

Chairman's Statement

In this letter, I would like to share with you selected financial information from the past year, highlight for you some of the significant achievements realised by the Group this year, and leave you with some of my thoughts about the Group and our plans for the future.

In the following discussion of the Group's financial results for 2002, in addition to providing group wide information, I have paid particular attention to our core businesses. We consider our core businesses to be (i) water distribution, (ii) electric power generation, (iii) toll roads and bridges, (iv) property investment and development and (v) hotel operations and management. In the financial tables that follow this report, we have tried to provide you with useful historic financial information about these core businesses. We have done this in an effort to show how the group of core assets we currently own and manage has performed on an historic basis.

RESULTS

The Group's turnover for the year amounted to HK\$6,737,025,000 (2001: HK\$7,271,518,000). The decrease in turnover was largely due to disposal of some non-core businesses in 2001 and a decrease in the turnover from the businesses of tours/travel and electric power generation, the respective turnover of which for the year was HK\$271,030,000 and HK\$4,652,266,000 (2001: HK\$323,245,000 and HK\$578,001,000). Turnover for the core businesses alone were HK\$4,733,414,000 in 2002 (2001: HK\$4,929,087,000), the decrease was mostly attributable to the unsatisfactory performance of the electric power generation business.

At our largest unit, the water distribution business, increase of sales volume of water, particularly in the Shenzhen and Dongguan regions, helped to improve the turnover by more than HK\$104,355,000 to HK\$2,831,978,000 from the 2001 figure of HK\$2,727,623,000. The cash contribution received by the Company from the water distribution business amounted to HK\$587,636,000 in 2002 (2001: HK\$400,100,000).

The Group's operating profit before finance costs and provisions was HK\$2,182,461,000, compared to HK\$2,320,267,000 in 2001. The decrease was mainly due to the exclusion of operating profit from Panyu Riverside Garden which is no longer a subsidiary of the Group, the drop of income from Shaoguan Power Plant D (electric power generation business) due to tariff reduction and the tours business. These declines were partly offset by an increase in income from stronger water revenue, retail/rental business and brewery business coupled with successful cost savings exercise across the subsidiaries. Taking the core businesses by themselves, operating profit (before the one-off finance costs associated with the debts refinancing of the GH Holdings Group)



LI Wenyue
Chairman

Chairman's Statement (continued)

was HK\$865,829,000, comparing favourably to HK\$828,195,000 in 2001. The slight increase of 4.47% is the result of a large interest saving for the year being partly offset by the unsatisfactory performance of the electric power generation business.

The consolidated profit attributable to shareholders amounted to HK\$281,108,000 for the year, compared to HK\$285,542,000 in 2001. The current year's result include one time costs incurred in connection with a substantial refinancing at the GH Holdings Group, (HK\$249,120,000), a provision in respect of an impairment in value of the Group's interests in a contractual joint venture in a thermal power plant in Mainland China (HK\$110,253,000), provisions relating to hotel properties and properties under development (HK\$26,037,000), impairment and deficiency in value of fixed assets (HK\$55,343,000), revaluation deficit on investment properties (HK\$89,432,000), impairment in value of investments (HK\$4,637,000) deficits against inventories (HK\$8,327,000) and provisions for doubtful debts (HK\$37,699,000).

As described below, great progress was made in refinancing our group-wide debts. The GH Holdings Group refinanced most of its debts in December 2002. The Company and certain standalone companies made substantial progress in retiring the debts that they restructured in December 2000. As a result of this progress, we expect to see significant interest savings for the Group in the years ahead.

While earnings per share of HK\$0.0391 were down 9% from last year, excluding the one time costs associated with the GH Holdings Group debts refinancing, the adjusted earnings per share would have been HK\$0.0863, a 100% increase over 2001.

STRATEGIC DEVELOPMENTS

Since I wrote to you last year, the Group has made meaningful progress on a variety of strategic fronts. We successfully completed an approximately HK\$14.8 billion refinancing at our water distribution business, which will result in substantial interest savings and increased earnings. We have continued to improve our management systems and the professionalism of our team, which, together with several cost control initiatives, has resulted in improved financial performance at our key operating businesses. In February 2003, we announced that we would be selling substantially all of our non-core businesses for approximately HK\$1.5 billion (the "Assets Disposal"). That transaction closed on 31 March 2003. Finally, using the proceeds of this assets sale, cash flow from operations, together with the financial support from GDH Limited, we have notified our financial creditors that the Company will repay all of its remaining debts that were originally restructured in December 2000.

Chairman's Statement (continued)

The GH Holdings Group debt refinancing

At the time of our acquisition of the water distribution business in 2000, the GH Holdings Group was capitalised with approximately HK\$14.8 billion of debts with an average cost of approximately 7.7% per annum in 2002. On 20 December 2002, almost two years exactly from the closing of our original restructuring, we signed a new credit agreement that enabled us to refinance those old debts at substantially lower interest rates. The refinanced debts are a floating rate interest facilities with margins ranged from 1% to 1.339% plus HIBOR per annum, part of which has already been hedged by swap agreements.

