

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 2004.

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 department stores operation, with particular emphasis on the first three businesses. Details of the principal activities of the principal subsidiaries, jointly-controlled entities and principal associates are set out in notes 17, 18 and 19 to the financial statements respectively.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2004 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 163.

An interim dividend of 2.5 HK cents per share was paid on 25 October 2004. The Directors recommended the payment of a final dividend of 3.5 HK cents (2003: Nil) per share for the year ended 31 December 2004. This recommendation has been incorporated in the financial statement as an allocation of retaining profits within the capital and reserves section of the balance sheet.

The proposed final dividend, if approved at the forthcoming Annual General Meeting of the Company to be held on Friday, 10 June 2005, is expected to be paid on 28 June 2005 to shareholders whose names appear on the register of members of the Company on 10 June 2005.

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

	2004 HK\$'000	Year ended 31 December			
		2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
			(Restated)	(Note)	(Note)
TURNOVER					
Continuing operations	5,109,127	4,825,784	4,659,956	4,956,992	2,576,377
Discontinued operations	—	338,159	2,077,069	2,314,526	2,371,607
	5,109,127	5,163,943	6,737,025	7,271,518	4,947,984
PROFIT/(LOSS) FROM OPERATING ACTIVITIES AFTER FINANCE COSTS	1,224,045	1,555,490	356,614	592,694	(1,168,591)
Share of profits of jointly-controlled entities	36,986	63,359	62,320	39,320	15,397
Share of profits less losses of associates	53,246	53,713	111,208	28,332	8,298
	1,314,277	1,672,562	530,142	660,346	(1,144,896)
PROFIT/(LOSS) BEFORE TAX					
Continuing operations	1,314,277	1,650,584	452,862	652,975	(662,255)
Discontinued operations	—	21,978	77,280	7,371	(482,641)
	1,314,277	1,672,562	530,142	660,346	(1,144,896)
TAX					
Continuing operations	57,387	(221,793)	(217,359)	(119,108)	(107,630)
Discontinued operations	—	(1,794)	(20,559)	(11,542)	(19,448)
	57,387	(223,587)	(237,918)	(130,650)	(127,078)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	1,371,664	1,448,975	292,224	529,696	(1,271,974)
Minority interests	(221,965)	(342,254)	(97,320)	(244,154)	(84,328)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	1,149,699	1,106,721	194,904	285,542	(1,356,302)

Report of the Directors

SUMMARY OF FINANCIAL INFORMATION (continued)

Assets, liabilities and minority interests

	2004 HK\$'000	As at 31 December			
		2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
			(Restated)	(Note)	(Note)
FIXED ASSETS	12,282,603	12,737,077	9,860,868	10,364,378	10,826,482
PROPERTIES UNDER DEVELOPMENT	47,833	37,141	69,600	173,147	406,956
INVESTMENT PROPERTIES	2,085,292	2,106,139	2,289,280	2,332,118	2,894,255
GOODWILL AND NEGATIVE INTERESTS IN JOINTLY-CONTROLLED ENTITIES	(176,070)	(120,767)	(130,411)	(104,209)	—
INTERESTS IN ASSOCIATES	1,014,362	961,297	968,130	972,344	929,662
CONTRACTUAL JOINT VENTURES	452,679	371,404	423,617	641,163	604,003
INTANGIBLE ASSETS	—	—	77,340	245,598	245,725
OTHER ASSETS	12,641,662	13,134,949	13,628,236	14,123,023	14,622,619
DEFERRED TAX ASSETS	2,149,863	2,311,506	5,008,572	4,630,970	5,387,077
	4,562	3,617	37,896	—	—
TOTAL ASSETS	30,502,786	31,542,363	32,233,128	33,378,532	35,916,779
BONDS	(497,320)	(994,640)	(417,085)	(650,179)	(1,313,906)
FLOATING RATE NOTES	—	—	(245,282)	(382,349)	(826,726)
OTHER LOANS AND PAYABLES	(17,465,929)	(18,764,207)	(19,625,306)	(20,556,930)	(22,325,476)
DEFERRED TAX LIABILITIES	(691,178)	(881,907)	(819,016)	(2,285)	(2,285)
TOTAL LIABILITIES	(18,654,427)	(20,640,754)	(21,106,689)	(21,591,743)	(24,468,393)
MINORITY INTERESTS	(1,847,139)	(1,969,304)	(2,306,455)	(2,669,292)	(2,931,253)
NET ASSETS	10,001,220	8,932,305	8,819,984	9,117,497	8,517,133

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 disposed companies, it is not practicable for the Group to restate the amounts in those years for comparison purposes.

