

# Report of Directors

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2001.

## **Group Activities**

The principal activity of the Company is investment holding. The activities of its principal subsidiaries, associates and joint ventures are shown on pages 79 to 80.

The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are shown in note 25 to the financial statements on pages 76 to 78.

## **Group Financial Statements**

The profit of the Group for the year ended 31 December 2001 and the state of affairs of the Company and of the Group at that date are shown in the financial statements on pages 41 to 80.

## **Particulars of Principal Subsidiaries, Associates and Joint Ventures**

Particulars regarding the principal subsidiaries, associates and joint ventures of the Company and of the Group are shown on pages 79 to 80.

## **Dividends**

An interim dividend of 2 cents per share was paid in October 2001. The directors now recommend the declaration of a final dividend of 3 cents per share in respect of the year ended 31 December 2001 payable to shareholders on the record on 31 May 2002.

## **Fixed Assets**

The movements in fixed assets of the Group during the year are shown in note 9 to the financial statements on pages 59 to 61.

## **Particulars of Properties**

Particulars regarding the properties held by the Group for own use, investment, development and sale are shown on pages 24 to 25.

## **Share Capital**

The movements in share capital of the Company during the year are shown in note 16 to the financial statements on page 65.

## **Convertible Guaranteed Bonds**

Details of the convertible guaranteed bonds of the Group are shown in note 18 to the financial statements on page 68.

## **Reserves**

The movements in reserves during the year are shown in note 17 to the financial statements on pages 66 to 67.

## **Donations**

During the year, the Group made donations for charitable and community purposes amounted to HK\$133,800 (2000: HK\$121,000).



## Group Borrowings

Details of borrowings repayable within one year and long-term loans are shown in notes 18 and 19 to the financial statements on pages 68 and 69.

## Finance Costs Capitalised

Interest and other finance costs capitalised by the Group during the year amounted to HK\$286,642,000 and HK\$35,751,000 respectively (2000: HK\$601,516,000 and HK\$35,405,000).

## Major Customers and Suppliers

It is the policy of the Group to have several suppliers for any item of materials required so as to avoid over-reliance on a single source of supply. The Group maintains good relationships with its major suppliers and has not experienced any significant difficulties in sourcing essential materials.

During the year, the Group's turnover attributable to the Group's five largest customers accounted for less than 30% of the Group's total turnover. 70% of the Group's purchases was attributable to the Group's five largest suppliers combined with the largest supplier accounting for 38% of the Group's total purchases.

Dr. Stanley Ho, Dr. Cheng Yu Tung and Madam Winnie Ho Yuen Ki have interests in Sociedade de Turismo e Diversões de Macau, S.A.R.L. (STDM), one of the five largest customers and suppliers of the Group. Save as disclosed, no other directors, their associates or shareholders (which to the knowledge of the directors own more than 5% of the Company's issued share capital) were interested at any time in the year in the Group's five largest customers or suppliers.

## Directors

The directors of the Company are listed on page 2.

Mr. David Hill retired in the 2001 annual general meeting held on 13 June 2001 and Ms. Maisy Ho was appointed to fill up the vacated office. Madam Winnie Ho Yuen Ki ceased to be a non-executive director on 15 March 2002.

Mr. Andrew Tse, Mr. Anthony Chan, Mrs. Mok Ho Yuen Wing, Louise and Ms. Maisy Ho are due to retire in accordance with Articles 73 and 77 of the Company's Articles of Association, and being eligible, offer themselves for re-election.

## Directors' Interests in Contracts and Connected Transactions

1. Dr. Stanley Ho, Dr. Cheng Yu Tung and Madam Winnie Ho Yuen Ki were directors of STDM, the franchised holder of all casinos in Macau.

During the year, the Group had the following transactions with STDM which were subject to disclosure requirements:

- i. The Group received management and incentive fees of HK\$21.7 million from STDM for managing hotels owned by STDM.
- ii. The Group purchased fuel for its Macau shipping operations amounting to HK\$77.6 million from STDM, which also loaded the fuel into the vessels. The Group received reimbursements of HK\$0.8 million for technical services rendered to STDM in relation to the loading of fuel.

