

# Business Review

## POWER GENERATION BUSINESS

Our key strategy for Power Generation in 2003 was to ensure the successful completion of the combined cycle phase of the Panglima power plant ("Panglima"). In doing so, our total installed capacity has increased to 1,490 MW, making our principal subsidiary, Powertek Berhad ("Powertek"), the second largest independent power producer in Malaysia. The achievement of this goal has enabled us to report an increase in this segment's turnover which rose by 9% to RM1,019 million.

Panglima was constructed using a disciplined project management approach and tight cost control which enabled the project to be completed below budget. We have hence been able to achieve a total project cost of approximately RM1.47 billion for a 720 MW plant, which is one of the lowest costs per MW in the region. Apart from its cost advantage, Panglima uses the latest plant technology which has enabled it to operate at an efficiency level that is among the highest in the power generation industry. This has brought about considerable savings in fuel consumption that have been passed on to its customer in the form of low tariffs.

Another major milestone in 2003 was the successful completion of the acquisition of the remaining 36,697,256 ordinary shares of RM1.00 each in Powertek not owned by the Group. The compulsory acquisition and the delisting of Powertek were both completed in April 2003. We are now therefore able to account for an additional 16% of Powertek's earnings.

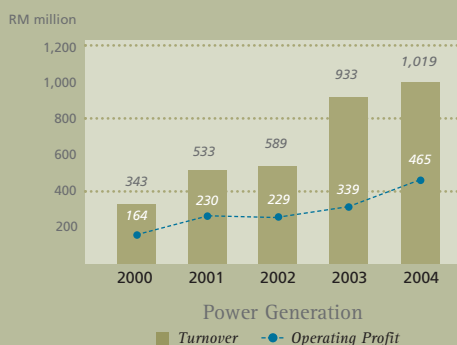
During the year, we issued RM830 million Redeemable Secured Serial Bonds to secure Panglima's project financing at competitive terms and rates. These funds were applied against the RM400 million bridging loan taken earlier on, as well as the remaining construction costs of the plant.

In the course of completing its corporate transformation and constructing Panglima, Powertek has successfully maintained a continuing focus on the operation and maintenance of its other power plants in Melaka, so that these have been able to attain the expected efficiency and reliability levels, technical excellence and high standards in occupational safety and health. Our overall efforts have translated into a 37% increase in Power Generation's operating profit from RM339 million to RM465 million.

Our present challenge in Power Generation is the continuation of the growth momentum that has been established over the last three years. The current requirements of the Malaysian power industry and the resulting difficulty in securing the mandate for new plant-ups in the immediate future has made this challenge even tougher. We are however well-positioned to pursue all growth opportunities within Malaysia and to seize opportunities for acquisitions and further plant-ups in the global market.

## OVERVIEW

*The Group's overall business objectives are to achieve earnings growth in excess of its cost of capital and to improve the resilience of its earnings profile through diversification. The ongoing challenge for each of our business segments is therefore to plan our actions judiciously and execute our plans with determination and conviction. The following review of our significant business segments provides an insight into our goals and the extent to which these goals were achieved during 2003.*







## Business Review (continued)

### NUMBERS FORECAST TOTALISATOR BUSINESS (“NFO”)

After a relatively sluggish performance over the past few years, the NFO segment saw an impressive 9% increase in turnover from RM1,422 million to RM1,556 million registering what has been the segment’s best performance since 1998. The increase was brought about by several factors. First, the NFO industry saw a sharp increase in demand in the second quarter of 2003 due to rigorous enforcement measures which were carried out by the authorities against unauthorised operators. Secondly, we took measures to increase the awareness of our NFO products by sponsoring media programmes and special events. This has enabled our products to appeal to a wider target audience. Marketing innovation has also played a significant role in increasing our market share as was manifested in the later part of 2003 by the introduction of the IBox service.

The increased turnover managed to mitigate the impact of the January 2003 increase in Betting & Sweepstake duties and revised payout structure which considerably reduced our NFO operating margins. We therefore recorded a smaller than expected decrease of RM20 million in our operating profit from RM201 million to RM181 million.

Looking ahead, we note that the Telelink channel has significant untapped potential to help overcome the lack of accessibility to our products. Whilst the contribution from this channel is still modest, we are encouraged by the growth of its customer base which has met with our expectations. We will commit more resources to improve the various customer services especially in the area of mobile phone betting and electronic fund transfers. We will also be implementing various other structural and tactical plans to ensure that our immediate and long term growth targets are achieved.