Report of the Directors

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

ORDINARY SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's ordinary share capital and share options during the year are set out in notes 41 and 42 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 and 66,000,000 ordinary shares were allotted and credited as fully paid on 27 February 2004 and 21 December 2004 respectively 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, 41 and 43 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 41 and 43 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2004, 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 43 to the financial statements amounted to HK\$375,529,000.

CHARITABLE CONTRIBUTIONS

The Group made no charitable contributions during the year (2003: Nil).

Report of the Directors

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 2004:

(I)	Date of Grant	:	06/02/2004
	Vesting Period	:	06/02/2004 – 06/05/2004
	Exercise Period	:	07/05/2004 – 06/05/2009
	Exercise Price	:	HK\$1.59 per share

	Number of Options At 06/02/04	Options Value At 06/02/04 HK\$	Number of Options At 31/12/04	Options Value At 31/12/04 HK\$
		(Note (2))		(Note (3))
Grantee:				
Directors				
WU Jiesi	3,000,000	1,860,000	3,000,000	3,870,000
LI Wenyue	3,000,000	1,860,000	3,000,000	3,870,000
ZHANG Hui	3,000,000	1,860,000	3,000,000	3,870,000
CHAN Cho Chak, John	1,000,000	620,000	1,000,000	1,290,000
LI Kwok Po, David	1,000,000	620,000	1,000,000	1,290,000
FUNG, Daniel R.	1,000,000	620,000	1,000,000	1,290,000
CHENG Mo Chi, Moses	1,000,000	620,000	1,000,000	1,290,000
LI Wai Keung	1,500,000	930,000	1,500,000	1,935,000
WANG Xiaofeng	1,000,000	620,000	1,000,000	1,290,000
Former Directors	8,500,000	5,270,000	7,000,000	9,030,000
Aggregate total of employees	39,600,000	24,552,000	39,600,000	51,084,000
Total	63,600,000	39,432,000	62,100,000	80,109,000

Report of the Directors

SHARE OPTIONS OF THE COMPANY (continued)

Notes:

(1) The closing price of the ordinary shares of the Company immediately before the date on which the options were granted was HK\$1.57.

(2) According to the Black-Scholes model¹, the total value of the options was estimated at HK\$39,432,000 as at 6 February 2004 (when the options were granted) with the following variables and assumptions:

Risk Free Rate : 2.83%, being the approximate yield of the 5-year Exchange Fund Note traded on 06/02/2004

Expected Volatility : 40.2%, being the annualised volatility of the closing price of the ordinary shares of the Company from 06/02/2003 to 06/02/2004

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 ordinary shares of the Company over the period from 06/02/2003 to 06/02/2004.

(3) According to the Black-Scholes model¹, the total value of the options was estimated at HK\$80,109,000 as at 31 December 2004 with the following variables and assumptions:

Risk Free Rate : 2.66%, being the approximate yield of the 5-year Exchange Fund Note traded on 31/12/2004

Expected Volatility : 39.5%, being the annualised volatility of the closing price of the ordinary shares of the Company from 01/01/2004 to 31/12/2004

Expected Dividend Yield : 0.96%, being the expected dividend yield of the shares of the Company over the period from 01/01/2004 to 31/12/2004

Expected Life of the Options : 4.35 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 01/01/2004 to 31/12/2004.

(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.

Report of the Directors

SHARE OPTIONS OF THE COMPANY (continued)

(II) Date of Grant	:	24/05/2004
Vesting Period	:	24/05/2004 – 24/08/2004
Exercise Period	:	25/08/2004 – 24/08/2009
Exercise Price	:	HK\$1.25 per share

	Number of Options At 24/05/04	Options Value At 24/05/04 HK\$	Number of Options At 31/12/04	Options Value At 31/12/04 HK\$
		(Note (2))		(Note (3))
Grantee:				
Directors				
WU Jiesi	2,500,000	1,225,000	2,500,000	3,750,000
LI Wenyue	2,500,000	1,225,000	2,500,000	3,750,000
ZHANG Hui	2,500,000	1,225,000	2,500,000	3,750,000
CHAN Cho Chak, John	450,000	220,500	450,000	675,000
LI Kwok Po, David	450,000	220,500	450,000	675,000
FUNG, Daniel R.	450,000	220,500	450,000	675,000
CHENG Mo Chi, Moses	450,000	220,500	450,000	675,000
LI Wai Keung	1,000,000	490,000	1,000,000	1,500,000
WANG Xiaofeng	650,000	318,500	650,000	975,000
Former Directors	1,650,000	808,500	—	—
Aggregate total of employees	49,460,000	24,235,400	49,460,000	74,190,000
Total	62,060,000	30,409,400	60,410,000	90,615,000

Notes:

(1) The closing price of the ordinary shares of the Company immediately before the date on which the options were granted was HK\$1.25.

