI Wenyue, CHAN Cho Chak, John, LI Kwok Po, David and LI Wai Keung will retire in accordance with Article 77 of the Articles of Association of the Company. Messrs. LI Wenyue, CHAN Cho Chak, John, LI Kwok Po, David and LI Wai Keung will offer themselves for re-election at the forthcoming annual general meeting.

Messrs. CHAN Cho Chak, John and LI Kwok Po, David, Independent Non-Executive Directors, and Mr. LI Wai Keung, 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 2007 and (ii) 30 June 2007 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 27 to 33 of this annual report.

Report of the Directors

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 2003.

Directors' Interests in Competing Business

As at 31 December 2003, Messrs. WU Jiesi, LI Wenyue and YE Xuquan, Directors of the Company, were also directors of Yue Gang Investment and GDH. Messrs. LI Wai Keung, ZHANG Yaping and ZHAI Zhiming, Directors of the Company, were also directors of GDH. GDH 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, 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

Directors' Interests and Short Positions in Securities

As at 31 December 2003, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which a Director is taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Interests and short positions in the Company

(i) *Interest in Ordinary Shares*

Name of Directors	Capacity/ nature of interest	Number of Ordinary Shares held	Long/short position	Approximate percentage of holding
CHAN Cho Chak, John	Personal	2,000,000	Long position	0.03814%
WANG Man Kwan, Paul	Personal	500,000	Long position	0.0095%
GU Shunan	Personal	76,000	Long position	0.0014%
WANG Xiaofeng	Personal	100,000	Long position	0.0019%

Note: The number of Ordinary Shares of the Company in issue as at 31 December 2003 was 5,244,522,672.

Report of the Directors

Directors' Interests and Short Positions in Securities (continued)

Interests and short positions in the Company (continued)

(ii) Interests in options relating to Ordinary Shares

Name of Directors	Number of options held as at 1 January 2003	Options granted during the year		Period during which share options is exercisable	Total consideration paid for share options	Price per Ordinary Share payable on exercise of options	Number of options exercised during the year	Number of options held as at 31 December 2003
		Date	Number					
		(dd.mm.yyyy)		(dd.mm.yyyy)	HK\$	HK\$		
WU Jiesi	12,000,000	—	—	02.05.2002 – 01.05.2007	—	0.74	5,000,000	7,000,000
	9,000,000	—	—	08.11.2002 – 07.11.2007	—	0.814	—	9,000,000
	6,000,000	—	—	05.03.2003 – 04.03.2008	1	0.96	—	6,000,000
	—	07.05.2003	3,000,000	08.08.2003 – 07.08.2008	1	1.22	—	3,000,000
LI Wenyue	12,000,000	—	—	11.02.2002 – 10.02.2007	—	0.5312	5,000,000	7,000,000
	9,000,000	—	—	08.11.2002 – 07.11.2007	—	0.814	—	9,000,000
	6,000,000	—	—	05.03.2003 – 04.03.2008	1	0.96	—	6,000,000
	—	07.05.2003	3,000,000	08.08.2003 – 07.08.2008	1	1.22	—	3,000,000
ZHANG Hui	5,000,000	—	—	05.03.2003 – 04.03.2008	1	0.96	—	5,000,000
	—	07.05.2003	3,000,000	08.08.2003 – 07.08.2008	1	1.22	—	3,000,000
CHAN Cho Chak, John	1,000,000	—	—	02.05.2002 – 01.05.2007	—	0.74	1,000,000	—
	1,000,000	—	—	08.11.2002 – 07.11.2007	—	0.814	1,000,000	—
	1,000,000	—	—	05.03.2003 – 04.03.2008	1	0.96	—	1,000,000
	—	07.05.2003	1,000,000	08.08.2003 – 07.08.2008	1	1.22	—	1,000,000

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Directors' Interests and Short Positions in Securities (continued)

Interests and short positions in the Company (continued)

(ii) Interests in options relating to Ordinary Shares (continued)