# Report of Directors

## Directors' Interests in Contracts and Connected Transactions (Continued)

- iii. During the year, TurboJET tickets in the aggregate amount of HK\$359.0 million were sold by the Group to STD M. In return, discount and commission charges in the aggregate amount of HK\$59.2 million were paid by the Group to STD M in respect of the TurboJET tickets sold by STD M acting as agent or purchased by STD M for its own account.
  - iv. During the year, the Group continued to reimburse STD M amounting to HK\$150.2 million on a dollar for dollar basis for payments made by STD M on behalf of the Group in settlement of expenses incurred in connection with the operations of the Macau wharf and the provision of wharf services for the TurboJET operations.
  - v. The Group chartered two passenger ferries to STD M and operated on its behalf a low-fare passenger ferry service between the China Ferry Terminal in Kowloon and Macau. Hire charges in the aggregate amount of HK\$93.1 million were received by the Group during the year.
  - vi. The Group received management and incentive fees totalling HK\$0.2 million relating to the operational and property management of the Macau Tower Convention & Entertainment Centre owned by STD M.
  - vii. The Group maintained certain current and savings accounts with Seng Heng Bank Limited, a wholly owned subsidiary of STD M. As at 31 December 2001, the total balance amounted to HK\$7.8 million.
2. During the year, the Group paid commissions of HK\$24.7 million to China Travel Services (Hong Kong) Limited (CTSHK) as a joint general sales agent of Shun Tak-China Travel Shipping Investments Limited (ST-CTSI) for sale of ferry tickets. CTSHK is a subsidiary of China Travel International Investment Hong Kong Limited (CTII) which is a substantial shareholder of ST-CTSI, a 71% owned subsidiary of the Group.
  3. The Group received reimbursements of HK\$34.4 million from Shun Tak Shipping Company, Limited (STS) for expenses and resources shared by STS including staff and other administrative expenses arising from the secondment of staff, or services provided, to STS and its associates. Dr. Stanley Ho, Dr. Cheng Yu Tung and Madam Winnie Ho Yuen Ki were directors of STS. Together with Mrs. Mok Ho Yuen Wing, Louise, they also had beneficial interests in STS. STS is a substantial shareholder of the Company.
  4. The Group received rental income and related fees of HK\$5.0 million from Future Bright Property Management Limited (FBP) in which STD M, Dr. Stanley Ho, Madam Winnie Ho Yuen Ki and Dr. Ambrose So had beneficial interests. Madam Winnie Ho Yuen Ki was also a director of FBP.
  5. The Group received property management income of HK\$8.1 million from the owners of a commercial property known as Shun Tak Centre in Sheung Wan. One of the owners was Shun Tak Centre Limited (STC), a company beneficially owned by Dr. Stanley Ho, STD M and New World Development Company Limited (NWD). An amount of HK\$4.1 million was paid by the Group to a NWD group company by way of consultancy fees. The Group also received HK\$1.2 million from STC for management of the shopping mall at the Shun Tak Centre owned by STC. The Group also paid rentals and related expenses to STC of HK\$4.5 million for the rental of terminal space at Shun Tak Centre.
  6. During the year, Ranex Investments Limited (Ranex), a 51% subsidiary of the Group, paid rentals in the aggregate amount of HK\$1.5 million to STC for office and retail units leased for use as sales office and show-suites for the sale of residential units in The Belcher's. Ranex also paid sales commission of HK\$18.2 million to a subsidiary of Sun Hung Kai Properties Limited (SHK), a substantial shareholder of Ranex, for the sale of residential units in The Belcher's.



## Directors' Interests in Contracts and Connected Transactions (Continued)

7. Iconic Palace Limited (Iconic) and Solar Kingdom Limited, wholly owned subsidiaries of the Group and SHK respectively (the Developers), are tenants in common of a residential and commercial property development located in the district of Cheung Sha Wan (the Project). The Developers awarded the main construction contract to Shun Tak Yee Fai Construction JV Limited (STYF), a 50-50 joint venture company beneficially equally owned by the Group and SHK. Pursuant to the shareholders' agreement, the Group received management fees of HK\$0.9 million from STYF.

Pursuant to a project management agreement, Iconic (as joint developer) paid to Sun Hung Kai Real Estate Agency Limited (SHKREA), a wholly owned subsidiary of SHK, project management fees of HK\$1.5 million. This amount represents Iconic's portion of the fees due to SHKREA. Pursuant to the sales agency agreement, SHKREA and the Group will be entitled to a commission at the rate of 0.5% each of the gross sales proceeds of the sale of units in the Project. In connection with the setting up of a sales office and show-suites, the Developers leased certain office and retail units from Kimrose Investment Limited (Kimrose), a subsidiary of SHK. During the year, related charges totalling HK\$0.1 million was paid by the Developers to Kimrose.

