

The directors have pleasure in submitting their report together with the audited consolidated income statement for the year ended 31 December 2003 and the audited balance sheets of the company and the group at that date.

Principal activities

The principal activity of the company is investment holding and the principal activities of its subsidiaries are ownership and management of hotel, retail, commercial and residential properties in Asia and the United States of America.

Performance

A discussion and analysis of the group's performance during the year, the material factors underlying its results and financial position, and details of the group's principal activities are provided in the financial review on pages 44 to 57.

Ten year operating and financial summaries

Summaries of the group's operating and financial data for the last ten years are set out on pages 10 and 11 and 58 and 59.

Share capital

On 20 October 2003, in order to strengthen the group's capital base and financial flexibility, the company placed 160 million existing ordinary shares held by Mikado Holdings Inc. and New Xenon Holding Corporation (formerly known as Xenon Holding Corporation), two substantial shareholders of the company, to independent investors at a price of HK\$4.90 per share. The two substantial shareholders subsequently subscribed at the same price for 233 million new ordinary shares of the company (the "Placement"). All ordinary shares issued ranked pari passu in all respects with the existing issued shares. The Placement was completed on 31 October 2003. After deduction of expenses incurred in the Placement, the net proceeds raised by the company were HK\$1,135 million, being the issue of 233 million shares at a net price of HK\$4.85 each. The closing price of the company's shares on 20 October 2003 was HK\$5.45. The net proceeds from the subscription are intended to be used in the development of new hotels and the continuing refurbishment or renovation of some of the group's existing properties. Pending utilisation of the funds for the above purposes, most of the net proceeds were applied towards reducing short term bank borrowings. The aggregate nominal value of the issued shares amounted to HK\$117 million and the share premium arising from the new shares issued amounted to HK\$1,018 million. Save as described above, there were no other changes in the share capital of the company. Particulars of the share capital of the company during the year are set out in note 20 to the financial statements.

Dividends

No interim dividend was paid during the year 2003. The directors have recommended a final dividend of 8 cents per share. Subject to the passing of the necessary resolution at the forthcoming annual general meeting, such dividend will be payable on 21 May 2004 to shareholders whose names appear on the register of members on 6 May 2004.

Principal subsidiaries

Particulars of principal subsidiaries of the company are set out on pages 110 and 111.

Fixed assets, hotel and investment properties

Movements in fixed assets during the year and details of the group's hotel and investment properties are set out in note 10 to the financial statements.

Capitalised interest

Interest amounting to HK\$4 million was capitalised by the group during the year as set out in note 5 to the financial statements.

Reserves

Reserves available for distribution to shareholders and movements in the reserves of the company and the group during the year are set out in note 21 to the financial statements.

Purchase, sale and redemption of listed securities

There was no purchase, sale or redemption of the company's listed securities during the year. However, the company has issued new shares under the placement as announced on 20 October 2003.

Borrowings

Particulars of all borrowings are set out in note 18 to the financial statements.

Charitable donations

Donations made by the group for charitable purposes during the year amounted to HK\$57,000.

Major customers and suppliers

The diversity and nature of the group's activities are such that the percentage of sales or purchases attributable to the group's five largest customers or suppliers is significantly less than thirty per cent of the total and the directors do not consider any one customer or supplier to be influential to the group.

Connected transactions

Details of connected transactions disclosed under the Listing Rules which were undertaken in the normal course of business are set out in note 28 to the financial statements.

Directors

Biographical details of the directors in office at the date of this report are shown on pages 36 and 37. All the directors held office for the whole of 2003 with the exception of Mr C Mark Broadley who was appointed finance director and chief financial officer on 3 November 2003 in place of Mr O Mark L Rhys who retired on 11 December 2003 and Mr Patrick B Paul who was appointed an independent non-executive director on 26 February 2004.

In accordance with the articles of association of the company, The Hon. Michael D Kadoorie, Mr Ian D Boyce and Mr Robert C S Ng, will retire by rotation at the forthcoming annual general meeting and will offer themselves for re-election.

Messrs C Mark Broadley and Patrick B Paul having been appointed to the Board since the date of the last annual general meeting, will retire at the forthcoming annual general meeting in accordance with the company's articles of association, and being eligible, will offer themselves for re-election.

None of the aforementioned directors has a service contract with the company which is not determinable within one year without payment of compensation.

Alternate directors

Mr Kadoorie, Mr Mocatta and Mr McAulay have appointed Mr Dickson Leach as their alternate. Mr Dickson Leach and Sir Sidney Gordon have appointed Mr Mocatta and Mr Kadoorie respectively as their alternates.