(2) According to the Black-Scholes model¹, the total value of the options was estimated at HK\$30,409,400 as at 24 May 2004 (when the options were granted) with the following variables and assumptions:

Risk Free Rate : 3.85%, being the approximate yield of the 5-year Exchange Fund Note traded on 24/05/2004

Expected Volatility : 38.3%, being the annualised volatility of the closing price of the ordinary shares of the Company from 24/05/2003 to 24/05/2004

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 ordinary shares of the Company over the period from 24/05/2003 to 24/05/2004.

Report of the Directors

SHARE OPTIONS OF THE COMPANY (continued)

- (3) According to the Black-Scholes model¹, the total value of the options was estimated at HK\$90,615,000 as at 31 December 2004 with the following variables and assumptions:

Risk Free Rate	:	2.66%, being the approximate yield of the 5-year Exchange Fund Note traded on 31/12/2004
Expected Volatility	:	39.5%, being the annualised volatility of the closing price of the ordinary shares of the Company from 01/01/2004 to 31/12/2004
Expected Dividend Yield	:	0.96%, being the expected dividend yield of the shares of the Company over the period from 01/01/2004 to 31/12/2004
Expected Life of the Options	:	4.65 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 01/01/2004 to 31/12/2004.

- (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 42 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	
*FUNG, Daniel Richard	
#CHENG Mo Chi, Moses	
LI Wai Keung	
FUNG Sing Hong, Stephen	(appointed on 1 December 2004)
WANG Xiaofeng	
XU Wenfang	(appointed on 3 March 2005)
YE Xuquan	(resigned on 27 February 2004)
ZHANG Yaping	(resigned on 27 February 2004)
YU Lai	(resigned on 27 February 2004)
ZHAI Zhiming	(resigned on 17 September 2004)
WANG Man Kwan, Paul	(resigned on 1 December 2004)
GU Shunan	(resigned on 3 March 2005)

* Independent Non-Executive Director

Mr. CHENG Mo Chi, Moses was re-designated from being an Independent Non-Executive Director to a Non-Executive Director of the Company with effect from 13 October 2004.

The Company has received independence confirmation from the Independent Non-Executive Directors, namely: Mr. CHAN Cho Chak, John, Dr. LI Kwok Po, David and Mr. FUNG, Daniel Richard, and considers them to be independent.

Mr. FUNG Sing Hong, Stephen and Ms. XU Wenfang, who were appointed as Directors of the Company after the last annual general meeting of the Company are due to retire pursuant to article 73 of the articles of association of the Company at the forthcoming annual general meeting. Being eligible, they will offer themselves for re-election.

Report of the Directors

DIRECTORS (continued)

Dr. WU Jiesi, Mr. ZHANG Hui and Ms. WANG Xiaofeng will retire by rotation in accordance with article 77 of the articles of association of the Company at the forthcoming annual general meeting. Being eligible, Mr. ZHANG Hui and Ms. WANG Xiaofeng will offer themselves for re-election.

Ms. WANG Xiaofeng and Ms. XU Wenfang, Non-Executive Directors, 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 2008 and (ii) 30 June 2008 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 and Senior Executives of the Company as at the date of this report are set out on pages 28 to 33 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' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's Board of Directors with reference to the Directors' duties, responsibilities and performance and the results of the Group.

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 2004.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2004, Dr. WU Jiesi and Mr. LI Wenyue, Directors of the Company, were 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. Mr. LI Wai Keung, Director of the Company, was also director 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 and water supply investment. 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 2004, 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
WU Jiesi	Personal	16,000,000	Long position	0.288%
CHAN Cho Chak, John	Personal	2,000,000	Long position	0.036%
LI Kwok Po, David	Personal	2,000,000	Long position	0.036%
CHENG Mo Chi, Moses	Personal	1,000,000	Long position	0.018%
GU Shunan	Personal	4,856,000	Long position	0.087%

Note: The number of ordinary shares of the Company in issue as at 31 December 2004 was 5,561,612,672.