This refinancing did however result in several substantial one-time charges. Upfront banking, commitment and advisory fees amounted to HK\$112,854,000, and we also incurred costs of HK\$136,266,000 with respect to the unwinding of a currency swap that was associated with the refinanced debt. While these charges reduced our 2002 reported earnings per share by approximately HK\$0.05 per share, we expect to recoup those costs entirely in 2003 and look forward to the savings we expect to enjoy over as a result of the refinancing over the next 10 years.

Operational improvements

Across the Group we have strived to improve operational efficiencies, manage costs aggressively, improve the quality of our team and the competitiveness of our businesses. Highlights from this effort include increases in our water revenue tariff collection efforts in Shenzhen and Dongguan, where sales volumes (in million cubic metres) increased almost 18%. At our Hong Kong hotel group, numerous efforts to improve our team and the quality of our service resulted in a higher occupancy rates and higher operating margins. Finally, at Teem Plaza, our multi-use mall in Guangzhou, we continue to be the market leader and in a difficult real estate environment we were able to enjoy an increase of 2% in our rental income.

Sale of non-core businesses; prepayment of restructuring debts

Perhaps the most dramatic event took place after the end of our fiscal year. By successfully closing on the sale of substantially all of our non-core businesses, we have completed the most significant strategic objectives we set out for ourselves two years ago. At the time of our restructuring in December 2000, we told the market that we intended to transform the Company into a focused utilities and infrastructure player and that we wanted to pay down our restructuring debts ahead of schedule. I am excited to tell you that as of 31 March 2003 we completed the transformation of the Group. We have now exited all of our non-core businesses and going forward our business efforts will be focused on five core areas namely, water distribution, electric power generation, toll roads and bridges, property investment and development and hotel operations and management.

Chairman's Statement (continued)

In December 2000, when we closed our restructuring, debts subject to restructuring at the Company level amounted to HK\$4.52 billion and debts subject to restructuring at selected stand-alone subsidiaries amounted to an additional HK\$2.27 billion. Over the last two years we have made significant progress in paying down these debts. As of 31 December 2002 at the Company level, we had repaid a total of approximately HK\$2.48 billion which is more than completing the 5-year debt repayment milestones and also 2¹/₂ years ahead of schedule. The stand-alone subsidiaries by the same date had also reduced their restructuring debts by more than 90%, to just HK\$0.2 billion. And, in less than 1¹/₂ year's time on 1 April 2003, we announced that by using the proceeds from the Assets Disposal, cash flow from operations, and the financial support from GDH Limited, we will repay all of the Company's remaining restructuring debts, amounting to HK\$2.04 billion, on 2 May 2003.

PROSPECTS

Although we have made much progress over the last twelve months, we do not intend to rest and accept the status quo. We have several key initiatives that we plan to pursue in 2003 and beyond.

As mentioned in our earlier announcements, we are working hard to make the operational and financial improvements that will allow us to resume payments of dividends on our ordinary shares. In that regard, we continue to study the possibility of seeking a court approved capital reduction. Such a move would reduce the Company's accumulated losses and bring forward the day that we will no longer have a net loss position on our balance sheet. In addition, at an appropriate time we will seek to restructure our outstanding convertible preference shares ("CPS"). Under their existing terms, the CPS do not allow the payment of dividends on our ordinary shares unless and until no cumulative dividends on the CPS remain outstanding. While work is only at a preliminary stage and there is not yet any specific plan in these matters and also there is no assurance that our endeavors as outlined above will necessarily succeed, we intend to keep you apprised of our progress.

We will continue in our efforts to manage our existing assets as efficiently as possible. We hope to continue to increase sales and margins through aggressive management and continued adoption of international best practices. Where possible we will seek to prudently expand our current businesses. We have also begun to actively look out for and critically appraise acquisition opportunities in our core businesses.

On behalf of the Group, let me assure you that we know that a high standard of corporate governance, integrity, ethical behaviour and accounting ethics are keys to corporate success. We will continue to measure ourselves against international standards in the management and operation of our businesses and in making investments, financing and personnel management decisions. The Group recognises its obligations to justify the trust the shareholders have placed in it, and management will continue to work with diligence and prudence in the overseeing of our shareholders' assets.

Chairman's Statement (continued)

In closing, I would like to express my sincere thanks to all my fellow Directors and all staff of the Group for their dedicated hard work and support. Furthermore, I would also like to express my gratitude to Mr. ZHANG Yaping, who resigned as Managing Director of the Company in December 2002, for all the important contributions he has made to the Group.

LI Wenyue

Chairman

Hong Kong, 11 April 2003