

Chairman's Statement

Guangdong Investment Limited



LI Wenyue
Chairman

Group Results

I am pleased to report that for the year ended 31 December 2001, the Group achieved basic earnings per share of 4.32 cents, compared to the basic loss per share of 54.44 cents in the previous year.

The Group's turnover for the year amounted to HK\$7,271,518,000 (2000: HK\$4,947,984,000). Though there were disposals of certain non-core businesses in 2001, an increase in revenue due to the acquisition of the Dongshen Water Supply Project (the "Water Project") led to an overall increase of 46.96% in the Group's revenue.

The Group's operating profit before finance costs and provisions (net) was HK\$2,320,267,000, compared to HK\$645,983,000 in 2000. Such turnaround in operating results is mainly due to the acquisition of the Water Project, coupled with the reduction in expenditure on professional fees associated with the Group's debt restructuring and the acquisition of the Water Project and successful cost-savings exercises across the subsidiaries.

The consolidated results attributable to shareholders amounted to a profit of HK\$285,542,000 for the current year, compared to a loss of HK\$1,356,302,000 in the previous year. The results have already taken into account the provisions (net) of HK\$161,099,000 which were mainly in respect of provisions relating to hotel properties and properties under development (HK\$5,878,000), impairment and deficiency in value of fixed assets (HK\$39,440,000), deficit on revaluation of investment property (HK\$68,129,000), impairment in value of investments (HK\$20,387,000), provisions against inventories (HK\$10,871,000) and provisions for doubtful debts (HK\$16,394,000). The provisions (net) were HK\$1,081,108,000 lower than those of last year.

Overview

During the year, the Group continued to take steps to implement its corporate re-engineering with particular focus on its key businesses. Every effort has been made by the Group and all its members to control cost, maximise revenue and achieve reforms in marketing and assets utilisation in a drive to improve the profitability, competitiveness and overall quality of its businesses.

Comprehensive restructuring, comprising business restructuring, financial restructuring, and management restructuring, have continued to achieve satisfactory results in 2001.

For business restructuring, the Group continued to implement a business strategy focusing on the core businesses of utilities and infrastructure. During 2001, the Group disposed of a number of non-core assets and non-core businesses generating cash flow to the Group for the repayment of bank debts and strengthening the financial position of the Group.

For financial restructuring, the Group successfully implemented a series of refinancing arrangements which, coupled with the drop of interest rates in the global financial market, helped the Group to reduce and repay its bank debts ahead of schedule.

Chairman's Statement (continued)

Guangdong Investment Limited

For management restructuring, the Group has taken the following measures:

- Established management incentive schemes and rigorous staff performance appraisal procedures that are based purely on merit, thereby eliminating the "Big Pot of Rice" syndrome.
- Strengthened its control over financial affairs, capital investments and personnel management, as well as internal audits and supervision over the operating managers, and established an effective system of internal supervision and deterrence.
- Closed down unprofitable business units.
- Adopting a top-down approach, established throughout the Group a new corporate culture that is committed to achieving business results and profits, together with good business ethics and integrity.
- Established an effective internal financial reporting system which has enhanced the production of timely financial information for management decision-making, quality management and good corporate governance practices.
- Successfully implemented an open tender system and comprehensive cost cutting exercises which have brought about substantial cost savings in a number of the Company's subsidiaries.
- Reshuffled marketing teams and designed new marketing strategies to attain better product awareness, focus on targeted customer groups and penetrate into specified market sectors.

In 2001, many of the Group's businesses recorded satisfactory results. These include utilities (the Water Project), infrastructure (the "2 roads and 2 bridges" projects which are held by the Group's 51% owned jointly-controlled entity), properties (Riverside Garden and Teem Plaza in Guangzhou), hotel (the Guangdong Hotel in Shenzhen, 珠海粤海酒店 (Yue Hai Hotel, Zhuhai), and Guangdong Hotel and Wharney Hotel in Hong Kong) and malting businesses.

The Group's brewery business achieved a better result over the previous year's despite keen competition in Guangdong Province through cost controls, interest savings and reduction in provisions, recording an attributable profit of HK\$34,434,000 in 2001 (2000: HK\$10,242,000), which was encouraging.

By means of interest savings, cost controls and substantial reduction in provisions, the Group managed to reduce the operating loss of the tours and travel business in 2000 and report a profit this year.

The sales of electricity by Shaoguan Power Plant D have reduced substantially because of the wet climate which resulted in greater reliance on hydro electricity, the prior mode for the generation of electricity in Guangdong Province, hence causing a lower demand for thermal electricity.

Prospects

In the coming year, the Company will continue to focus on consolidating its existing businesses, whilst remaining alert for growth opportunities.

Going forward, the Group is fully committed to embracing international standards in the management and operation of its businesses and in making investments, financing and personnel management decisions.

Further steps will be taken to strengthen the financial basis of the Group by better treasury management and the Group will continue to seek opportunities to improve its financial position so as to further strengthen its financial structure and improve cash flow.

Following the successful repayment or prepayment of certain bank debts in 2001, the Group will adhere to the objective of further reducing its debt level and improving its gearing ratio with a view to completing the Group's debt restructuring ahead of schedule.

On the business front, further cost saving initiatives will be extended to cover subsidiaries and divisions. The Group firmly believes that a long term commitment to cost savings and effective use of human and financial resources are key factors to a company's healthy growth and enhancement of the company's strength to meet the challenge of an increasingly competitive business environment.

The Company recognises its obligation to justify the trust the shareholders have placed on it. The Company takes its long term responsibilities to its shareholders and creditors seriously and values and counts on their continued support for the Company as the Company embraces its transformation in the coming year.

By order of the Board

LI Wenyue

Chairman

Hong Kong, 12 April 2002