

Chairman's Statement



LI Wenyue

Chairman

Results

I am pleased to report to our shareholders that we have recorded a steady growth in the results of the Group for 2004. For the year 2004, the Group's audited consolidated net profit from ordinary activities attributable to shareholders amounted to HK\$1,150 million (2003: HK\$1,107 million) representing a growth of 3.9% as compared with last year. The basic earnings per share were 20.53 HK cents (2003: 20.14 HK cents), representing a growth of 1.9% compared to last year.

Dividends

The Board recommends a final dividend of 3.5 HK cents per share for 2004. Such dividend together with the interim dividend of 2.5 HK cents per share which has been paid during the year will aggregate to a total dividend of 6.0 HK cents per share (2003: nil) for the entire year. The said final dividend for 2004, subject to the approval by the shareholders of the Company at the annual general meeting, will be paid on 28 June 2005.

Review

In 2004, the management of the Group has shifted the main focus of its efforts from merely endeavouring to reduce the debt burden of the Group to actively seeking opportunities for business growth and development. With a new corporate culture which emphasises result performance and creating value, the management and the work force worked together whole-heartedly to forge ahead with vigour and innovation. We have also continued to maintain the growth in our results for the year.

The consolidated turnover of the Group for 2004 was HK\$5,109 million, an increase of 5.9% as compared with the turnover of the continuing operations of 2003 of HK\$4,825 million. Although the turnover of the electric power generation business of the Group dropped by 14.4% due to a decrease in the production output volume, the water distribution, retail and shopping mall operation and hotel operation and management businesses of the Group all recorded satisfactory growth.

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The consolidated net profit attributable to shareholders of the Group for 2004 was HK\$1,150 million (2003: HK\$1,107 million), an increase of 3.9%. The increase was mainly attributable to an increase in the revenue from the water distribution business of HK\$160 million (5.4%), the hotel operation and management business of HK\$60 million (37.9%) and the retail and shopping mall operations of 廣東天貿(集團)股份有限公司 (Guang Dong Teem (Holdings) Ltd.) ("GD Teem") of HK\$154 million (14.7%). The main reasons for the increase in expenses and costs in 2004 were: (i) following the completion of the Phase IV Renovation Project in November 2003, the depreciation for the water distribution business in 2004 increased by HK\$190 million as compared to that of last year and the expenses for operating the new water supply system increased by approximately HK\$47 million; (ii) a net increase in finance costs of HK\$169 million which was mainly attributable to the interest rate swap arrangements made in respect of a major part of the loans with floating interest rates to minimise the exposure of the Group to interest rate fluctuation.

A total provision of HK\$166 million was charged to the Group's results during the year which included a provision of HK\$69.91 million for the toll road projects (including a provision of HK\$45.92 million as reflected in the Group's share of profits of jointly-controlled entities), HK\$64.5 million for the electric power projects, HK\$25.2 million for property valuation and HK\$6.86 million in respect of receivables. At the same time, a total provision of HK\$84.8 million was written back which included a write back of HK\$38.2 million for investment properties, HK\$11.9 million for hotel operations, HK\$9.9 million for properties under development and HK\$24.80 million for interests in jointly-controlled entities. There was also a write-back of deferred tax in the year of HK\$201 million.

The basic earnings per share increased 1.9% from 20.14 HK cents of last year to 20.53 HK cents.

In retrospect, we have embarked upon and achieved satisfactory results in the following principal tasks during the year:

A. Strengthening existing operations and enhancing profitability

Through increasing its investment in existing projects and bringing about technological improvements to existing operations, the Company further enhanced the capability of its existing businesses and thereby the profitability of the Group as a whole. Such measures include:

1. The construction of the East Tower of the Guangzhou Teemall Plaza at a total cost of approximately RMB800 million is already underway and is expected to be completed by 2006. The East Tower will be developed as a 45-storey A-Class office tower with a gross floor area of 113,370 sq.m. Upon completion, the East Tower will be a prominent landmark in Guangzhou. The development of the West Tower of the Guangzhou Teemall Plaza as a 5-star hotel and service apartments complex is now under planning and is expected to be completed by 2007. The management is currently working out the future operation and management arrangements for that hotel and service apartments complex with an international hotel management company;
2. During the year, the Company has increased its shareholdings in GH Water Supply (Holdings) Limited from 82.66% to 82.86%;

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3. During the year, the Company has increased its shareholdings in GD Teem from 62.77% to 68.58%;
4. In the toll road and bridge sector, the Company has acquired a 20% equity interest in Guangdong Pan Yu Bridge Company Limited ("Panyu Bridge") at a consideration of approximately HK\$29.06 million;
5. The Company has brought about technological upgrading and improvements to the Shaoguan Power Plant, the Meixian Power Plant and the Zhongshan Power Plant to increase their power generating capacity.