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 2004	Options granted during the year		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 2004
		Date (dd.mm.yyyy)	Number					
WU Jiesi	7,000,000	—	—	02.05.2002 – 01.05.2007	—	0.74	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
	3,000,000	—	—	08.08.2003 – 07.08.2008	1	1.22	—	3,000,000
	—	06.02.2004	3,000,000	07.05.2004 – 06.05.2009	1	1.59	—	3,000,000
	—	24.05.2004	2,500,000	25.08.2004 – 24.08.2009	1	1.25	—	2,500,000
LI Wenye	7,000,000	—	—	11.02.2002 – 10.02.2007	—	0.5312	—	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
	3,000,000	—	—	08.08.2003 – 07.08.2008	1	1.22	—	3,000,000
	—	06.02.2004	3,000,000	07.05.2004 – 06.05.2009	1	1.59	—	3,000,000
	—	24.05.2004	2,500,000	25.08.2004 – 24.08.2009	1	1.25	—	2,500,000

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 2004	Options granted during the year		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 2004
		Date (dd.mm.yyyy)	Number					
ZHANG Hui	5,000,000	—	—	05.03.2003 – 04.03.2008	1	0.96	—	5,000,000
	3,000,000	—	—	08.08.2003 – 07.08.2008	1	1.22	—	3,000,000
	—	06.02.2004	3,000,000	07.05.2004 – 06.05.2009	1	1.59	—	3,000,000
	—	24.05.2004	2,500,000	25.08.2004 – 24.08.2009	1	1.25	—	2,500,000
CHAN Cho Chak, John	1,000,000	—	—	05.03.2003 – 04.03.2008	1	0.96	—	1,000,000
	1,000,000	—	—	08.08.2003 – 07.08.2008	1	1.22	—	1,000,000
	—	06.02.2004	1,000,000	07.05.2004 – 06.05.2009	1	1.59	—	1,000,000
	—	24.05.2004	450,000	25.08.2004 – 24.08.2009	1	1.25	—	450,000
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
	1,000,000	—	—	08.08.2003 – 07.08.2008	1	1.22	—	1,000,000
	—	06.02.2004	1,000,000	07.05.2004 – 06.05.2009	1	1.59	—	1,000,000
	—	24.05.2004	450,000	25.08.2004 – 24.08.2009	1	1.25	—	450,000

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 2004	Options granted during the year		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 2004
		Date (dd.mm.yyyy)	Number					
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
	1,000,000	—	—	08.08.2003 – 07.08.2008	1	1.22	—	1,000,000
	—	06.02.2004	1,000,000	07.05.2004 – 06.05.2009	1	1.59	—	1,000,000
	—	24.05.2004	450,000	25.08.2004 – 24.08.2009	1	1.25	—	450,000
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
	1,000,000	—	—	08.08.2003 – 07.08.2008	1	1.22	—	1,000,000
	—	06.02.2004	1,000,000	07.05.2004 – 06.05.2009	1	1.59	—	1,000,000
	—	24.05.2004	450,000	25.08.2004 – 24.08.2009	1	1.25	—	450,000

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 2004	Options granted during the year		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 2004
		Date (dd.mm.yyyy)	Number					
LI Wai Keung	700,000	—	—	02.05.2002 – 01.05.2007	—	0.74	—	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
	1,500,000	—	—	08.08.2003 – 07.08.2008	1	1.22	—	1,500,000
	—	06.02.2004	1,500,000	07.05.2004 – 06.05.2009	1	1.59	—	1,500,000
	—	24.05.2004	1,000,000	25.08.2004 – 24.08.2009	1	1.25	—	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
	1,000,000	—	—	08.08.2003 – 07.08.2008	1	1.22	—	1,000,000
	—	06.02.2004	1,000,000	07.05.2004 – 06.05.2009	1	1.59	—	1,000,000
	—	24.05.2004	650,000	25.08.2004 – 24.08.2009	1	1.25	—	650,000

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 2004	Options granted during the year		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 2004
		Date (dd.mm.yyyy)	Number					
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	—
	1,000,000	—	—	08.08.2003 – 07.08.2008	1	1.22	1,000,000	—
	—	06.02.2004	1,000,000	07.05.2004 – 06.05.2009	1	1.59	—	1,000,000
	—	24.05.2004	650,000	25.08.2004 – 24.08.2009	1	1.25	650,000	—

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.

Interests and short positions in Kingway Brewery Holdings Limited

(i) Interest in shares

Name of Directors	Capacity/nature of interest	Number of ordinary shares held	Long/short position	Approximate Percentage of holding
CHENG Mo Chi, Moses	Personal	600,000	Long position	0.043%
FUNG Sing Hong, Stephen	Personal	24,000	Long position	0.002%

Note: The number of shares of Kingway Brewery Holdings Limited in issue as at 31 December 2004 was 1,395,568,000.

