CHAIRMAN'S STATEMENT AND MANAGEMENT REVIEW OF OPERATING RESULTS

OVERVIEW AND PROSPECTS

Whilst the year 2000 has been another challenging year for Guangdong Investment Limited (the "Company" or "GDI") and its subsidiaries (the "Group"), the comprehensive restructuring was successfully implemented. Such comprehensive restructuring comprises three elements: business restructuring, financial restructuring and management restructuring.

LI Wenyue
Chairman

For the business restructuring, GDI accomplished the acquisition of 81% of the ordinary share capital of GH Water Supply (Holdings) Limited from GDH Limited (the "Acquisition"). Included as part of the Acquisition completed on 22 December 2000, GDI received US$20 million from GDH Limited. The Acquisition lays a strong foundation for the implementation of the business strategy of the Group focusing on its core businesses with the emphasis centering on utilities and infrastructure.

For the financial restructuring, the restructuring of the Group's bank debts (PRC bank debts not included) also became unconditional and effective on 22 December 2000. Similar arrangements were likewise made for those standalone GDI subsidiaries. Moreover the restructuring of the convertible bonds and floating rate notes have all become unconditional and effective on the same day. The financial restructuring has gone a long way in helping the Group to achieve a better match between its cash generating abilities and the scheduled repayment of its debts.

For the management restructuring, the efforts by the Group to reorganize and strengthen both the Board of Directors and senior management of GDI and each of its subsidiaries have already produced significant result. With the assistance of an international renowned management consultant firm, the Group has further been making progress in establishing an efficient corporate organizational structure that will support the achievement of the Group's strategic vision and corporate objectives. This includes redesigning the corporate operating model, implementing the appropriate organizational structure and management processes, redefining key leadership roles and responsibilities and adopting best international practices with respect to corporate governance and controls. This provides strategic direction for and increases corporate oversight over each of our individual operating units, hence, enhancing the performance and value of each such unit. Moreover the Group is in the course of phasing in a group wide new management information system which will further provide to the management of the Group in a timely manner the information required to operate the businesses of the Group for optimal results and to provide the Group's financial creditors and shareholders with adequate information to better evaluate the Group's financial performance and business prospects.

In going forward, the Group is fully committed that it will embrace international standards in the management and operation of its businesses and in making investment, financing and personnel management decisions that will be in the best interests of both our shareholders and financial creditors. During the year, for consolidated operating results of the Group before provisions, we have already managed to record a profit of HK$203 million (1999: a loss of HK$120 million as restated). It goes without saying that we will continue to use our best endeavours to ensure that the Group is to complete its repayment obligations as early as possible and to have the entire Group as a whole return to profits as soon as possible. Towards those ends, the Group will step up its efforts in carrying out its assets disposal programs, disengaging from and disposing of its non-core businesses, taking effective measures to maximize the operating efficiency and profit potentials of all businesses, improving financial management, rationalizing the Group's debt structure and helping subsidiaries to secure all financing and refinancing on more favourable terms.

The difficulty lying ahead cannot be underestimated. However, through the comprehensive restructuring, the Group has already geared itself up to take on the challenge head on. The GDI Board of Directors is therefore confident that the Group has a promising future and will also succeed in developing into a flagship company for the Guangdong Province.

MANAGEMENT REVIEW OF OPERATING RESULTS

Core Business

Utilities

The return to the Group from a coal-fired electricity generating plant, Shaoguan Power D Plant, has improved, with turnover increased by approximately 7% as compared with 1999. Sales of electricity by the Meixian Power Plant B amounted to 1,455 million kwh (1999: 1,321 million kwh) and provided a stable income to the Group. Turnover attributable to Zhongshan Power Plant, a coal-fired electricity generating plant, reduced significantly as the Group's return from the project was no longer based on guaranteed profits. The Group has since entered into an agreement for the disposal of this plant subsequent to the balance sheet date.

The acquisition of Dongshen Water Supply Project was completed on 22 December 2000. Details are more particularly set out below in the section "The Dongshen Water Supply Project".

Infrastructure

The Group sold its interest in Zhongshan Toll Road during the year for a consideration of RMB100 million resulting in a gain of approximately HK$26 million to the Group. Yingkeng Highway recorded an increase in revenue by 14% while New Pak Kong Bridge provided a stable income to the Group. The Group also has some interests through a jointly controlled entity in certain projects including the Guangzhou-Shantou Highway (Huizhou section), the Shantou Haiwan Bridge, the Humen Bridge and the Qinglian highway. These projects contributed a profit of HK$15 million to the Group in 2000 (1999: HK$11 million) which is recorded under "Share of profit of a jointly controlled entity".

