

Report of the Directors

Guangdong Investment Limited

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 2001.

Principal Activities

The principal activities of the Company are investment holding and operations on core businesses being utilities, infrastructure, property and hotels, with particular emphasis on the first two of these. Details of the principal activities of the principal subsidiaries, a jointly-controlled entity and principal associates are set out in notes 17, 18 and 19 to the financial statements respectively.

During the year, the Group disposed of its 70% equity interest in Guangdong Group (Shenzhen) Ltd., 57.16% equity interest in Guangdong Building Industries Limited and 55.2% interest in 廣州市番禺粵海房地產有限公司 (Guangzhou Panyu Yue Hai Real Estate Limited).

Segment Information

An analysis of the Group’s turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 5 to the financial statements.

Report of the Directors (continued)

Guangdong Investment Limited

Results and Dividends

The results of the Group for the year ended 31 December 2001 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 57 to 190.

The Board of Directors does not recommend the payment of any dividend with respect to the ordinary shares of HK\$0.50 each (the "Ordinary Shares") for the year ended 31 December 2001 (2000: nil).

Pursuant to the Articles of Association of the Company, dividends on the Ordinary Shares may not be paid until the accumulated and current dividends on the 3¹/₄% redeemable cumulative convertible preference shares (the "Preference Shares") have been paid in full.

In the prior year, an amount of HK\$22,020,000 which represented one year's accrual for the fixed dividend on the Preference Shares was accrued. Such accrued fixed dividend was not subsequently declared and was accumulated with the other undeclared fixed dividends on the Preference Shares.

During the year, the Group adopted SSAP 28 prospectively. Pursuant to the Articles of Association of the Company, the Company may only pay the fixed dividend on the Preference Shares if the Company has sufficient distributable profits and if the payment of such dividend is declared. Under SSAP 28, as the Company did not have a present obligation to pay the fixed dividend on the Preference Shares as at 31 December 2001, no accrual for such dividend was made during the year. In addition, an adjustment to the opening balance of the Company's and the Group's accumulated losses was made for the reversal of the accrual for the fixed dividend on the Preference Shares of HK\$49,096,000 as at 1 January 2001 in accordance with the transitional provisions of SSAP 28.

As at 31 December 2001, the accumulated (but undeclared) fixed dividends on the Preference Shares amounted to HK\$70,448,000. Such accumulated dividends, in respect of the period starting from 7 October 1998, do not accrue interest.

Report of the Directors (continued)

Guangdong Investment Limited

Summary of Financial Information

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

Results

	Year ended 31 December				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000 (Restated)	1998 HK\$'000 (Restated)	1997 HK\$'000 (Restated)
TURNOVER	7,271,518	4,947,984	5,359,442	6,280,900	7,145,183
PROFIT/(LOSS) FROM OPERATING ACTIVITIES AFTER FINANCE COSTS	592,694	(1,168,591)	(2,463,046)	(1,924,761)	955,661
Share of profit of a jointly- controlled entity	39,320	15,397	10,603	13,526	7,980
Share of profits less losses of associates	28,332	8,298	51,318	(19,402)	(3,028)
PROFIT/(LOSS) BEFORE TAX	660,346	(1,144,896)	(2,401,125)	(1,930,637)	960,613
Tax	(130,650)	(127,078)	(51,565)	(67,803)	(81,418)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	529,696	(1,271,974)	(2,452,690)	(1,998,440)	879,195
Minority interests	(244,154)	(84,328)	75,337	(21,219)	(138,829)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	285,542	(1,356,302)	(2,377,353)	(2,019,659)	740,366

Report of the Directors (continued)

Guangdong Investment Limited

Summary of Financial Information (continued)