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (continued)

Interests and short positions in Kingway Brewery Holdings Limited (continued)

(ii) *Interest in options relating to shares*

Name of Directors	Number of options held as at 1 January 2004	Options granted during the year		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 2004
		Date (dd.mm.yyyy)	Number					
CHENG Mo Chi, Moses	300,000	—	—	27.08.2003 – 26.08.2008	1	0.84	300,000	—
	—	06.02.2004	300,000	07.05.2004 – 06.05.2009	1	1.93	300,000	—
FUNG Sing Hong, Stephen	400,000	—	—	27.08.2003 – 26.08.2008	1	0.84	—	400,000
	—	06.02.2004	400,000	07.05.2004 – 06.05.2009	1	1.93	—	400,000

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 Guangdong Tannery Limited

Interest in shares

Name of Director	Capacity/ nature of interest	Number of ordinary shares held	Long/short position	Approximate Percentage of holding
FUNG Sing Hong, Stephen	Personal	226,000	Long position	0.043%

Note: The number of shares of Guangdong Tannery Limited in issue as at 31 December 2004 was 524,154,000.

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (continued)

Interests and short positions in Guangnan (Holdings) Limited

Interest in shares

Name of Director	Capacity/ nature of interest	Number of ordinary shares held	Long/short position	Approximate percentage of holding
LI Kwok Po, David	Personal	150,000	Long position	0.002%

Note: The number of shares of Guangnan (Holdings) Limited in issue as at 31 December 2004 was 9,015,832,859.

Save as disclosed above, as at 31 December 2004, none of the Directors or chief executive of the Company had registered any interests or short positions 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 2004, 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	3,715,082,781	Long position	66.8%
GDH Limited (Note 2)	Beneficial owner/ Interest of controlled corporation	3,715,082,781	Long position	66.8%
Guangdong Trust Ltd.	Beneficial owner/ Interest of controlled corporation	576,404,918	Long position	10.36%

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 Limited. Of the 66.8% interest in ordinary shares referred to in the fifth column, 6.02% is derived from derivative interests. The remaining 60.78% is derived from interests in issued ordinary shares.
2. The interest of GDH Limited set out above includes attributable interest held through its wholly-owned subsidiary, Guangdong Trust Ltd. Of the 66.8% interest in ordinary shares referred to in the fifth column, 6.02% is derived from derivative interests. The remaining 60.78% 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 2004 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

Save as disclosed in notes 37, 49 and 50 to the financial statements, the Company and the controlling shareholders of the Company had not entered into any other contracts of significance during the year.

CONNECTED TRANSACTIONS

Details of the connected transactions are disclosed in note 50 to the financial statements.

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:

- (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\$
11,800,000	0.5312	6,268,160
11,000,000	0.74	8,140,000
17,850,000	0.814	14,529,900
6,160,000	0.96	5,913,600
4,130,000	1.22	5,038,600
500,000	1.59	795,000
1,650,000	1.25	2,062,500
Total	53,090,000	42,747,760

- (ii) under the Earnout Agreement, the Company has agreed to allot and issue to GDH, 66,000,000 ordinary shares, for each 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 had 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 was obligated to issue a total of 330,000,000 ordinary shares to GDH in accordance with the Earnout Agreement. 198,000,000 ordinary shares and 66,000,000 ordinary shares were issued on 27 February 2004 and 21 December 2004 respectively to GDH and the remaining 66,000,000 ordinary shares will be issued on 21 December 2005. Further details of the Earnout Agreement and issuance of ordinary shares pursuant thereto are set out in notes 13, 41 and 43 to the financial statements, respectively.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 68.14% of the total sales for the year and sales to the Group's largest customer included therein amounted to 49.51%. Purchases from the Group's five largest suppliers accounted for less than 12.88% of the total purchases for the year and purchases from the Group's largest supplier included therein amounted to 9.43%.

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 51 to the financial statements.

CORPORATE GOVERNANCE

Board

The Board of Directors now comprises eleven Directors, and among them, three are Independent Non-Executive Directors the independent status of all of whom is strictly in accordance with the Listing Rules. There were three full Board meetings held during the year, and the average attendance rate of the Directors stood at about 66.66%.

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 since September 1998 comprising all of the Independent Non-Executive Directors of the Company in accordance with the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (the "Code"). 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. The Audit Committee has reviewed the results of the Group for the year ended 31 December 2004.

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.

Report of the Directors

CORPORATE GOVERNANCE (continued)

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 the Board's supervision of management;
- (iii) maximising 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 in, loans to and guarantees for outside parties.

Code of Best Practice

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

The Company has adopted the Model Code set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the code of conduct regarding Director's securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year.

Public Float

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

Report of the Directors

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, 15 April 2005