Name of Directors	Number of options held as at 1 January 2003	Options granted during the year Date (dd.mm.yyyy)	Number	Period during which share options is exercisable (dd.mm.yyyy)	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 2003
LI Kwok Po, David	1,000,000	—	—	02.05.2002 – 01.05.2007	—	0.74	—	1,000,000
	1,000,000	—	—	08.11.2002 – 07.11.2007	—	0.814	—	1,000,000
	1,000,000	—	—	05.03.2003 – 04.03.2008	1	0.96	—	1,000,000
	—	07.05.2003	1,000,000	08.08.2003 – 07.08.2008	1	1.22	—	1,000,000
CHENG Mo Chi, Moses	1,000,000	—	—	02.05.2002 – 01.05.2007	—	0.74	—	1,000,000
	1,000,000	—	—	08.11.2002 – 07.11.2007	—	0.814	—	1,000,000
	1,000,000	—	—	05.03.2003 – 04.03.2008	1	0.96	—	1,000,000
	—	07.05.2003	1,000,000	08.08.2003 – 07.08.2008	1	1.22	—	1,000,000
FUNG, Daniel R.	1,000,000	—	—	02.05.2002 – 01.05.2007	—	0.74	—	1,000,000
	1,000,000	—	—	08.11.2002 – 07.11.2007	—	0.814	—	1,000,000
	1,000,000	—	—	05.03.2003 – 04.03.2008	1	0.96	—	1,000,000
	—	07.05.2003	1,000,000	08.08.2003 – 07.08.2008	1	1.22	—	1,000,000
YE Xuquan	12,000,000	—	—	11.02.2002 – 10.02.2007	—	0.5312	5,000,000	7,000,000
	9,000,000	—	—	08.11.2002 – 07.11.2007	—	0.814	—	9,000,000
	6,000,000	—	—	05.03.2003 – 04.03.2008	1	0.96	—	6,000,000
	—	07.05.2003	3,000,000	08.08.2003 – 07.08.2008	1	1.22	—	3,000,000

Report of the Directors

Directors' Interests and Short Positions in Securities (continued)

Interests and short positions in the Company (continued)

(ii) Interests in options relating to Ordinary Shares (continued)

Name of Directors	Number of options held as at 1 January 2003	Options granted during the year Date (dd.mm.yyyy)	Number	Period during which share options is exercisable (dd.mm.yyyy)	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 2003
LI Wai Keung	1,500,000	—	—	02.05.2002 – 01.05.2007	—	0.74	800,000	700,000
	1,500,000	—	—	08.11.2002 – 07.11.2007	—	0.814	—	1,500,000
	1,500,000	—	—	05.03.2003 – 04.03.2008	1	0.96	—	1,500,000
	—	07.05.2003	1,500,000	08.08.2003 – 07.08.2008	1	1.22	—	1,500,000
ZHANG Yaping	12,000,000	—	—	11.02.2002 – 10.02.2007	—	0.5312	—	12,000,000
	9,000,000	—	—	08.11.2002 – 07.11.2007	—	0.814	—	9,000,000
	6,000,000	—	—	05.03.2003 – 04.03.2008	1	0.96	—	6,000,000
	—	07.05.2003	1,000,000	08.08.2003 – 07.08.2008	1	1.22	—	1,000,000
ZHAI Zhiming	1,000,000	—	—	08.11.2002 – 07.11.2007	—	0.814	—	1,000,000
	1,000,000	—	—	05.03.2003 – 04.03.2008	1	0.96	—	1,000,000
	—	07.05.2003	1,000,000	08.08.2003 – 07.08.2008	1	1.22	—	1,000,000

Report of the Directors

Directors' Interests and Short Positions in Securities (continued)

Interests and short positions in the Company (continued)

(ii) Interests in options relating to Ordinary Shares (continued)