Assets and Liabilities

	As at 31 December				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000 (Restated)	1998 HK\$'000 (Restated)	1997 HK\$'000 (Restated)
FIXED ASSETS	10,364,378	10,826,482	6,725,972	7,730,038	7,967,964
PROPERTIES UNDER DEVELOPMENT	173,147	406,956	537,568	783,756	748,306
INVESTMENT PROPERTIES	2,332,118	2,894,255	3,234,067	3,510,396	5,124,731
GOODWILL, NET	(104,209)	–	–	–	–
INTEREST IN A JOINTLY-CONTROLLED ENTITY	972,344	929,662	872,157	867,684	1,054,344
INTERESTS IN ASSOCIATES	641,163	604,003	592,155	568,119	543,609
CONTRACTUAL JOINT VENTURES	245,598	245,725	324,878	459,736	498,765
INTANGIBLE ASSETS	14,123,023	14,622,619	35,000	37,000	39,000
OTHER ASSETS	4,630,970	5,387,077	4,579,090	5,894,337	7,557,184
TOTAL ASSETS	33,378,532	35,916,779	16,900,887	19,851,066	23,533,903
BONDS	(650,179)	(1,313,906)	(1,244,404)	(1,180,880)	(1,043,728)
FLOATING RATE NOTES	(382,349)	(826,726)	(823,811)	(819,804)	(1,160,100)
OTHER LOANS AND LIABILITIES	(20,556,930)	(22,325,476)	(8,383,068)	(9,712,429)	(10,329,612)
DEFERRED TAX	(2,285)	(2,285)	(2,739)	(2,739)	(2,739)
TOTAL LIABILITIES	(21,591,743)	(24,468,393)	(10,454,022)	(11,715,852)	(12,536,179)
MINORITY INTERESTS	(2,669,292)	(2,931,253)	(1,923,991)	(1,982,012)	(2,515,713)
NET ASSETS	9,117,497	8,517,133	4,522,874	6,153,202	8,482,011

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 15 to the financial statements, respectively.

Report of the Directors (continued)

Guangdong Investment Limited

Properties Under Development

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

Ordinary Share Capital, Preference Share Capital and Share Options

Details of movements in the Company's ordinary share capital, preference share capital and share options during the year are set out in note 45 to the financial statements.

The Company has an obligation to issue a total of 132,000,000 Ordinary Shares to GDH Limited in accordance with the earnout agreement dated 22 December 2000 between the Company and GDH Limited (the "Earnout Agreement") upon the later of 21 December 2003 and the completion of the fourth expansion of the Dongshen Water Supply Project (the "Phase IV Renovation Project") (expected to be completed in mid-2004). Details of the contingent issuance of Ordinary Shares are set out in note 46(b) to the financial statements.

Share Premium Accounts and Reserves

Details of movements in the share premium accounts and reserves of the Company and the Group during the year are set out in note 46 to the financial statements.

Distributable Reserves

As at 31 December 2001, the Company did not have any reserves available for distribution as calculated in accordance with the provisions of Section 79B of the Companies Ordinance.

Charitable Contributions

During the year, the Group made charitable contributions totalling HK\$63,000 (2000: HK\$486,000).

Share Options of the Company, its Subsidiaries and Associated Corporation

(i) The Company

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Pursuant to the Share Option Scheme adopted on 2 February 1994 and amended on 29 December 1997, and which will expire on 1 February 2004, the Board of Directors may at their discretion offer to any director and/or employee of the Group options to subscribe for Ordinary Shares of the Company. The Share Option Scheme will remain in force for a period of ten years from 2 February 1994.

Share Options of the Company, its Subsidiaries and Associated Corporation (continued)**(i) The Company** (continued)

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

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

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

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

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

Summary details of the Share Option Scheme are also set out in note 45 to the financial statements.

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

Report of the Directors (continued)

Guangdong Investment Limited

Share Options of the Company, its Subsidiaries and Associated Corporation (continued)

(i) The Company (continued)