Property

1. *Mainland China*

   The performance of the Riverside Garden project surpassed that in previous years. Residential sales were strong with 138,609 square meters sold during the year representing a 64% increase in areas sold as compared with 1999. Turnover and profits before tax also rose by approximately 82% and 75% respectively during the year.

   Because of its excellent location in Tianhe, Guangzhou, Teem Plaza, one of the largest commercial complex in Guangzhou, enjoyed high occupancy rate and high rental income. Accordingly the project has continued to report a satisfactory performance for the year. Rental income increased by 12% to HK$205 million. Also despite increased operating overheads, operating profits before provisions maintained the same level as in 1999.

   Sales of residential and shop units and rental income in Suzhou GD Plaza generated HK$40 million in turnover (1999: 6.5 million). There was however still a loss because of the provisions for certain property projects.

2. *Hong Kong*

   The occupancy rate of Guangdong Investment Tower dropped slightly during the year but rose back again to almost 100% at year end (1999: virtually 100%). There has however been a reduction in the average rentals in respect of lease renewals and new leases as compared with 1999. Guangdong Parking Limited's interests in a car park located in North Point showed a minor operating loss before provisions of HK$4.1 million (1999: HK$6.5 million) due to a reduction in rental income and the fact that no car parking space was sold during the year. Rental income from properties owned by Guangdong (H.K.) Tours Company Limited in Causeway Bay continued to provide a steady return.

Hotel

1. *Mainland China*

   The Group has interests in two hotels in Mainland China. The occupancy rate of the Guangdong Hotel, Shenzhen was 93.4% representing an increase by 7.8% as compared with 1999, while the Guangdong Regency Hotel, Zhuhai had an occupancy rate of 76.2% representing an increase of 8.4% during the year. In addition, the occupancy rate of the new serviced apartments in the Guangdong Regency Hotel, Zhuhai was very satisfactory. The profit contribution before provisions from these two hotels reached HK$28.4 million representing a growth of 33% as compared with 1999. The Group's interest in the Guangdong Hotel, Shenzhen, has further been increased from 70% to 99% during the year.

2. *Hong Kong*

   Although the tourism and hotel industries in Hong Kong are showing signs of recovery, competition in Hong Kong hotel market remains very keen. The average occupancy rates for The Wharney Hotel Hong Kong and the Guangdong Hotel, Hong Kong were 87% and 84% respectively, both slightly higher than that of similar hotels in the same area. The two hotels are now also making great effort to diversify its customer base that currently tends to center around budget tour groups.

Non-core Business

As a result of the very keen competition in the beer market, there was a decrease in the turnover of Guangdong Brewery Holdings Limited 10% with sales of only 171,000 tons. Effective cost control has however increased the gross profit margin by 4% as compared with 1999. Operating results before provisions have accordingly increased from HK$71 million to HK$84 million during the year. It is only because a provision of HK$42 million has been made for the intended withdrawal from an associate that there is a decrease in the profits of Guangdong Brewery Holdings Limited for the year.

The performance of Guangdong Tannery Limited has likewise shown improvement. Sales picked up by 21% as compared with 1999 while margin has been improved from 4% in 1999 to 11% in 2000. Again it is because provisions of HK$111 million have been made against the impairment of trademark, trade receivable, inventory, revaluation deficits of properties and impairment of goodwill in a subsidiary that a loss before taxation of HK$115 million has resulted.

The competition in the malting business in the PRC has always been keen. The competition from a major competitor in northern China is particularly fierce. That notwithstanding, Guangzhou Malting Co., Ltd. increase its production level to 153,000 tons (1999: 121,000 tons) and Ningbo Malting Co., Ltd. increased its production level to 114,000 tons (1999: 101,000 tons) in 2000.

The travel business of Guangdong (H.K.) Tours Company Limited reports a profit before provisions, although turnover and gross profit margin dropped slightly as compared with 1999.

COMPREHENSIVE RESTRUCTURING

As previously announced, the principal transactions involved in the comprehensive restructuring of the GDI Group including the acquisition by GDI of 81,000,000 ordinary shares in the capital of GH Water Supply (Holdings) Limited from GDH Limited and the payment of US$20 million by GDH Limited to GDI, the bank debt restructuring and the restructuring of the Group's bonds and floating rates notes have become unconditional and therefore effective as from 22 December 2000. In addition, the restructuring of the GDE group which is important to the comprehensive restructuring of the GDI Group has become unconditional and effective as from the same date.