Name of Directors	Number of options held as at 1 January 2003	Options granted during the year Date (dd.mm.yyyy)	Number	Period during which share options is exercisable (dd.mm.yyyy)	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 2003
WANG Man Kwan, Paul	1,000,000	—	—	11.02.2002 – 10.02.2007	—	0.5312	1,000,000	—
	1,500,000	—	—	08.11.2002 – 07.11.2007	—	0.814	500,000	1,000,000
	1,500,000	—	—	05.03.2003 – 04.03.2008	1	0.96	—	1,500,000
	—	07.05.2003	1,500,000	08.08.2003 – 07.08.2008	1	1.22	—	1,500,000
GU Shunan	1,000,000	—	—	02.05.2002 – 01.05.2007	—	0.74	—	1,000,000
	1,000,000	—	—	08.11.2002 – 07.11.2007	—	0.814	—	1,000,000
	1,000,000	—	—	05.03.2003 – 04.03.2008	1	0.96	—	1,000,000
	—	07.05.2003	1,000,000	08.08.2003 – 07.08.2008	1	1.22	—	1,000,000
WANG Xiaofeng	1,000,000	—	—	08.11.2002 – 07.11.2007	—	0.814	—	1,000,000
	1,000,000	—	—	05.03.2003 – 04.03.2008	1	0.96	—	1,000,000
	—	07.05.2003	1,000,000	08.08.2003 – 07.08.2008	1	1.22	—	1,000,000
YU Lai	—	07.05.2003	1,000,000	08.08.2003 – 07.08.2008	1	1.22	—	1,000,000

Note: If the last day of any of the option periods is not a business day in Hong Kong, the option period shall end at the close of business on the business day preceding that day.

Report of the Directors

Directors' Interests and Short Positions in Securities (continued)

Interests and short positions in Guangdong Brewery Holdings Limited

(i) *Interest in options relating to shares*

Name of Directors	Number of options held as at 1 January 2003	Options granted during the year Date (dd.mm.yyyy)	Number	Period during which share options is exercisable (dd.mm.yyyy)	Total consideration paid for share options HK\$	Price per share payable on exercise of options HK\$	Number of options exercised during the year	Number of options held as at 31 December 2003
CHENG Mo Chi, Moses	—	26.05.2003	300,000	27.08.2003 – 26.08.2008	1	0.84	—	300,000
YE Xuquan	—	26.05.2003	2,000,000	27.08.2003 – 26.08.2008	1	0.84	—	2,000,000

Note: If the last day of any of the option period is not a business day in Hong Kong, the option period shall end at the close of business on the business day preceding that day.

Interests and short positions in Guangnan (Holdings) Limited

(i) *Interest in shares*

Name of Directors	Capacity/nature of interest	Number of shares held	Long/short position	Approximate percentage of holding
LI Kwok Po, David	Personal	150,000	Long position	0.001%

Note: The number of the shares of Guangnan (Holdings) Limited in issue as at 31 December 2003 was 9,015,832,859.

Save as disclosed above, as at 31 December 2003, none of the Directors or chief executive of the Company had registered any interests or short position in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which are required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which a Director is taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Save as disclosed above, 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.

Report of the Directors

Substantial Shareholders' Interests

As at 31 December 2003, so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) have an interest or short position in the Ordinary Shares or underlying Ordinary Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholders	Capacity/nature of interest	Number of Ordinary Shares held	Long/short position	Approximate Percentage of issued Ordinary Share Capital
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) (Note 1)	Beneficial owner/ Interest of controlled corporation	3,611,456,781	Long position	68.86%
GDH Limited (Note 2)	Beneficial owner/ Interest of controlled corporation	3,611,456,781	Long position	68.86%
Guangdong Trust Ltd.	Beneficial owner/ Interest of controlled corporation	576,404,918	Long position	10.99%

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 interest in GDH. Of the 68.86% interest in Ordinary Shares referred to in the fifth column, 11.42% is derived from derivative interests. The remaining 57.44% is derived from interests in issued Ordinary Shares.
2. The interest of GDH set out above includes attributable interest held through its wholly-owned subsidiary, Guangdong Trust Ltd. Of the 68.86% interest in Ordinary Shares referred to in the fifth column, 11.42% is derived from derivative interests. The remaining 57.44% is derived from interests in issued Ordinary Shares.