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

Name or category of participant	Number of share options				Date of grant of share options*	Exercise period of share options#	Exercise price of share options**	Price of Company's shares***
	At 1 January 2001	Granted during the year	Cancelled during the year	At 31 December 2001				At date of grant of options
							HK\$	HK\$
Directors of the Company								
WU Jiesi	-	12,000,000	-	12,000,000	01-11-2001	02-05-2002 to 01-05-2007	0.74	0.74
LI Wenyue	-	12,000,000	-	12,000,000	10-08-2001	11-02-2002 to 10-02-2007	0.5312	0.67
ZHANG Yaping	-	12,000,000	-	12,000,000	10-08-2001	11-02-2002 to 10-02-2007	0.5312	0.67
CHAN Cho Chak, John	-	1,000,000	-	1,000,000	01-11-2001	02-05-2002 to 01-05-2007	0.74	0.74
LI Kwok Po, David	-	1,000,000	-	1,000,000	01-11-2001	02-05-2002 to 01-05-2007	0.74	0.74
CHENG Mo Chi, Moses	-	1,000,000	-	1,000,000	01-11-2001	02-05-2002 to 01-05-2007	0.74	0.74
FUNG Daniel R.	-	1,000,000	-	1,000,000	01-11-2001	02-05-2002 to 01-05-2007	0.74	0.74
ZHONG Guangchao	3,000,000	-	-	3,000,000	18-02-1998	19-08-1998 to 18-08-2003	2.892	3.70
YE Xuquan	-	12,000,000	-	12,000,000	10-08-2001	11-02-2002 to 10-02-2007	0.5312	0.67
LI Wai Keung	-	1,500,000	-	1,500,000	01-11-2001	02-05-2002 to 01-05-2007	0.74	0.74
WANG Man Kwan, Paul	-	1,500,000	-	1,500,000	10-08-2001	11-02-2002 to 10-02-2007	0.5312	0.67
GU Shunan	-	1,000,000	-	1,000,000	01-11-2001	02-05-2002 to 01-05-2007	0.74	0.74
SU Qun	-	1,000,000	-	1,000,000	01-11-2001	02-05-2002 to 01-05-2007	0.74	0.74
	<u>3,000,000</u>	<u>57,000,000</u>	<u>-</u>	<u>60,000,000</u>				
Others								
In aggregate	2,020,000	-	(530,000)	1,490,000	09-12-1996	10-06-1997 to 09-06-2002	4.536	5.90
	4,675,000	-	(1,670,000)	3,005,000	18-02-1998	19-08-1998 to 18-08-2003	2.892	3.70
	7,850,000	-	(2,500,000)	5,350,000	16-03-1998	17-09-1998 to 16-09-2003	3.024	3.75
	<u>-</u>	<u>129,500,000</u>	<u>-</u>	<u>129,500,000</u>	10-08-2001	11-02-2002 to 10-02-2007	0.5312	0.67
	<u>14,545,000</u>	<u>129,500,000</u>	<u>(4,700,000)</u>	<u>139,345,000</u>				
	<u>17,545,000</u>	<u>186,500,000</u>	<u>(4,700,000)</u>	<u>199,345,000</u>				

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

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

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

If that day is not a business day in Hong Kong, the option period shall end on the business day preceding that day.

Share Options of the Company, its Subsidiaries and Associated Corporation (continued)**(ii) Guangdong Brewery Holdings Limited (“GD Brewery”)**

GD Brewery, a subsidiary of the Company, operates a share option scheme (the “GD Brewery Share Option Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the group’s operations. Pursuant to the GD Brewery Share Option Scheme adopted on 22 July 1997 and which will expire on 21 July 2007, the board of directors of GD Brewery may at their discretion offer to any executive and/or employee of GD Brewery and its subsidiaries (“GD Brewery Group”) options to subscribe for ordinary shares of GD Brewery. The GD Brewery Share Option Scheme will remain in force for a period of ten years from 22 July 1997.

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

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

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

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

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

Share Options of the Company, its Subsidiaries and Associated Corporation (continued)**(iii) Guangdong Tannery Limited (“GD Tannery”)**

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

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

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

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

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

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

Share Options of the Company, its Subsidiaries and Associated Corporation (continued)**(iv) Guangnan (Holdings) Limited (“Guangnan”)**

On 21 November 1994, in order to align the interests of directors and employees with those of the shareholders of Guangnan, an associated corporation of the Company, adopted a share option scheme (the “1994 Share Option Scheme”) pursuant to which the directors are authorized, at their discretion, to invite directors or employees of Guangnan and its subsidiaries to take up options to subscribe for shares of Guangnan. Offers of options under the 1994 Share Option Scheme may be accepted in writing within 21 days from the date of making such offer. Options granted under the 1994 Share Option Scheme is exercisable within a period commencing 12 months after the date of acceptance of options and expiring on the last day of a four year period from such acceptance date or 20 November, 2004, whichever is earlier. The 1994 Share Option Scheme shall expire on 20 November 2004.