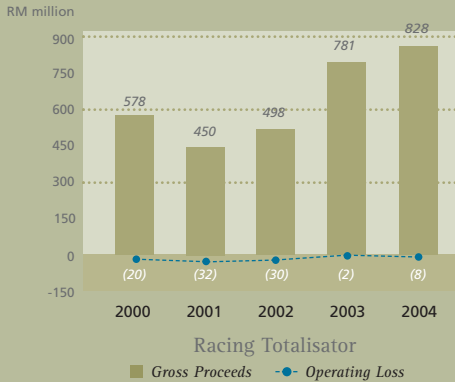


## Business Review (continued)

### RACING TOTALISATOR BUSINESS ("RTO")

Racing totalisator gross proceeds continued to improve and saw a 6% increase for the year under review, from RM781 million in the previous year to RM828 million. This was achieved through an additional 92 races being conducted this year. The attendance at the turf clubs and off-course centres similarly increased by 10% to 1.87 million punters although spending per punter saw a slight decline of 4% from RM462 per race day to RM442 per race day this year. Despite the increased gross proceeds, we recorded an increase in operating loss from RM2 million to RM8 million due to an escalation in overall totalisator expenditure.

The National Stud Farm ("NSF") held its twelfth National Premier Sale at the Penang Turf Club during the year. A total of 61 two-year-old horses, comprising 29 local bred and 32 imports, was successfully auctioned off for RM4.1 million. The Sale, along with the NSF-sponsored incentive races, is an integral part of our efforts towards developing and promoting the thoroughbred breeding industry in the country.







## Business Review (continued)

### LEISURE BUSINESS

In July 2003, the Group entered into a Purchase & Loan Contract to purchase the assets of Cargolifter AG Group for Euro 17.5 million, which included the world's largest freestanding dome and 500 hectares of freehold land near Berlin in the Federal Republic of Germany. We intend to develop the dome into a resort destination with a year-round tropical setting comprising different themed areas of natural islands such as a rainforest, sea, lagoon, beaches, park, village, flower garden and market place.

Tropical Islands has also been conceived as a lifestyle destination showcasing the culture, food and entertainment unique to various tropical countries around the world. The scheduled activities in Tropical Islands are designed to appeal to a wide spectrum of visitors encompassing all age and income groups. In order to maintain continuing interest in its activities, the environment and entertainment themes will be changed from time to time. Market segmentation techniques will also be used to cater for the differing needs of high and average spending patrons.

The acquisition of the aforementioned assets was completed on 16 April 2004. On the same date, we acquired a 75% equity interest in Tropical Islands S.A.R.L. ("TISARL"), the company which will undertake the project. Our partner, Au Leisure Investments Pte. Ltd. holds the remaining 25% equity interest in TISARL.

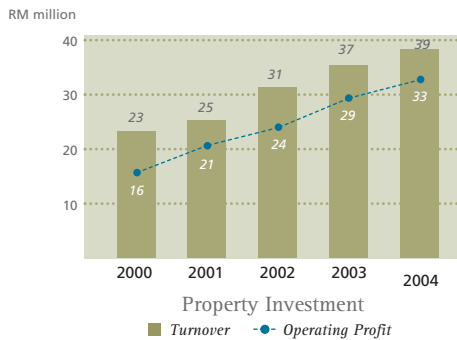
A Project Committee has been formed to drive the project to ensure that the attendant construction, resource, marketing, financing and other operational issues are duly addressed in order that we can successfully meet our scheduled completion date in the fourth quarter of 2004.

Tanjong Golden Village Sdn Bhd registered a 13% increase in admissions during the year, up from 6.1 million patrons to 6.9 million patrons. Gross box office receipts increased correspondingly by 16% from RM50 million to RM58 million. The higher turnover is attributable to the Government's continued clampdown on video piracy as well as a strong following for movie sequels and franchise titles.

### TROPICAL ISLANDS

### TANJONG GOLDEN VILLAGE

## Business Review (continued)



### PROPERTY INVESTMENT BUSINESS

Despite the growth in the Malaysian economy, the glut in the office space market has persisted as the build-up of new space continues to outstrip demand. Menara Maxis has however succeeded in maintaining a respectable occupancy rate of 92% without sacrificing our rental rates or compromising on the quality of our tenant base. 2003 saw the welcome inclusion of another two quality tenants and the renewal of two existing tenancies. We were hence able to achieve a 5% increase in turnover which amounted to RM39 million in the financial year. Operating profit for this segment consequently increased by RM4 million from RM29 million to RM33 million.

In accordance with our policy of carrying out external valuations once every five years, we engaged professional valuers to advise on the open market value of Menara Maxis. Based on their professional valuation report dated December 2003, the market value of Menara Maxis has increased from RM365 million to RM470 million, a significant 29% increase in our investment since 1999.

### LIQUEFIED PETROLEUM GAS BUSINESS

The LPG business continues to languish under a very difficult operating environment. We have been minimising our operating costs and have been in discussions with interested parties on a possible divestment of this business. Our negotiations are ongoing and we are determined to obtain the best possible price for its underlying assets.

