

Report of the Directors

The directors have pleasure in submitting their report and audited accounts for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The principal activities of the Group are property development and investment, ferry and related businesses, travel business and hotel operation.

The analyses of the principal activities of the Company and its subsidiaries during the financial year are set out in note 3 on the accounts.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's purchases attributable to the major suppliers during the financial year is as follows:

	Percentage of the Group's total Purchases
The largest supplier	52.4%
Five largest suppliers in aggregate	60.4%

Henderson Land Development Company Limited ("HL"), through its subsidiaries, was the Group's largest supplier during the financial year. As at 31 December 2003, HL through its subsidiaries beneficially owned 73.48% of the entire issued share capital of Henderson Investment Limited, a substantial shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, hereinafter referred to as the "Listing Rules") of the Company.

No analysis in respect of the Group's major customers is shown as the percentage of turnover attributable to the Group's five largest customers is less than 30%.

Apart from the foregoing, at no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2003 are set out in note 14 on the accounts.

Report of the Directors (Continued)

ACCOUNTS AND DIVIDENDS

The profit of the Group for the year ended 31 December 2003, the state of affairs of the Company and of the Group at that date and the related notes are set out in the accounts on pages 26 to 79.

An interim dividend of 8 cents per share was paid on 16 October 2003. The directors now recommend a final dividend of 20 cents per share to shareholders whose names appear in the Register of Members on 29 April 2004.

CHARITABLE DONATIONS

The Group's charitable donations during the year amounted to HK\$11,810 (2002: HK\$3,325).

FIXED ASSETS

During the year, the Group has written down the value of the shipyard assets at Tsing Yi by HK\$17,818,000 (2002: HK\$62,127,000) to HK\$181,140,000 (2002: HK\$204,603,000). Other movements in fixed assets are set out in note 12 on the accounts.

DIRECTORS

The directors of the Company during the financial year were:

Executive directors

Mr. Colin K.Y. Lam (*Chairman*)

Mr. Li Ning

Independent non-executive directors

Mr. Norman H.C. Ho

Mr. Michael Y.L. Kan

Dr. Alex S.C. Wu

Non-executive directors

Mr. Eddie Y.C. Lau

Dr. Lee Shau Kee

Mr. Leung Hay Man

Mr. Peter M.K. Wong

Report of the Directors *(Continued)*

In accordance with Article 103(A) of the Company's Articles of Association, Mr. Li Ning, Mr. Peter M.K. Wong and Dr. Alex S.C. Wu retire by rotation and are eligible for re-election.

The non-executive directors have not been appointed for specific terms and they are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the Company's Articles of Association.

DISCLOSURE OF INTERESTS

Directors' Interests in Securities

At 31 December 2003, the interests of the directors in securities of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register of directors' and chief executives' interests in long and short positions maintained under section 352 of the SFO were as follows:

Long Position

	Personal Interests <i>Number of Shares</i>	THE COMPANY	
		Corporate Interests <i>Number of Shares</i>	Family Interests <i>Number of Shares</i>
Mr. Lam Ko Yin, Colin	150,000	–	–
Mr. Ho Hau Chong, Norman	3,313,950	–	–
Mr. Kan Yuet Loong, Michael	22,965	–	–
Mr. Lau Yum Chuen, Eddie	–	–	–
Dr. Lee Shau Kee	7,799,220	111,636,090 <i>(Note 5 on page 22)</i>	–
Mr. Leung Hay Man	2,250	–	–
Mr. Li Ning	–	–	111,636,090 <i>(Note 6 on page 22)</i>
Mr. Wong Man Kong, Peter	1,151,000	–	–
Dr. Wu Shu Chih, Alex	186,030	–	–

Report of the Directors *(Continued)*

	2OK COMPANY LIMITED	
	Corporate Interests <i>Number of Shares</i>	Family Interests <i>Number of Shares</i>
Dr. Lee Shau Kee <i>(Note 1)</i>	5	–
Mr. Li Ning <i>(Note 2)</i>	–	5

Notes:

- These 5 shares representing 50% equity interest in 2OK Company Limited (an associated company in which the Company through a subsidiary owns the remaining 50% interest) are beneficially owned by wholly-owned subsidiaries of Henderson Land Development Company Limited (“HLD”). Henderson Development Limited (“HD”) beneficially owns more than one-third of the issued share capital in HLD. Rimmer (Cayman) Limited and Riddick (Cayman) Limited as trustees of respective discretionary trusts hold units in a unit trust (the “Unit Trust”). Hopkins (Cayman) Limited as trustee of the Unit Trust owns all the issued ordinary shares which carry the voting rights in the share capital of HD. Dr. Lee Shau Kee beneficially owns all the issued share capital of Rimmer (Cayman) Limited, Riddick (Cayman) Limited and Hopkins (Cayman) Limited. By virtue of the SFO, Dr. Lee Shau Kee is taken to be interested in these 5 shares in 2OK Company Limited.
- By virtue of the SFO, Mr. Li Ning is taken to be interested in these 5 shares in 2OK Company Limited as Mr. Li’s spouse is one of the discretionary beneficiaries of the two discretionary trusts holding units in the Unit Trust.

Other than as stated above, no directors or chief executive of the Company had any interest or short position, whether beneficial or non-beneficial, in the shares, (in respect of positions held pursuant to equity derivatives) underlying shares and debentures of the Company or any of its associated corporations as at 31 December 2003.

INTEREST IN CONTRACTS

Except for the “Connected Transactions” as disclosed in this Report, no other contract of significance, to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

None of the directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the Company or any of its subsidiaries within one year without payment other than statutory compensation.