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

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

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

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

Report of the Directors (continued)

Guangdong Investment Limited

Share Options of the Company, its Subsidiaries and Associated Corporation (continued)

Details of the options of the Company and Guangnan held by the Directors of the Company are set out in the section headed “Directors’ Interests in Securities” of this report.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company 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)	(Acted as Chairman until 15 March 2001; appointed as Honorary President effective 16 March 2001)
LI Wenyue (Chairman)	(Acted as Managing Director until 15 March 2001; appointed as Chairman effective 16 March 2001)
ZHANG Yaping (Managing Director)	(Appointed effective 16 March 2001)
CHAN Cho Chak, John *	
LI Kwok Po, David *	
CHENG Mo Chi, Moses *	
FUNG Daniel Richard *	
ZHONG Guangchao	
YE Xuquan	
LI Wai Keung	
WANG Man Kwan, Paul	
GU Shunan	
XIAO Zhaoyi	(Resigned effective 9 November 2001)
SU Qun	(Resigned effective 18 January 2002)
ZHAI Zhiming	(Appointed effective 18 January 2002)
WANG Xiaofeng	(Appointed effective 18 January 2002)

* Independent Non-Executive Director

Report of the Directors (continued)

Guangdong Investment Limited

Directors (continued)

Mr. ZHAI Zhiming and Ms. WANG Xiaofeng, who were appointed as Directors of the Company effective 18 January 2002, in accordance with Article 73 of the Articles of Association of the Company, will hold office until the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Messrs. ZHONG Guangchao, WANG Man Kwan, Paul and GU Shunan will retire in accordance with Article 77 of the Articles of Association of the Company. Messrs. WANG Man Kwan, Paul and GU Shunan will offer themselves for re-election at the forthcoming annual general meeting.

Messrs. ZHAI Zhiming and GU Shunan and Ms. WANG Xiaofeng, 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 2005 and (ii) 30 June 2005 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 25 to 31 of the annual report.

Directors' Service Contracts

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

Directors' Interests in Contracts of Significance

None of the Directors had a material beneficial interest, whether directly or indirectly, in any significant contract to which the Company or any of its subsidiaries was a party during the year or as at 31 December 2001.

Report of the Directors (continued)

Guangdong Investment Limited

Directors' Interests in Competing Business

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

Directors' Interests in Securities

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

I. Ordinary Shares

(i) The Company

Name of Director	Type of interest	Number of Ordinary Shares held
GU Shunan	Personal	76,000

(ii) Guangnan

Name of Director	Type of interest	Number of Ordinary Shares held
LI Kwok Po, David	Personal	150,000

Report of the Directors (continued)

Guangdong Investment Limited

Directors' Interests in Securities (continued)

II. Options

(i) The Company

Name of Director	Number of options held 1 January 2001	Options granted during the year Date	Number	Period during which option is exercisable*	Price per Ordinary Share payable on exercise of option HK\$	Number of options exercised during the year	Number of options held 31 December 2001
WU Jiesi	–	01.11.2001	12,000,000	02.05.2002- 01.05.2007	0.74	–	12,000,000
LI Wenyue	–	10.08.2001	12,000,000	11.02.2002- 10.02.2007	0.5312	–	12,000,000
ZHANG Yaping	–	10.08.2001	12,000,000	11.02.2002- 10.02.2007	0.5312	–	12,000,000
CHAN Cho Chak, John	–	01.11.2001	1,000,000	02.05.2002- 01.05.2007	0.74	–	1,000,000
LI Kwok Po, David	–	01.11.2001	1,000,000	02.05.2002- 01.05.2007	0.74	–	1,000,000
CHENG Mo Chi, Moses	–	01.11.2001	1,000,000	02.05.2002- 01.05.2007	0.74	–	1,000,000
FUNG Daniel R.	–	01.11.2001	1,000,000	02.05.2002- 01.05.2007	0.74	–	1,000,000
ZHONG Guangchao	3,000,000	–	–	19.08.1998- 18.08.2003	2.892	–	3,000,000
YE Xuquan	–	10.08.2001	12,000,000	11.02.2002- 10.02.2007	0.5312	–	12,000,000

* If that day is not a business day in Hong Kong, the option period shall end on the business day preceding that day.

Report of the Directors (continued)

Guangdong Investment Limited

Directors' Interests in Securities (continued)

II. Options (continued)

(i) The Company (continued)

Name of Director	Number of options held 1 January 2001	Options granted during the year Date	Number	Period during which option is exercisable*	Price per Ordinary Share payable on exercise of option HK\$	Number of options exercised during the year	Number of options held 31 December 2001
LI Wai Keung	–	01.11.2001	1,500,000	02.05.2002- 01.05.2007	0.74	–	1,500,000
WANG Man Kwan, Paul	–	10.08.2001	1,500,000	11.02.2002- 10.02.2007	0.5312	–	1,500,000
GU Shunan	–	01.11.2001	1,000,000	02.05.2002- 01.05.2007	0.74	–	1,000,000
SU Qun	–	01.11.2001	1,000,000	02.05.2002- 01.05.2007	0.74	–	1,000,000

* If that day is not a business day in Hong Kong, the option period shall end on the business day preceding that day.