8. The Group granted financial assistance to several companies or ventures in which it is a shareholder or equity participant together with other connected parties:
- i. Nova Taipa Urbanizacoes Limitada (NTU) is owned as to 25% by the Group, 25% by STDM and 50% by Hopewell Holdings Limited. All shareholders have extended loans to NTU totalling HK\$1,037.7 million in proportion to their respective shareholdings. All shareholders received 9.5% interest per annum on their respective loans. The interest accrued for the year ended 31 December 2001 to the account of the Group was HK\$24.6 million.
  - ii. South Light Limited (South Light) is owned as to 40% by the Group, 10% by Dr. Stanley Ho, 20% by STDM, and 30% by independent investors. All shareholders have extended loans to South Light totalling HK\$106.2 million in proportion to their respective shareholdings on an interest-free basis. The loans were extended for the year ended 31 December 2001.
  - iii. Shun Tak Cultural Centre Limited (STCC) is owned as to 60% by the Group and 40% by a company beneficially owned by Dr. Stanley Ho. All shareholders have extended shareholder loans to STCC totalling HK\$330.6 million on an interest-free basis, such loans being in proportion to their respective shareholdings in STCC.
  - iv. STYF is owned as to 50% by the Group and 50% by SHK. Pursuant to the shareholders' agreement of STYF, the Group provided a guarantee in respect of liquidated damages and undertook to provide financing to STYF in the ratio of 50% for amounts up to HK\$2.0 million and 3% of net value of works respectively. For amounts exceeding these thresholds, the Group and SHK shall provide the guarantee and financing in the Developers' proportion, that is 64.56% and 35.44% respectively. The Group and SHK have extended shareholder loans of HK\$5.0 million each to STYF on an interest-free basis.
  - v. Ranex is owned as to 51% by the Group, 29% by SHK, 10% each by NWD and Liu Chong Hing Investment Limited (LCH). The Group, SHK, NWD and LCH extended shareholder loans of HK\$2,423.2 million, HK\$2,038.7 million, HK\$467.6 million and HK\$467.6 million respectively to Ranex which bore interest at the rates of HIBOR plus 0.58% to HIBOR plus 1.25% per annum. The interest accrued for the year ended 31 December 2001 to the account of the Group was HK\$112.1 million. The Company, SHK, NWD and LCH have provided guarantees to the bankers in respect of the term loan facilities of HK\$262.0 million obtained by Ranex in proportion to their respective shareholdings in Ranex.

# Report of Directors

## Directors' Interests in Contracts and Connected Transactions (Continued)

- vi. Treasure Peninsula Limited (TPL) is owned as to 51% by the Group, 29% by SHK, 10% each by NWD and LCH. All shareholders have extended shareholder loans totalling HK\$663.4 million on an interest-free basis to TPL, such loans being in proportion to their respective shareholdings in TPL.
- vii. DFS Macau Limited (DFS) is owned as to 50% by the Group and 50% by Duty Free Shoppers (Hong Kong) Limited (DFSHK). The Group and DFSHK each extended a shareholder loan of HK\$28.7 million on an interest-free basis to DFS, such loans being in proportion to their respective shareholdings in DFS. DFSHK is a substantial shareholder of a subsidiary of the Group.
- viii. ST-CTSI is owned as to 71% by the Group and 29% by CTII. The banks have extended financing to ST-CTSI during the year ended 31 December 2001. The total amount of such financing as at 31 December 2001 was HK\$361.9 million. The Group and CTII have entered into arrangements to ensure that contingent liabilities under various guarantees and shareholder support given in respect of all of the aforesaid financing is in proportion to their respective shareholdings in ST-CTSI. The shareholders have extended shareholder loans totalling HK\$160.0 million on an interest-free basis to ST-CTSI, such loans being in proportion to their respective shareholdings in ST-CTSI.

Under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Stock Exchange), the above transactions constitute connected transactions of the Company and require disclosure in the annual report of the Company.

The Company's independent non-executive directors have reviewed the above transactions and confirmed the transactions were in the ordinary and usual course of business of the Group, on normal commercial terms and fair and reasonable as far as the shareholders of the Company are concerned.

In respect of items 1(ii) to (iv), (vi) & (vii) and 2 to 6, the independent non-executive directors have further confirmed that the transactions were maintained within the amounts and in accordance with the conditions relating to the transactions as agreed with the Stock Exchange.

Save for the transactions aforementioned, no other contract of significance to which the Company or any of its subsidiaries was a party and in which a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Directors' Interests in Competing Businesses

During the year and up to the date of this report, the following directors are considered to have interests in the following businesses, which compete or are likely to compete, either directly or indirectly, with the businesses of the Group were as follows:

Dr. Stanley Ho is a director and has direct and / or indirect beneficial interests in Melco International Development Limited, STC and STDM, which are also engaged in the businesses of property investment and / or hospitality.