Report of the Directors *(Continued)*

SUBSTANTIAL SHAREHOLDERS AND OTHERS

At 31 December 2003, the interests in ordinary shares of the Company of every person as recorded in the register required to be kept under section 336 of the SFO were as follows:

	No. of shares in which interested
Substantial Shareholders	
Henderson Investment Limited <i>(Note 1)</i>	111,636,090
Pataca Enterprises Limited <i>(Note 1)</i>	70,200,000
Wiselin Investment Limited <i>(Note 2)</i>	41,436,090
Max-mercan Investment Limited <i>(Note 2)</i>	41,436,090
Henderson Development Limited <i>(Note 3)</i>	111,636,090
Henderson Land Development Company Limited <i>(Note 3)</i>	111,636,090
Kingslee S.A. <i>(Note 3)</i>	111,636,090
Hopkins (Cayman) Limited <i>(Note 4)</i>	111,636,090
Rimmer (Cayman) Limited <i>(Note 4)</i>	111,636,090
Riddick (Cayman) Limited <i>(Note 4)</i>	111,636,090
Dr. Lee Shau Kee <i>(Note 5)</i>	119,435,310
Mr. Li Ning <i>(Note 6)</i>	111,636,090
Persons other than Substantial Shareholders	
Graf Investment Limited <i>(Note 1)</i>	23,400,000
Mount Sherpa Limited <i>(Note 1)</i>	23,400,000
Paillard Investment Limited <i>(Note 1)</i>	23,400,000

Report of the Directors (Continued)

Notes:

All shares referred to below, unless otherwise stated, form part of the same parcel of 111,636,090 shares.

1. These 111,636,090 shares are beneficially owned by some of the subsidiaries of Henderson Investment Limited ("HI"). Of these 111,636,090 shares, 70,200,000 shares are owned by some of the subsidiaries (viz, Graf Investment Limited, Mount Sherpa Limited and Paillard Investment Limited, each of which owns 23,400,000 shares) of Pataca Enterprises Limited, which is itself a subsidiary of HI.
2. These 41,436,090 shares held by Wiselin Investment Limited and in which Max-mercan Investment Limited is taken to be interested refer to the same lot of shares. Wiselin Investment Limited, a subsidiary of Max-mercan Investment Limited which is a subsidiary of HI, beneficially owns 41,436,090 shares all of which constitute part of the said 111,636,090 shares.
3. These 111,636,090 shares are duplicated in the interests described in Notes 1 and 2. Henderson Development Limited ("HD") beneficially owns more than one-third of the issued share capital in Henderson Land Development Company Limited which is, in turn, the holding company of Kingslee S.A.. Kingslee S.A. has a controlling interest in HI.
4. These 111,636,090 shares are duplicated in the interests described in Notes 1, 2 and 3. Rimmer (Cayman) Limited and Riddick (Cayman) Limited as trustees of respective discretionary trusts hold units in a unit trust (the "Unit Trust"). Hopkins (Cayman) Limited as trustee of the Unit Trust owns all the issued ordinary shares, which carry the voting rights in the share capital of HD.
5. Dr. Lee Shau Kee beneficially owns all the issued share capital of Rimmer (Cayman) Limited, Riddick (Cayman) Limited and Hopkins (Cayman) Limited. By virtue of the SFO, Dr. Lee Shau Kee is taken to be interested in 111,636,090 shares, which are duplicated in the interests described in Notes 1, 2, 3 and 4.
6. By virtue of the SFO, Mr. Li Ning is taken to be interested in these 111,636,090 shares as Mr. Li's spouse is one of the discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust. These 111,636,090 shares are duplicated in the interests described in Notes 1, 2, 3 and 4.

Save as disclosed above, each of the aforesaid shareholders does not have any interest or short position in shares and (in respect of positions held pursuant to equity derivatives) underlying shares of the Company that are discloseable under the requirement of the SFO.

RESERVES

Movements in reserves of the Company and of the Group during the year are set out in note 25 on the accounts.

Report of the Directors *(Continued)*

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

ARRANGEMENT TO PURCHASE SHARES, WARRANTS, OPTIONS OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executive of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in, options, debentures or warrants of the Company or any other body corporate.

BANK OVERDRAFT

Particulars of bank overdraft of the Group as at 31 December 2003 are set out in note 21 on the accounts.

FINANCIAL SUMMARIES

The five years' summary of assets and liabilities and ten years' financial summary of the Group are set out on pages 80 to 82.

GROUP PROPERTIES

A summary of the Group's properties is set out on pages 83 to 84.

RETIREMENT SCHEMES

The Group's Hong Kong employees participate either in a defined benefit retirement scheme or a Mandatory Provident Fund scheme. Particulars of these retirement schemes are set out in note 17 on the accounts.

CONNECTED TRANSACTIONS

Pursuant to the transactions and arrangements entered into by the Group with persons who are connected persons for the purposes of the Listing Rules, the Group recorded the transactions as described in note 29 on the accounts.

Report of the Directors *(Continued)*

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, except that the independent non-executive directors have not been appointed for specific terms and are subject to retirement by rotation and re-election at the Annual General Meetings in accordance with the Company's Articles of Association.

AUDIT COMMITTEE

The audit committee comprises the three independent non-executive directors and reports to the board of directors. The audit committee meets with the Group's senior management and external auditors regularly to review the effectiveness of the internal control systems and the interim and annual reports of the Group. Audit committee meetings were held twice during the financial year.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board

Colin K.Y. Lam

Chairman

Li Ning

Director

Hong Kong, 12 March 2004