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

Report of the Directors (continued)

Guangdong Investment Limited

Directors' Interests in Securities (continued)

II. Options (continued)

(ii) Guangnan

Name of Director	Number of options held 1 January 2001	Options granted during the year		Period during which option is exercisable*	Price per Ordinary Share payable on exercise of option HK\$	Number of options exercised during the year	Number of options held 31 December 2001
		Date	Number				
YE Xuquan	–	24.08.2001	55,000,000	26.11.2001- 25.11.2006	0.1495	–	55,000,000

* If 25 November 2006 is not a business day in Hong Kong, the exercisable period shall end at the close of business on the last business day preceding that day.

Save as disclosed above, as at 31 December 2001, none of the Directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance, including interests which they were deemed or taken to have under Section 31 or Part I of the Schedule to the SDI Ordinance, or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 to the Listing Rules.

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

Report of the Directors (continued)

Guangdong Investment Limited

Substantial Shareholders

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

Name of Shareholder	Number of Ordinary Shares held	Percentage holding
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited)	2,979,242,653	58.04
GDH Limited	2,979,242,653	58.04
Guangdong Trust Ltd.	578,762,146	11.27

Notes:

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

Significant Contracts with Controlling Shareholders or its Subsidiaries

The following contracts of significance had been entered between the Company, or any of its subsidiaries, and a controlling shareholder or any of its subsidiaries during the year:

- (i) On 15 January 2001, the Company entered into a conditional sale and purchase agreement with GDH Limited for the disposal of its entire 70% equity interest in Guangdong Group (Shenzhen) Ltd. ("GD Shenzhen") and all amounts due and owing by GD Shenzhen in the sum of RMB1,412,296 for a total consideration of HK\$206,000,000. The completion of the transaction took place on 12 April 2001. Further details of the agreement are set out in the Company's announcement dated 15 January 2001 and the circular dated 5 February 2001.

Report of the Directors (continued)

Guangdong Investment Limited

Significant Contracts with Controlling Shareholders or its Subsidiaries (continued)

- (ii) The Company on 15 December 1998 issued a convertible bond in the principal amount of US\$27,000,000 (“Convertible Bond”). The Convertible Bond were restructured on 22 December 2000 (the “2005 CBs”) and the holder of the Convertible Bond had granted an option (the “Option”) in favour of GDH Limited to purchase the 2005 CBs during a three month period commencing from 22 March 2001 at an exercise price of 106% of the principal amount outstanding of the 2005 CBs. Details of the restructuring of the Convertible Bond and the Option are set out in the Company’s announcement dated 23 December 2000, GDH Limited exercised the Option on 13 June 2001 and the purchase of the 2005 CBs was completed on 3 July 2001. Upon full exercise of the conversion right attached to the 2005 CBs by GDH Limited, the Company allotted 263,250,000 Ordinary Shares at HK\$0.80 per Ordinary Share to GDH Limited on 30 November 2001. Details of the transaction are set out in note 39 to the financial statements.
- (iii) On 26 October 2001, Guangdong Properties Holdings Limited (“GD Properties”), a wholly-owned subsidiary of the Company, entered into a conditional agreement with Yue Gang Investment whereby GD Properties agreed to sell to Yue Gang Investment (or its nominees) a 55.2% interest in 廣州市番禺粵海房地產有限公司 (Guangzhou Panyu Yue Hai Real Estate Limited) (“GZ Panyu”) for a consideration of RMB220,890,000. The completion of the transaction took place on 28 December 2001. Further details of the agreement are set out in the Company’s announcement dated 26 October 2001 and the circular dated 13 November 2001.

Purchase, Sale and Redemption of Listed Securities

During the year, neither the Company nor any of its subsidiary companies has purchased, sold or redeemed any of its listed securities save and except the followings:

- (i) One and 1,000 Preference Shares were converted by way of redemption into 2,093 and 2,093,659 Ordinary Shares of the Company on 1 June 2001 and 13 June 2001, respectively. The Ordinary Shares were allotted at an issue price of HK\$3.7 per Ordinary Share and the Preference Shares were redeemed at US\$1,000 per Preference Share.
- (ii) On 30 November 2001, the Company allotted 263,250,000 Ordinary Shares at HK\$0.80 per Ordinary Share to GDH Limited upon its full exercise of the conversion right attached to the 2005 CBs.