Save as disclosed above, no other person (other than a Director or chief executive of the Company) known to any Director or chief executive of the Company as at 31 December 2003 had an interest or short position in the Ordinary Shares or underlying Ordinary Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Report of the Directors

Significant Contracts with Controlling Shareholder

The Company and a controlling shareholder of the Company entered into the following contracts of significance during the year:

1. On 26 February 2003, the Company entered into a conditional agreement with GDH at a total consideration of HK\$1,451,226,000 for the disposal of various assets, including the Company's entire interests in Guangdong Brewery Holdings Limited, Guangdong Tannery Limited, Supertime Development Limited, Guangdong (H.K.) Tours Company Limited, 廣州市番禺粵海房地產有限公司 (Guangzhou Panyu Yue Hai Real Estate Limited) and the inter-company debts owed to the Group by certain of above companies and their respective subsidiaries. The agreement was approved by the independent shareholders of the Company and completed on 31 March 2003. Further details of the transaction are set out in note 6 to the financial statements.
2. On 11 April 2003, the Company entered into a loan agreement with GDH in respect of an unsecured loan made by GDH in an amount of HK\$170,000,000, which bore interest at 1% above HIBOR per annum and was repayable within three months from the date of drawdown of the loan. The loan was fully repaid by the Company on 12 December 2003. Further details of the transaction are set out in note 53 to the financial statements.
3. On 21 August 2003, the Company entered into a letter agreement with GDH in connection with the proposed cancellation of 85,949 $3\frac{1}{4}$ per cent., per annum redeemable cumulative convertible preference shares (the "Preference Shares") and their replacement with HK\$497,320,000 5.1 per cent. five-year bonds (the "Straight Bonds"), and HK\$497,320,000 2.0 per cent. five-year convertible bonds (the "Convertible Bonds") (the whole transaction referred to as the "Preference Share Cancellation"). The Straight Bonds and Convertible Bonds were issued by GDI Finance (Cayman) 2003 Limited, a wholly-owned subsidiary of the Company, to GDH on 24 December 2003. Further details of the Preference Share Cancellation are set out in note 47(a) to the financial statements.

Report of the Directors

Purchase, Sale and Redemption of Listed Securities

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

- (i) the Company has issued the following new Ordinary Shares to certain option holders pursuant to the Company's share option scheme during the year:

No. of new Ordinary Shares issued	Exercise price per Ordinary Share HK\$	Cash consideration HK\$
59,400,000	0.5312	31,553,280
6,800,000	0.74	5,032,000
5,200,000	0.814	4,232,800
8,040,000	0.96	7,718,400
2,700,000	1.22	3,294,000
Total	82,140,000	51,830,480

- (ii) under the Earnout Agreement, the Company has agreed to allot and issue to GDH, 66,000,000 Ordinary Shares, for each year of the 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 already met the performance milestones under the Earnout Agreement for the first, second, third, fourth and fifth years of the Earnout Period in September 2001, March 2002, September 2002, March 2003 and June 2003 respectively, the Company has an obligation to issue a total of 330,000,000 Ordinary Shares to GDH in accordance with the Earnout Agreement. 198,000,000 Ordinary Shares were issued to GDH on 27 February 2004. Another 66,000,000 Ordinary Shares will be issued on 21 December 2004 and the remaining 66,000,000 Ordinary Shares will be issued on 21 December 2005. Further details of the Earnout Agreement and the issuance of the Ordinary Shares are set out in notes 13, 47 and 55 to the financial statements.