Under the terms of the Acquisition Agreement and as part of its completion, a total of 2,300 million GDI shares were issued and allotted to GDH Limited, Guangdong Trust Limited and Goldman Sachs International respectively.

A Master Override Agreement for the bank debt restructuring of GDI and certain of its subsidiaries was entered into with the bank creditors on 15 December 2000. The Master Override Agreement operates by way of a formal standstill and override and will only permit bank creditors to terminate the restructuring scheme upon the occurrence of events of default under the Master Override Agreement and not otherwise. Pursuant to the Master Override Agreement, GDI will repay no less than 45% of the participating bank debts within approximately five years with the balance being repaid or refinanced before the end of the restructuring scheme period. Interest under the Master Override Agreement is based on HIBOR/LIBOR plus an initial margin of 2.375% per annum until 22.5% of all participating bank debts have been repaid. The margin thereafter will be reduced to 2.00% per annum.

Those GDI's subsidiaries ("Standalone Companies"), which are considered viable ongoing entities which will only require limited financial assistance from GDI, have likewise entered into override agreements ("Standalone Override Agreements") with their bank creditors on 22 December 2000. Pursuant to the Standalone Override Agreements, the Standalone Companies will repay the participating bank debts ranging from 45% to 100% in full within their restructuring scheme periods with the balance being repaid or refinanced before the end of such restructuring scheme periods. Interest under the Standalone Override Agreements is based on HIBOR/LIBOR plus an initial margin of 2.375% per annum with different subsequent reduction according to the terms of the respective Standalone Override Agreements.

As part of the comprehensive restructuring of the GDI Group, the restructuring of the terms and conditions of the Group's bonds and floating rate notes has also become unconditional and effective as from 22 December 2000.

In addition, pursuant to the Memorandum and Articles of Association of GDI, an adjustment has been made to the conversion price of GDI's 3¼% Redeemable Cumulative Convertible Preference Shares as a result of the Acquisition and the restructuring of the Group's 5.5% Convertible Bond due 2001.

The Dongshen Water Supply Project

Following the Acquisition GDI now holds 81% of the issued share capital of GH Water Supply (Holdings) Limited (which in turns holds 99% of the equity interest in the 廣東粵港供水有限公司 (Guangdong Yue Gang Water Supply Limited) ("WaterCo").

With its exclusive right to supply natural water to Hong Kong, WaterCo has become the primary natural water supplier for Hong Kong, supplying in excess of 70% of Hong Kong's total consumption. WaterCo also has the non-exclusive right to supply natural water to Shenzhen and certain users in Dongguan along the waterway. All of these operating rights last for a period of 30 years commencing from 18 August 2000.

Under the terms of the concession for the supply of water, WaterCo has a right to take 2,423 million cubic meters of water per annum from the Dongjiang River. This river runs over 520 km in length, covering an area of 27,000 sq. km. As the off-take volume represents just 25% of the minimum flow of the river, demand does not pose a major constraint on the river's normal resources.

In an effort to improve water quality, WaterCo is undertaking a Phase IV renovation project. The project will go a long way towards enhancing the water transfer process by converting the existing exposed water supply channels and canals into enclosed and/or elevated water pipes. Additionally, the project will also increase the overall water handling capacity from the current 1,743 million to 2,423 million cubic meters of water per year. The project is scheduled to be completed by the end of 2003.

MANAGEMENT OUTLOOK

Following its comprehensive restructuring, the Group is now actively implementing its strategic plan focused on its core businesses. The negative impact of non-core businesses that has affected the results and the Group will be further contained in the coming year. Significant progress has already been made in the restructuring of the operational, organization and financial management of the Group.

The Group's interest in utilities will continue to provide stable cash flow to the Group, whilst the medium and long term prospects for the infrastructure sector in the Guangdong Province are positive. The property sector, although likely to remain lackluster in Hong Kong, is expected to continue to improve in the Guangdong Province. The high occupancy rate and excellent rental return of Teem Plaza maintained in 2001. The Board of Directors expects that the contributions to the Group from utilities, infrastructure and property will remain stable in 2001. The sector of the tourists market in Hong Kong towards which the Group's hotels are targeted, which includes tourists from Mainland China and business travelers, is also expected to improve in 2001.

At the same time, the Group will continue to pool all resources to put its new management in a better position to bring about the required corporate reengineering effectively and efficiently. In this regard, the new management information system will be playing an important role.

As the Group has demonstrated during the year, it is wholeheartedly committed to enhancing the quality of its management and will continue to do its very best to speed up the fulfillment of its repayment obligations and to create and maximise return to shareholders.

On behalf of the Board
LI Wenyue
Chairman

Hong Kong, 22 April 2001