Dr. Cheng Yu Tung is a director and / or has direct and / or indirect beneficial interests in NWD, Chow Tai Fook Enterprises Limited, Aberdeen Restaurant Enterprises Limited, STC and STDM, which are also engaged in the businesses of property investment, development, ferry services and / or hospitality.

Ms. Pansy Ho, Ms. Daisy Ho and Mr. Andrew Tse are directors of STC, which is also engaged in the business of property investment.



## Directors' Interests in Competing Businesses (Continued)

As the Board of Directors of the Company is independent of the board of these entities, the Group is therefore capable of carrying on such businesses independently of, and at arm's length from the businesses of these entities.

### Disclosure of Interests

As at 31 December 2001, the interests of the directors of the Company in the share capital of the Company or its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance (SDI Ordinance) which have been notified to The Stock Exchange of Hong Kong Limited (the Stock Exchange) and the Company, pursuant to Section 28 of the SDI Ordinance, including interests which they are deemed or taken to have under Section 31 or Part I of the schedule of the SDI Ordinance, or which are required pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

a) Interests of directors in the Company

Name of Director	Ordinary Shares of HK\$0.25 each		
	Personal Interests	Family Interests	Corporate Interests
Stanley Ho (Note)	240,517,502	4,915,780	36,285,523
Sir Roger Lobo	—	—	—
Robert Kwan	—	—	—
Cheng Yu Tung	—	—	—
Winnie Ho Yuen Ki	885,511	—	—
Mok Ho Yuen Wing, Louise	266,102	—	—
Pansy Ho	8,835,045	—	—
Daisy Ho	9,249,802	—	—
Ambrose So	8,325,000	—	—
Patrick Huen	48,000	—	—
Andrew Tse	2,325,000	—	—
Anthony Chan	8,025,000	—	—
Maisy Ho	—	—	—

Note: Dr. Stanley Ho has beneficial interests in Sharikat Investments Ltd. and Dareset Ltd., which beneficially owns 11,446,536 and 24,838,987 shares respectively.

# Report of Directors

## Disclosure of Interests (Continued)

### b) Interests of directors in subsidiaries

Name of Director	Name of Subsidiaries	Personal Interests	Corporate Interests
Stanley Ho	Shun Tak Cultural Centre Ltd.	—	4 ordinary shares (or 40%)
	Stabilo Ltd.	560 ordinary shares (or 11.2%)	—
Ambrose So	Stabilo Ltd.	72 ordinary shares (or 1.44%)	—
Patrick Huen	Stabilo Ltd.	68 ordinary shares (or 1.36%)	—
Andrew Tse	Stabilo Ltd.	68 ordinary shares (or 1.36%)	—
Anthony Chan	Stabilo Ltd.	32 ordinary shares (or 0.64%)	—

Certain nominee shares in subsidiaries were held by Dr. Ambrose So, Mr. Andrew Tse, Mr. Patrick Huen, Ms. Pansy Ho and Ms. Daisy Ho in trust for the Company or its subsidiaries.

### c) Interests of directors in an associate

Dr. Stanley Ho owns 1 ordinary share (representing 10% interest) in South Light Ltd. as his personal interest.

### d) Share options

As at 31 December 2001, details of share options granted to directors or employees under the share option scheme (the scheme) of the Company are as follows:

Grantee	Date of Grant	Exercise Period	Exercise Price per Share	Number of Share Options	
				As at 1 January 2001	As at 31 December 2001
Stanley Ho	10 June 1993	10 June 1993 to 9 June 2003	\$5.18	30,000,000	30,000,000
Sir Roger Lobo	8 September 1994	8 September 1994 to 7 September 2004	\$5.36	1,000,000 (ii)	—
Pansy Ho	24 March 1995	24 March 1995 to 23 March 2005	\$3.48	2,500,000	2,500,000
	3 January 2000	3 January 2000 to 2 January 2010	\$1.20	10,000,000	10,000,000
Daisy Ho	24 March 1995	24 March 1995 to 23 March 2005	\$3.48	2,700,000	2,700,000
	3 January 2000	3 January 2000 to 2 January 2010	\$1.20	10,000,000	10,000,000
Maisy Ho	3 January 2000	3 January 2000 to 2 January 2010	\$1.20	3,000,000	3,000,000
David Hill	10 June 1993	10 June 1993 to 9 June 2003	\$5.18	800,000 (ii)	—
Aggregate total of employees	3 January 2000	3 January 2000 to 2 January 2005	\$1.20	1,600,000	1,600,000