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities listed on the Luxembourg Stock Exchange save and except that:

- (i) On 2 May 2003, Guangdong Investment Finance (Cayman) Limited, a wholly-owned subsidiary of the Company redeemed the aggregate principal amount outstanding of the guaranteed floating rate bonds due 2005 (formerly the 1% guaranteed convertible bonds due 2002) in whole together with interest accrued up to the date of redemption. The aggregate principal amount outstanding of the said bonds was US\$53,472,388 as at the date of redemption.

Report of the Directors

Purchase, Sale and Redemption of Listed Securities (continued)

- (ii) On 2 May 2003, the Company redeemed the aggregate principal amount outstanding of floating rate notes due 2005 (formerly the floating rate notes due 2001) in whole together with interest accrued up to the date of redemption. The aggregate principal amount outstanding of the said floating rate notes was US\$28,565,795.30 as at the date of redemption.

The conversion right of the Preference Shares lapsed on 31 March 2003 and during the period from 1 January 2003 to 31 March 2003, no Preference Shares were converted into Ordinary Shares. Pursuant to the terms of their issue the Preference Shares were due to be redeemed on 7 April 2003. The Company was, however, unable to redeem the Preference Shares on 7 April 2003 as a result of its accumulated losses subsisting at that date. Under the terms of the Preference Shares, for the period from 8 April 2003 to 7 April 2004, the Preference Shares carry a reduced dividend of 6.60% per annum with respect to their redemption amount, and from 7 April 2004 onwards, the Preference Shares will carry a fixed dividend of 9.60% per annum with respect to their redemption amount. Pursuant to the Capital Reduction Proposal which includes, inter alia, the Preference Share Cancellation as further detailed in note 47 to the financial statements, the Preference Shares were cancelled on 24 December 2003.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 67.05% of the total sales for the year and sales to the Group's largest customer included therein amounted to 48.39%. Purchases from the Group's five largest suppliers accounted for 33.41% of the total purchases for the year and purchases from the Group's largest supplier included therein amounted to 24.13%.

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

Post Balance Sheet Events

Details of the significant post balance sheet events of the Group are set out in note 55 to the financial statements.

Corporate Governance

Board

The Board of Directors now comprises twelve Directors, and among them, four are Independent Non-Executive Directors the independent status of all of whom is strictly in accordance with the Listing Rules. There were five full Board meetings held during the year, and the average attendance rate of the Directors stood at about 55.71%.

Report of the Directors

Corporate Governance (continued)

Board (continued)

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 further requirement for one-third of them (or the nearest number but not exceeding one-third) 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 in September 1998 comprising all of the Independent Non-Executive Directors of the Company 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 the 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.

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) maximising 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.

Report of the Directors

Corporate Governance (continued)

Code of Best Practice

In the opinion of the Directors of the Company, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year.

De-minimis Concession, Modified Calculation Concession and Modified Assets Basis

Application of Chapter 14 of the Listing Rules to the Company

Chapter 14 of the Listing Rules applicable prior to 31 March 2004 (the “Then Applicable Listing Rules”) requires listed companies to disclose details of certain categories of transactions, and to publish an announcement in the newspapers and/or to send a circular to shareholders 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 at 31 December 2002 (and its unaudited interim report for the six months ended 30 June 2003 (the “Interim Report”)), has a negative net tangible asset value as described in the Company’s announcement dated 28 April 2003 (as adjusted in light of the balance sheet figures in the Interim Report as described in the Company’s announcement dated 26 September 2003). 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).

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 Then Applicable 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 Then Applicable Listing Rules as described below.

Approval

Upon the application of the Company on 28 April 2003 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 Then Applicable Listing Rules) and the “consideration test” (as defined in Rule 14.09(3) of the Then Applicable 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).

Report of the Directors

De-minimis Concession, Modified Calculation Concession and Modified Assets Basis (continued)

Approval (continued)

Details of the Approval were set out in the Company's announcement dated 28 April 2003 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 2003.

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, will be considered as de-minimis and thus the Relevant Tests will not apply to those transactions.