Interests of directors and chief executive

The interests/short positions of each of the directors and chief executive in the shares, underlying shares and debentures of the company or any of the company's associated corporations (within the meaning of the Securities and Futures Ordinance) as at 31 December 2003, as recorded in the register required to be kept under Section 352 of Part XV of the Securities and Futures Ordinance, are set out below:

1. Aggregate long position in the shares, underlying shares and debentures of the company and its associated corporations

The interests of directors and chief executive in the shares of the company (other than pursuant to equity derivatives such as share options, warrants or convertible bonds) as at 31 December 2003 were as follows:

	Number of shares held			% of the issued share capital
	Personal	Family	Other	
The Hon. Michael D Kadoorie	-	-	708,650,286 ^{(1) & (2)}	50.537
Ian D Boyce	200,000	-	-	0.014
Clement K M Kwok	400,000	-	-	0.029
Sir Sidney Gordon	96,000	-	-	0.007
Ronald J McAulay	-	-	465,872,980 ^{(1) & (3)}	33.223
William E Mocatta	-	1,017,000	-	0.073
Dr The Hon. David K P Li	500,000	-	-	0.036
Robert C S Ng	-	122,570	20,429 ⁽⁴⁾	0.010
Pierre R Boppe	150,000	-	-	0.011
C Mark Broadley	100,000	-	-	0.007

Notes:

- (1) 403,285,495 shares were held by discretionary trusts, of which The Hon. Michael D Kadoorie and Mr Ronald J McAulay are two of the beneficiaries.
(2) 305,364,791 shares were held by a discretionary trust, of which The Hon. Michael D Kadoorie is a beneficiary and the founder.
(3) 62,587,485 shares were held by a discretionary trust, of which Mr Ronald J McAulay, his wife and members of his family are beneficiaries.
(4) Non-beneficial interest held by the wife of Mr Robert C S Ng.

Messrs James S Dickson Leach and Robert W Miller who are directors of the company have each confirmed that they had no interests in the shares of the company as at 31 December 2003.

Apart from the foregoing, none of the directors or chief executive had interests in debentures, under equity derivatives or in underlying shares of the company and its associated corporations.

2. Aggregate short position in shares, underlying shares and debentures of the company and its associated corporations

None of the directors had short positions in respect of shares, debentures, equity derivatives or interests in underlying shares of the company or its associated corporations.

Apart from the foregoing, none of the directors and chief executive of the company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the company or its associated corporations as recorded in the register required to be kept under section 352 of Part XV of the Securities and Futures Ordinance or as otherwise notified to the company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Interests of substantial shareholders

The interests/short positions of substantial shareholders in the shares and underlying shares of the company as at 31 December 2003, as recorded in the register required to be kept under section 336 of Part XV of the Securities and Futures Ordinance, are set out below:

1. *Aggregate long position in the shares and underlying shares of the company*

The company had been notified of the following substantial shareholders' interests in the shares (other than pursuant to equity derivatives such as share options, warrants or convertible bonds) as at 31 December 2003:

	Number of shares held	% of the issued share capital
Bermuda Trust Company Limited	771,237,771	55.000
Esko Limited	403,285,495	28.760
Hesko Limited	403,285,495	28.760
New Xenon Holding Corporation	348,764,462	24.872
Rostik Limited	135,998,024	9.699
Mikado Holding Inc.	305,364,791	21.777
Mikado Investments Limited	305,364,791	21.777

These interests are duplicated to the extent of 1,902,063,058 shares. The net total of 771,237,771 shares is duplicated with various of the directors' interests as recorded above.

2. *Aggregate short position in the shares and underlying shares of the company*

As at 31 December 2003, the company had not been notified of any short positions being held by any substantial shareholder in the shares or underlying shares of the company.

Apart from the foregoing, no other interests required to be recorded in the register kept under section 336 of Part XV of the Securities and Futures Ordinance have been notified to the company.

Directors' interests in contracts

No contract of significance to which the company, its subsidiaries or fellow subsidiaries was a party, and in which a director of the company had a material interest, subsisted as at 31 December 2003 or at any time during the year.

Share option scheme

The company has not adopted any share option scheme during the year.

Employee retirement plan

Details of the group's employee retirement plan are shown in note 25 to the financial statements.

Emolument policy

Details of the group's emolument policy are provided in the corporate governance section on page 62. The group does not have any long-term incentive schemes other than the retirement scheme described under the employee developments and benefits section on page 40 and in note 25 to the financial statements. The basis of determining the emoluments payable to the directors is set out in the corporate governance section on page 62 and in note 23 to the financial statements.

Corporate governance

During the year the company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, save that the three independent non-executive directors were not appointed for a specific term but are subject to retirement by rotation and the audit committee did not comprise a majority of independent directors. However, as at the date of this report, the composition of the audit committee has been changed and now comprises a majority of independent directors. Further details on corporate governance are set out on pages 60 to 63.

Code for dealing in company's securities by directors

The company and the directors have also complied throughout the year with the company's own Code for Dealing in the Company's Securities by Directors and Specified Individuals pursuant to the Stock Exchange's Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 of the Listing Rules. In February 2004, the company adopted a new code to comply with the amended Listing Rules which will come into effect on 31 March 2004.

Public float

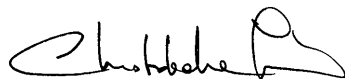
As at 26 February 2004, the latest practicable date, based on information that is publicly available to the company and within the knowledge of the directors, the company has at least 25% of its total issued share capital held by the public.

Practice Note 19 of the Listing Rules

Pursuant to paragraph 3.7.1 of Practice Note 19 of the Listing Rules, the company discloses that a covenant relating to a loan facility as at 31 December 2003, of an amount of HK\$531 million requires that the Kadoorie family retains control and/or majority ownership of the company. This facility is denominated in Hong Kong and United States dollars and has a maturity of seven years. Newly arranged facilities do not contain similar covenants.

Auditors

A resolution for the reappointment of KPMG as auditors will be proposed at the forthcoming annual general meeting.



By Order of the Board
Christobelle Liao
Company Secretary
Hong Kong, 26 February 2004