B. Strengthening the reforms to the incentive system and invigorating the drive for corporate development

The Group's water distribution business has implemented further reform to its staff remuneration and incentive scheme. In addition to pegging the total staff remuneration and incentive payment of the enterprise to the enterprise's profit targets, the incentives for each business unit are now benchmarked to the operating results, costs and expenses, production safety and work quality of that business unit and the incentives for each individual staff are based upon that staff's performance appraisal. Such measures have proven to be extremely effective in reinforcing the mechanism of healthy competition and driving the development of the enterprise as a whole as well as the improvement of its result performance

C. Increasing the effectiveness in managing and supervising the businesses of subsidiaries and enhancing management efficiency

The Company manages its subsidiaries in the water supply, retail and shopping mall operation, and hotel operation and management businesses by the direction, supervision, coordination and services it provides to them. The Company has also introduced a new management system for those 8 electric power generation and toll road and bridge projects where the Company has only minority shareholdings. Under the new management system, the directors appointed by the Group and responsible for the respective projects are required to pay in-depth on-site visits to the project companies on a regular basis, to enhance the communication with such project companies, to understand the operation of the projects better and on a more timely basis and thereby to discharge the management functions in a more direct and hands-on manner.

D. Forging brand image and achieving success through service differentiation

The Group's subsidiary, GD Teem, has taken steps to systemically establish its distinct corporate identity. By the promotional activities it stages for its anniversary celebration, the renowned brand name shops it attracts as tenants for its shopping mall and the conferences and summit meetings it hosts for the industry, GD Teem is beginning to distinguish itself with its corporate image as not only a leader in the industry but also a good corporate citizen actively serving the community. In the process, a high degree of awareness and recognition of the "Teemall" brand has been generated among the public. Customer flow to the shopping mall has also achieved a record high.

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Likewise, the hotel management company is actively building up for itself the "GDH Hotel" brand. On the one hand, it has achieved high visibility and public awareness by adopting a unified logo and service standards for all its hotels, setting up a centralised reservation centre to service all its hotels and also extending services through popular websites. At the same time, it differentiates the services of its hotels by launching hotel floors with special features and offering specialized services to cater to the specific needs of its hotels' target customers. The successes of such measures have helped the hotel management company to win recognition as an international brand frontrunner in the hotel industry in Mainland China. It has also helped the hotel management company to market its services to hotel owners. With a total of 13 hotels under its operation and management and over 4,000 hotel rooms, the hotel management company is ranked among the leading domestic hotel management groups in Mainland China.

Prospects

In tandem with the buoyant economy and the continual improvement in the standard of living in Mainland China, water resources are growing in significance. The management will step up its efforts to extend the distribution network as well as to actively develop new markets. There should therefore be room for the revenue of the Group's water distribution business in Mainland China to maintain a healthy growth.

In respect of the electric power generation business, the management will strive to control the production costs of the power plants, to step up equipment maintenance and thereby reduce production down time, to increase output volume and to lobby the relevant governmental authorities for both the early implementation of the co-ordination mechanism between the coal and electric power industries and more flexibility when adjusting the prices of the electric power supplied by our power plants.

As for the other businesses, they have to face different degrees of market competition (which will be particularly keen for the retail and shopping mall operations of GD Teem). However, by leveraging on our competitive advantages in terms of our superior corporate culture, strong capital base and the dedication and hard work of all our staff, the management is confident that the businesses of the Group as a whole will be able to maintain their steady growth in the year to come.

The interest-bearing indebtedness of the Group was approximately HK\$14.7 billion as at the end of the year. As its credit-worthiness has continued to improve, the Group will closely monitor the market conditions and if the opportunity is ripe, to work out with the banks appropriate refinancing arrangements in order to achieve further savings on finance costs. While Hong Kong is starting to go into a cycle of increasing interest rates, as interest rate swap arrangements are already in place for the majority of the Group's indebtedness with floating interest rates, the impact of interest rate increases will not be significant to the Group.

In line with its business strategy, the Group is focusing on its 6 core businesses with particular emphasis on utilities and infrastructure. The management is therefore actively yet prudently exploring investment opportunities in utilities and infrastructure projects, particularly acquisition for toll road and bridge projects.

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Finally, on behalf of the Board, I would like to thank all the shareholders for their support and also all our management and staff for their hard work and the good results they have achieved.

LI Wenyue

Chairman

Hong Kong, 15 April 2005