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 at 30 June 2003, 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 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 Then Applicable Listing Rules are and, where stated, the relevant percentage ratios are, as follows:

- (i) ratio of 5% or above but below 15% (HK\$698,926,000 or above but below HK\$2,096,779,000) — the requirements for discloseable transactions apply;
- (ii) ratio of 15% or above but below 25% (HK\$2,096,779,000 or above but below HK\$3,494,632,000) — the requirements for major transactions apply;
- (iii) ratio of 25% or above (HK\$3,494,632,000 or above) — the requirements for very substantial acquisitions 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 is sought, the requirements for share transactions apply if the ratio is less than 5% (HK\$698,926,000).

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

Report of the Directors

De-minimis Concession, Modified Calculation Concession and Modified Assets Basis (continued)

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 Then Applicable 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 at 30 June 2003, is to be the basis for calculating the net assets of the Group and, where stated, the relevant percentage ratios and monetary thresholds are as follows:

- (i) Paragraphs 17(2) of Appendix 7A — ratio of 15% (HK\$2,096,779,000);
- (ii) Paragraph 16(2) of Appendix 7C — ratio of 15% (HK\$2,096,779,000);
- (iii) Paragraph 36 of Appendix 16 — ratio of 15% (HK\$2,096,779,000);
- (iv) Paragraph 5.1 of Practice Notice 13 — ratio of 15% (HK\$2,096,779,000); and
- (v) Paragraph 3(e)(ii) of Practice Notice 15 — ratio of 15% (HK\$2,096,779,000).

Practice Note 19 — Paragraph 1.3

In relation to Paragraph 1.3 of Practice Note 19 of the Then Applicable Listing Rules, the Modified Assets Basis is to 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 Then Applicable Listing Rules set out below, the Modified Assets Basis, based on the Group’s unaudited published interim accounts as at 30 June 2003, is to be the basis for calculating the net assets of the Group and, where stated, the relevant percentage ratios and monetary thresholds are as follows:

- (i) Paragraph 15.2 of Appendix 16 — ratio of 1% (HK\$139,785,000);
- (ii) Paragraph 23 of Appendix 16 — ratio of 5% (HK\$698,926,000);
- (iii) Paragraph 3.2.1 of Practice Note 19 — ratio of 8% (HK\$1,118,282,000);
- (iv) Paragraph 3.2.2 of Practice Note 19 — ratio of 3% (HK\$419,356,000); and
- (v) Paragraph 3.3 of Practice Note 19 — ratio of 8% (HK\$1,118,282,000).

Report of the Directors

De-minimis Concession, Modified Calculation Concession and Modified Assets Basis (continued)

Connected Transactions

In relation to references to “net tangible assets” set out under Rules 14.24 and 14.25 of the Then Applicable Listing Rules for connected transactions, the Modified Assets Basis, based on the Group’s unaudited published interim accounts as at 30 June 2003, is to be adopted. In addition, the monetary thresholds and percentage ratios to determine disclosure and/or shareholder approval requirements are amended as follows:

- (i) in Rule 14.24(5) the applicable threshold is the higher of either (a) HK\$1,000,000, or (b) 0.01% of the Modified Assets Basis (HK\$1,398,000);
- (ii) in Rule 14.25(1) the applicable threshold is the higher of either (a) HK\$10,000,000, or (b) 1% of the Modified Assets Basis (HK\$139,785,000); and
- (iii) by modifying the percentage threshold in Rule 14.25(2)(b)(i) to 5% of the Modified Assets Basis (HK\$698,926,000).

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

The approval by the Hong Kong Stock Exchange for the Company to apply the De-minimis Concession, the Modified Calculation Concession and the Modified Assets Basis as described above 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.

The Then Applicable Listing Rules have since been revised with effect from 31 March 2004. The percentage ratios under the revised Listing Rules have deleted the reference to net asset value for both “asset test” and “consideration test” and introduced the reference to total assets and market capitalisation. Accordingly going forward, the Company will be able to calculate the appropriate percentage ratios based on its financial statements in accordance with the revised Listing Rules.

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, 16 April 2004