## Disclosure of Interests (Continued)

### Notes

- i) No share option was granted or exercised during the year ended 31 December 2001.
- ii) 1,000,000 share options were cancelled for Sir Roger Lobo and 800,000 share options were lapsed pursuant to Mr. David Hill's retirement during the year ended 31 December 2001.
- iii) The accounting policy adopted for share options is set out in note 1(u) to the financial statements.
- iv) Same as described above, as at 31 December 2001, none of the directors or their spouse or children under 18 years of age were granted or exercised any right to subscribe for any equity or debt securities of the Company or any of its associated corporations.
- v) Information on the scheme

Summary of the scheme adopted on 18 May 1993, disclosed in accordance with the Listing Rules was as follows:

- |    |   |   |
|----|---|---|
| 1) | Purpose of the scheme   | As incentive to employees   |
| 2) | Participants of the scheme  | Eligible employees including executive directors  |
| 3) | Total number of share available for issue under the scheme and % on issued share capital as at 31 December 2001   | 34,085,962 shares (2.2%)  |
| 4) | Maximum entitlement of each participant under the scheme  | 25% of the aggregate of all shares subject to the scheme  |
| 5) | The period within which the shares must be taken up under an option   | Such period as the Company may in its discretion determine save that such period shall not expire later than 10 years from the date of offer  |
| 6) | The minimum period for which an option must be held before it can be exercised  | N/A   |
| 7) | The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be paid | Upon acceptance of the option, the grantee shall inform the Company together with HK\$1 by way of consideration for the grant within 21 days from the date of offer.  |
| 8) | The basis of determining the exercise price   | The exercise price is determined by the directors and being not less than the greater of: <ul style="list-style-type: none"> <li>(a) 80% of the average closing price of the existing shares of the Company on The Stock Exchange of Hong Kong Limited on the 5 trading days immediately preceding the date of offer of such option; and</li> <li>(b) the nominal value thereof.</li> </ul> |
| 9) | The remaining life of the scheme  | The scheme period will end on 17 May 2003   |



# Report of Directors

## Disclosure of Interests (Continued)

### e) Substantial shareholders

As at 31 December 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that other than Dr. Stanley Ho whose interests are set out above, the following shareholder was interested in 10% or more of the issued share capital of the Company.

<b>Name of Shareholder</b>	<b>No. of Ordinary Shares held</b>
Shun Tak Shipping Co., Ltd. and its subsidiaries (Note)	598,030,322

*Note: Dr. Stanley Ho, Dr. Cheng Yu Tung, Madam Winnie Ho Yuen Ki and Mrs. Mok Ho Yuen Wing, Louise have beneficial interests in Shun Tak Shipping Co., Ltd.*

Save as disclosed above, no other person has notified the Company as having any interest representing 10% or more of the Company's issued share capital.

## Purchase, Sale or Redemption of the Company's Listed Securities

There was no purchase, sale or redemption of the Company's listed securities during the year.

## Directors' Right to Acquire Shares or Debentures

Except for the above mentioned share option scheme, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## Service Contract of Directors

No director being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

## Management Contract

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

## Code of Best Practice

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the annual report except that the independent non-executive directors of the Company are not appointed for specific terms. The Audit Committee was established in March 1999. The members of the Audit Committee are Mr. Robert Kwan (Chairman), Sir Roger Lobo and Mrs. Mok Ho Yuen Wing, Louise. The Audit Committee met twice during the financial year to consider the effectiveness of the systems of internal control and compliance, the nature and scope of audit reviews and the interim and annual reports.



### **Summary of the Results, Assets and Liabilities**

A summary of the results, assets and liabilities of the Group for the last five financial years is shown on page 81.

### **Significant Subsequent Events**

- (1) The Group disposed of its interest in AHK Air Hong Kong Limited for HK\$194 million resulting in a profit on disposal of approximately HK\$177.8 million.
- (2) The Group acquired the development rights of a 99,000 square metre hotel and commercial site in Taipa-Macau for HK\$500 million.
- (3) On 21 March 2002, the Company proposed to raise approximately HK\$388.5 million by way of a rights issue of not less than 388,486,782 rights shares at HK\$1 per rights share.

### **Auditors**

The financial statements for the year were audited by H.C. Watt & Company Limited, who will retire at the conclusion of the forthcoming annual general meeting and, being eligible, will offer themselves for re-appointment.

**Stanley Ho**

Group Executive Chairman

23 April 2002