

## Chairman's Statement



**LI Wenyue**

Chairman

I am pleased to report to our shareholders that 2003 was a year of finalising our balance sheet restructuring, which has paved the way for the Company to enter into a new era of business growth and development from 2004 and onwards.

The highlights of the Group's activities during the year included:

- (1) The successful closing of the approximately HK\$1.5 billion sale of substantially all of our non-core businesses and the repayment of all of our remaining bank debts that were originally restructured in December 2000.
- (2) The completion of the capital reduction proposal, which consisted of (a) the loss elimination reduction and (b) the preference shares cancellation. The loss elimination reduction, approved by the Company's ordinary shareholders on 29 September 2003 and confirmed by the court on 17 December 2003, enabled the Company to eliminate its accumulated loss of approximately HK\$3.9 billion as of 30 June 2003. The preference share cancellation, duly approved by the Company's independent shareholders and preference shareholders on 29 September

2003 and also confirmed by the court on 17 December 2003, resulted in the cancellation of the preference shares and their replacement with bonds issued to GDH Limited, which was the sole beneficial owner of the preference shares in issue.

The completion of these two capital restructuring projects has placed the Company in a position to resume payment of dividends to its ordinary shareholders out of the distributable profits, if any, that may be generated in 2004 and beyond. This also means a step to enhance the value of our shares to all of our shareholders.

- (3) The operation of the phase IV renovation project at our water distribution business was commenced. The RMB4.7 billion project not only substantially improved the quality of water supplied to Hong Kong, as the water is now being transported from Dongjiang to Shenzhen via overhead canals and tunnels, but the project has also helped the Company to expand its water distribution business in Dongguan and Shenzhen.

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### Review of Group's Results

The Group's turnover for the year amounted to HK\$5,163,943,000 (2002: HK\$6,737,025,000). The decrease in turnover was largely due to the disposal of substantially all of our non-core businesses in March 2003 and a decrease in turnover at our hotel business due to the impact of SARS, partly offset by better revenue at Shaoguan Power Plant D and the water distribution business. Despite the drop in revenue, the Group's earnings before interest, taxation, depreciation and amortisation remained at basically the same level as that for the previous year.

The Group's consolidated net profit attributable to shareholders amounted to HK\$1,106,721,000, compared to HK\$194,904,000 (restated) for 2002, an increase of 467.83%. The increase in the profit was largely due to savings in finance costs of HK\$877,537,000 (of which approximately HK\$747,341,000 contributed to the Group's results) and the balance related to the variance on deferred taxation.

We have made provisions of HK\$219,833,000 to the Group's results for the year. The provisions are principally related to an impairment in the value of the Group's interest in a joint venture project (HK\$60,000,000), revaluation deficits on investment properties (HK\$89,416,000) and impairment and deficiency in values of properties under development (HK\$26,836,000) and fixed assets (HK\$23,554,000). Partially offsetting these provisions was the write-back of HK\$58,031,000 and HK\$46,895,000 respectively on recovery of bad and doubtful debts and recovery of an impairment loss of a deconsolidated subsidiary. In addition, there was a write-back of a HK\$62,010,000 provision on our hotel properties.

Compared to the provisions charged in the Group's 2003 interim results, there was a reduction against the amount of the provisions made for the year. The reduction was mostly related to the write-back of provisions on hotel assets that were previously provided against the 2003 interim results due to SARS and also the recovery of an impairment loss of a deconsolidated subsidiary.

Basic earnings per share increased from HK¢2.27 (restated) to HK¢20.14, up 787.22% from last year.

### Prospects

In the coming year, we will continue to focus on (1) improving the performance of existing businesses and (2) acquisitions in our core businesses.

### Operating Improvement

The Group is committed to achieving an international standard in the management and operation of its businesses. Across the Group, we will continue to implement open tenders for all works and projects. Further steps will be taken to improve our interest rate exposure by better treasury management. The Group will continue to seek opportunities to improve its financial position so as to further strengthen its interest coverage and improve cash flow and its use of operating funds.

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For the water distribution business, the management will continue to develop new markets and networks to provide quality water to cities along the waterway from Dongguan to Shenzhen. Coupled with proper incentive systems, a new tariff collection system will also be implemented.

For our electric power generation business, we will continue to maximise capacity utilisation at our plants.

The management team at Teem Plaza is now developing strategies to combat expected competition from a neighbouring new plaza. The overall floor plan and tenant mix will be critically reviewed to further enhance rental income. New floor areas and advertising spaces will also be explored to generate additional income.

For the hotel business, phase by phase renovation of guest rooms will be carried out in the four hotels so as to attract more business guests. The overall strategy contemplates a gradual growth in the higher yielding business guest sector against the lower yielding tourist guest sector. Our hotel management personnel will continue to expand our hotel management services business by contracting to manage additional hotels.

In conclusion, we will continue to strive to further improve the management of our assets and liabilities.

## New Business Opportunities

The plan to develop the East Tower at Teem Plaza is on schedule. The project is at the final stage of regulatory approvals. It is expected that construction will begin in the second half of 2004.

Management is also actively exploring business acquisition opportunities in our core businesses.

Finally, I would like to thank the Board, management and all staff for their hard work and dedication, as well as our shareholders for their support and confidence in the Group.

## LI Wenyue

*Chairman*

Hong Kong, 16 April 2004