Report of the Directors (continued)

Guangdong Investment Limited

Purchase, Sale and Redemption of Listed Securities (continued)

- (iii) In accordance with the Earnout Agreement, the Company has agreed to allot and issue to GDH Limited, 66,000,000 Ordinary Shares, for each year of 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 Limited) (“WaterCo”) meeting the milestones as set out in the Earnout Agreement. As WaterCo has attained the performance milestones for both the first and second years of the Earnout Period (the former in September 2001 and the latter in March 2002), accordingly the Company has an obligation to issue a total of 132,000,000 Ordinary Shares to GDH Limited pursuant to the Earnout Agreement upon the later of 21 December 2003 and the completion of the Phase IV Renovation Project (expected to be completed in mid-2004). The issuance of any further Ordinary Shares remains contingent upon WaterCo meeting its performance milestones under the Earnout Agreement in subsequent years.

Major Customers and Suppliers

In the year under review, sales to the Group’s five largest customers accounted for 50.8% of the total sales for the year and sales to the largest customer included therein amounted to 33.5%. Purchases from the Group’s five largest suppliers accounted for less than 30% of the total purchases for the year.

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

Post Balance Sheet Events

Details of the significant post balance sheet events of the Group are set out in note 54 to the financial statements.

Corporate Governance

Board

The Board of Directors comprises 14 Directors, and among them, four are Independent Non-Executive Directors the independent status of all of whom is strictly in compliance with the Listing Rules. There were four full Board meetings held during the year, and the average attendance rate of Directors stood at about 61%.

In accordance with the Articles of Association of the Company, apart from the Managing Director, all the Directors are subject to retirement and re-election at the annual general meeting in their first year of appointment and the provision requiring one-third of them to retire by rotation and to offer themselves for re-election at each annual general meeting thereafter. Each of the Non-Executive Directors is appointed for a specific term.

Report of the Directors (continued)

Guangdong Investment Limited

Corporate Governance (continued)

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 Best Practice as set out in Appendix 14 to the Listing Rules (the “Code of Best Practice”). The principal duties of the Audit Committee include the review of the completeness, accuracy and fairness of the Company’s financial reports and the effectiveness of the Company’s internal control system.

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

Internal Audit

The Company has established an Audit Department responsible for the overall internal monitoring of the Group. The key functions of the 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) maximization of the control and supervisory functions of the checks and balances and thereby, the mutual monitoring among the board chairman, general manager and the financial controller; and
- (iv) strict regulation of investments, loans and guarantees with outside parties.

Code of Best Practice

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

Modified Calculation Concession

Application of Chapter 14 of the Listing Rules to the Company

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

The Group, based on its latest audited published annual accounts as of 31 December 2000, has a negative net tangible asset value as described in the Company's announcements dated 29 May 2001, 26 September 2001 and 22 October 2001. 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 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 Stock Exchange from the application of certain provisions of the Listing Rules as described below.

Approvals

Upon the application of the Company on 25 May 2001, 21 September 2001 and 19 October 2001 the Stock Exchange granted approvals (the "Approvals") with respect to the application of the "assets test" (as defined in Rule 14.09(1) of the Listing Rules) and the "consideration test" (as defined in Rule 14.09(3) of the Listing Rules) (together, the "Relevant Tests") to apply (i) the De-minimis Concession (as described in the Stock Exchange's announcement dated 3 May 2001, (ii) the Modified Calculation Concession (as described in the Stock Exchange's announcements dated 3 May 2001, 24 August 2001 and 9 October 2001) and (iii) Modified Assets Basis (as defined below) as described in the Stock Exchange's announcement dated 24 August 2001 and 9 October 2001.

Details of the Approvals were set out in the Company's announcements dated 29 May 2001, 26 September 2001 and 22 October 2001.

Each of the Approvals was 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.

Report of the Directors (continued)

Guangdong Investment Limited

Modified Calculation Concession (continued)**De-minimis Concession**

The De-minimis Concession is such that each transaction 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, would be considered as de-minimis. The Relevant Tests will not apply.

