

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Tanjong plc, I have the pleasure of presenting to you the Annual Report for the financial year ended 31 January 2000.

Financial Review

Group turnover for the financial year ended 31 January 2000 increased by 13 percent to RM1.89 billion from RM1.67 billion previously. Power generation turnover increased by more than three-fold to RM343 million while the NFO business registered a decline of 2 percent in turnover to RM1.49 billion compared to the previous year. Gross proceeds received on racing totalisators decreased 32 percent to RM578 million from RM853 million previously resulting in a corresponding decrease in net surplus received for the year at RM13 million. Property investment and the LPG business recorded turnover of RM30 million and RM26 million respectively for the year.

For the year under review, Group operating profit, inclusive of share of results of joint venture and associate, decreased from RM286 million previously to RM280 million. Declines in NFO and RTO operating profits were offset by an increased contribution from power generation. NFO operating profit decreased by 37 percent to RM133 million for the year due to a reduction in operating margins arising from the increase in gaming taxes and duties and higher than expected prize payouts in the first half of the year. The RTO business ended the year with an operating loss of RM20 million as a result of lower net surplus received and a charge of RM14 million to meet the shortfall in income from totalisator and related activities received by the turf clubs. Power generation, on the other hand, recorded a 158 percent increase in operating profit, from RM64 million previously to RM164 million, due to the consolidation of a full year's results from Powertek Berhad ("Powertek"), which also included six months' results from the newly acquired Tanjong Kling Power Station. Property investment contributed operating profits of RM16 million before interest charges for the year compared to RM16 million previously. The

LPG business registered an operating loss of RM10 million for the year, as net contributions from sales were insufficient to recover depreciation charges and fixed overheads.

Net interest expense of RM27 million was recorded for the year against net interest income of RM33 million previously. Interest income at RM24 million was lower due to a reduction in surplus cash resources and lower interest rates on placements. Interest expense increased to RM51 million largely as a result of accounting for a full year's interest charge from Powertek and from new loans and facilities obtained for the development of Menara Maxis and the acquisition of the Tanjong Kling Power Station. Investment income for the year amounted to RM9 million inclusive of a write-back of provision for diminution in value of RM8 million now no longer required.

Taxation amounted to RM53 million for the financial year resulting in an effective tax rate of 20 percent, which is lower than the statutory tax rate. This is largely due to the tax waiver of RM32 million granted in accordance with the Malaysian Income Tax (Amendment) Act 1999 on Powertek's profits for the 11 months ended 31 December 1999 offset by non-deductible losses and expenses of certain subsidiaries.

Group net profit attributable to shareholders and net earnings per share decreased by 48 percent to RM186 million from RM359 million and to 49.4 sen from 95.6 sen respectively. For the year under review, the adjusted underlying EPS from core operating activities amounted to 38.2 sen (after excluding investment income and exchange movements and adjusting notionally for the effect of the tax waiver on profits for 1999) against 53.7 sen on a comparable basis the previous year, a decline of 29 percent.

Net cash inflow from operations decreased by 10 percent from RM356 million to RM318 million this year with declines in NFO cash inflows being partially offset by increased cash inflows from power generation. Net interest payments increased to RM21 million while cash outflow on net capital

CHAIRMAN'S STATEMENT (cont'd)

expenditure decreased to RM33 million. As a result, free cash flow of RM169 million was generated for the financial year, a decline of 13 percent when compared to the previous year. Dividend payments of RM81 million absorbed 48 percent of free cash flow with the balance being applied towards acquisitions made during the year of RM341 million, which is largely attributable to the purchase of the Tanjong Kling Power Station.

As at 31 January 2000, gross cash and liquid resources (short-term deposits and portfolio investments) stood at RM477 million while gross debt amounted to RM778 million, of which RM29 million is repayable within 12 months. Powertek's gross cash and gross debt included in these balances amounted to RM285 million and RM580 million respectively at the year-end.

Dividends

On 28 September 1999, the Board had declared an interim gross dividend of 8.0 sen per share less Malaysian income tax at 28 percent, which was paid on 17 December 1999.

Your Directors have recommended a final gross dividend of 22.0 sen per share less Malaysian income tax at 28 percent in respect of the financial year ended 31 January 2000, amounting to RM60 million.

Together with the interim gross dividend, the total gross dividend paid and proposed for the year amounts to 30.0 sen per share less Malaysian income tax at 28 percent for a total net payment of RM81 million. The proposed final dividend, if approved, will be paid on 11 August 2000 to all shareholders on the register of the Company on 14 July 2000.

Corporate and Business Developments

On 6 August 1999, the acquisition of the 330MW Tanjong Kling Power Station was completed at a total cost of RM759 million following the receipt of all relevant approvals. The power station has made immediate contributions to Powertek's profitability and cash flows.

The Group collaborates with a number of potential business partners to extend the reach and distribution of its products through the adoption of enabling technologies in wired and wireless communications. These initiatives have progressed to the integration of the Group's host gaming systems with multiple interactive delivery platforms. In this context, an informational service for draw results has been launched for GSM mobile phone users. The service has been well received and additional interactive services related to the Group's activities will be launched at the appropriate time.

In addition to the organic growth and consolidation of our core activities, the Group will continue to make investments in new opportunities which will enhance shareholder wealth.

Corporate Governance

The Company complies with the corporate governance provisions set out in the Main Board Listing Requirements of the Kuala Lumpur Stock Exchange and the Listing Rules of the London Stock Exchange ("LSE") as they apply to an overseas company with a secondary listing on the LSE.

On 9 March 1999, the Code of Best Practices in Corporate Governance ("the Code") was issued by the High Level Finance Committee appointed by the Ministry of Finance Malaysia. During the year, David Kuok, an independent non-executive director of the Company and the Chairman of the Audit Committee, completed his re-evaluation of the Group's corporate governance measures in light of the recommendations in the Code, which have yet to be adopted by the KLSE. As a result of this review, the Board has modified and enhanced the Group's corporate governance policies and practices, where applicable, and has adopted additional policies, where deemed appropriate. These policies and procedures are set out in detail in the Report of the Directors.

Community Service

During the year, the Group continued to implement its corporate social responsibility programmes as part of its commitment to the community. Charity programmes organised involved both financial and human resources of the Group. Our Staff-in-Community programmes were also organised alongside these charity projects. This has not only fulfilled our social objectives but also helped raise the level of civic consciousness among our staff on the needs of the disadvantaged communities.

The Group contributes actively towards the progress and development of organisations through its involvement in grassroots projects run by government and non-government agencies. Over the years, support has been extended to worthy organisations throughout the nation. As a result, the Group's donations have reached those in need and deserving of our assistance.

Additionally, the Group's community service drive also extends to other worthy causes, in particular education, community health and sports. In line with this, our flagship programmes to support these causes continue to be actively promoted during the year.

Human Resources

Regular training and development courses were conducted throughout the year to consistently improve the skills and knowledge of our staff. Training programmes were conducted to enhance job-related skills and knowledge in the work environment, as well as to strengthen organisational team building. The Group's staff development initiatives also provide for career and personal growth opportunities within the organisation.

As at 31 January 2000, the Group had a total of 750 full-time employees deployed throughout its business operations. Total staff strength has increased by 103 staff or 16 percent as compared to the previous year, largely due to the commencement of operations at the Wuhu LPG plant and the acquisition of the Tanjong Kling

Power Station. In addition, the Group has on average a total of 152 staff deployed on a part-time basis throughout the year for its NFO and RTO businesses.

On 17 September 1999, the Group implemented the Tanjong Public Limited Company Employees' Share Option Scheme No.2 ("ESOS") for eligible employees (including Executive Directors) of Tanjong and its subsidiaries. Options in respect of 13,438,000 new shares were granted to 415 staff of the Group who were eligible to participate in Year One of the scheme, out of which options in respect of 163,000 shares have been exercised as of 31 January 2000.

Prospects

The NFO business is expected to benefit from the recovery in domestic consumption this year. However, the trading environment for the RTO business continues to be difficult given the pari-mutuel nature of the product and the prevailing tax regime. Power generation is expected to perform satisfactorily this year with a full year's contribution from the Tanjong Kling Power Station. Barring unforeseen circumstances, the Group is expected to achieve satisfactory overall performance for the current year.

Acknowledgements

On behalf of the Board of Directors, I would like to record our sincere appreciation and gratitude to our shareholders, customers, selling agents, business associates and the relevant authorities for their continued support and confidence in the Group. I would also like to acknowledge the contribution of all our staff and thank them for their invaluable services to the Group.



KHOO TEIK CHOOI

Chairman

Kuala Lumpur

26 April 2000