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

Based on the Group's unaudited published interim accounts as of 30 June 2001, 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 assets to be acquired or disposed of" for the "consideration test" are to be determined for the purposes of the Modified Calculation Concession to ascertain the type of notifiable transaction for the purposes of Chapter 14 of the Listing Rules are now as follows:

- (i) ratio of 5% or above but below 15% (HK\$873,903,000 or above but below HK\$2,621,708,000) – the requirements for discloseable transactions will apply;
- (ii) ratio of 15% or above but below 25% (HK\$2,621,708,000 or above but below HK\$4,369,513,000) – the requirements for major transactions will apply;
- (iii) ratio of 25% or above (HK\$4,369,513,000 or above) – the requirements for very substantial acquisitions will apply; and
- (iv) for acquisition of assets (including securities but excluding cash) by the Company or any of its subsidiaries for consideration that includes securities for which listing will be sought, the requirements for share transactions will apply if the ratio is less than 5% (HK\$873,903,000).

For the avoidance of doubt, the "profits test" and "equity test" remain applicable to the Group.

Modified Assets Basis only while maintaining the Percentage Ratios prescribed under the relevant rules

In relation to references to "net tangible assets" or "net assets" in the provisions of the Listing Rules set out below, the basis set out in the "modified assets test" under the Modified Calculation Concession, namely "the gross assets less intangibles and current liabilities" (the "Modified Assets Basis"), based on the Group's unaudited published interim accounts as of 30 June 2001, shall be the basis for calculating the net assets of the Group and, where stated, the relevant percentage ratios shall be as follows:

- (i) Paragraphs 17(2) of Appendix 7A – ratio of 15% (HK\$2,621,708,000);
- (ii) Paragraph 16(2) of Appendix 7C – ratio of 15% (HK\$2,621,708,000);

Report of the Directors (continued)

Guangdong Investment Limited

Modified Calculation Concession (continued)**Modified Assets Basis only while maintaining the Percentage Ratios prescribed under the relevant rules**
(continued)

- (iii) Paragraph 36 of Appendix 16 – ratio of 15% (HK\$2,621,708,000);
- (iv) Paragraph 5.1 of Practice Notice 13 – ratio of 15% (HK\$2,621,708,000); and
- (v) Paragraph 3(e)(ii) of Practice Notice 15 – ratio of 15% (HK\$2,621,708,000).

Practice Note 19 – Paragraph 1.3

In relation to references to net tangible assets or net assets, as applicable, in the provisions of Paragraph 1.3 of Practice Note 19, such references shall be deemed to mean the value of the gross assets less intangibles and current liabilities.

Application of Modified Assets Basis but applying different Percentage Ratios

In relation to references to “net tangible assets” or “net assets” in the provisions of the Listing Rules set out below, the Modified Assets Basis, based on the Group’s unaudited published interim accounts as of 30 June 2001, shall be the basis for calculating the net assets of the Group and, where stated, the relevant percentage ratios shall be as follows:

- (i) Paragraph 15.2 of Appendix 16 – ratio of 1% (HK\$174,781,000);
- (ii) Paragraph 23 of Appendix 16 – ratio of 5% (HK\$873,903,000);
- (iii) Paragraph 3.2.1 of Practice Note 19 – ratio of 8% (HK\$1,398,244,000);
- (iv) Paragraph 3.2.2 of Practice Note 19 – ratio of 3% (HK\$524,342,000); and
- (v) Paragraph 3.3 of Practice Note 19 – ratio of 8% (HK\$1,398,244,000).

Modified Calculation Concession (continued)**Connected Transactions**

In relation to references to net tangible assets set out under Rules 14.24 and 14.25 for connected transactions, the Modified Assets Basis, based on the Group's unaudited published interim accounts as of 30 June 2001, will be adopted. In addition, the percentage ratio thresholds to determine disclosure and shareholder approval requirements will be amended as follows:

- (i) in Rule 14.24(5) the applicable threshold will be the higher of either (i) HK\$1,000,000, or (ii) 0.01% of the Modified Assets Basis (HK\$1,748,000);
- (ii) in Rule 14.25(1) the applicable threshold will be the higher of either (i) HK\$10,000,000, or (ii) 1.0% of the Modified Assets Basis (HK\$174,781,000); and
- (iii) by modifying the percentage threshold in Rule 14.25(2)(b)(i) to 5% of the Modified Assets Basis (HK\$873,903,000).

Period for which the Modified Tests will apply

The Stock Exchange's approval for the use of the modified tests described above will remain in effect until the publication or the due date of the Company's 2001 annual report, whichever is earlier.

Auditors

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

On behalf of the Board

LI Wenyue

Chairman

Hong Kong, 12 April 2002