



The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 March 2004.

### **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding, and the principal activities of its principal subsidiaries are property investment, property development and sales, hotel ownership and management, food and beverage operation and travel operation; the particulars of which are set out in note 15 on the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in note 12 on the financial statements.

### **MAJOR CUSTOMERS AND SUPPLIERS**

Due to the diversity and nature of the Group's activities, the aggregate percentage of the Group's sales and purchases attributable to the Group's five largest customers and suppliers respectively was less than 30%.

The director, Dr Lee Shau Kee, has interests in the largest customer of the Group. Save as disclosed above, at 31 March 2004, none of the directors, their associates or shareholders who, to the knowledge of the directors, own more than 5% of the Company's share capital, had an interest in any of the five largest customers and suppliers.

### **FINANCIAL STATEMENTS**

The profit of the Group for the year ended 31 March 2004 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 28 to 79.

An interim dividend of HK\$0.13 per share (2003: HK\$0.13 per share) was paid on 8 January 2004. The directors now recommend the payment of a final dividend of HK\$0.20 per share (2003: HK\$0.20 per share) in respect of the year ended 31 March 2004, totalling HK\$115,446,250.

### **CHARITABLE DONATIONS**

Donations made by the Group during the year amounted to HK\$99,739 (2003: HK\$35,850).

### **FIXED ASSETS**

Details of movements in fixed assets are set out in note 13 on the financial statements.

## DIRECTORS

The directors who held office during the year and up to the date of this report were:

- Dr HO Tim, *Chev Leg d'Hon, JP, DSSc (Hon), DBA (Hon), LLD (Hon)*
- Dr LEE Shau Kee, *DBA (Hon), DSSc (Hon), LLD (Hon)*
- \*† Dr David SIN Wai Kin, *DSSc (Hon)*
- Mr WOO Kim Phoe
- The Honourable LEE Quo Wei, *GBM, JP*
- † Mr Patrick FUNG Yuk Bun
- Mr Dominic CHENG Ka On
- Mr Richard TANG Yat Sun, *MBA, BBS, JP*
- \*† Mr Stephen HO Tze Tung
- Mr Colin LAM Ko Yin, *BSc, ACIB, MBIM, FCILT*
- Mr Eddie LAU Yum Chuen
- Mr Tony NG
- Mr Norman HO Hau Chong, *BA, ACA, FHKSA*
- Mr Howard YEUNG Ping Leung
- Mr Peter YU Tat Kong, *BSc, MBA, CA, CHA*

\* *independent non-executive directors*

† *members of the Audit Committee, of which Dr David Sin Wai Kin is the Chairman*

In accordance with Articles 77, 78 and 79, Dr Ho Tim, Dr David Sin Wai Kin, The Honourable Lee Quo Wei, Mr Patrick Fung Yuk Bun and Mr Dominic Cheng Ka On will retire at the forthcoming Annual General Meeting by rotation. The above five directors, being all eligible, offer themselves for re-election.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### *Directors*

**Dr HO Tim**, *Chev Leg d'Hon, JP, DSSc (Hon), DBA (Hon), LLD (Hon)*

Aged 95. Dr Ho was appointed director in 1957 and has been the Chairman of the Company during the period from 1985 to 2001. Having resigned as Chairman of the Company on 8 August 2001, he was immediately appointed as the Honorary Chairman of the Company. He is a director of King Fook Holdings Limited and New World Development Company Limited. He is an Honorary Senior Adviser to Hang Seng Bank Limited. He is also a permanent member of the Board of Trustees of United College of The Chinese University of Hong Kong, a council member of The Chinese University of Hong Kong, a board member of the Hang Seng School of Commerce, a committee member of Tang Shiu Kin and Ho Tim Charitable Fund, Permanent President of Ho's Clansmen Association Limited, Honorary President of Pun U District Association of Hong Kong and Honorary Permanent President of the Chinese Gold & Silver Exchange Society. He is the father of Mr Norman Ho Hau Chong.

**Dr LEE Shau Kee**, *DBA (Hon), DSSc (Hon), LLD (Hon)*

Aged 75. Dr Lee was appointed director of the Company in 1993 and has been the Chairman of the Company since 8 August 2001. He has been engaged in property development in Hong Kong for more than 45 years. He is the founder and also the Chairman and Managing Director of Henderson Land Development Company Limited (“Henderson Land”) and Henderson Investment Limited (“Henderson Investment”), the Chairman of Henderson Cyber Limited (“Henderson Cyber”) and The Hong Kong and China Gas Company Limited, the Vice Chairman of Sun Hung Kai Properties Limited as well as a director of Henderson China Holdings Limited (“Henderson China”), Hong Kong Ferry (Holdings) Company Limited and The Bank of East Asia, Limited. He is a director of Multiglade Holdings Limited (“Multiglade”), Higgins Holdings Limited (“Higgins”), Threadwell Limited (“Threadwell”), Aynbury Investments Limited (“Aynbury”), Henderson Investment, Kingslee S.A., Henderson Land and Henderson Development Limited (“Henderson Development”) which have discloseable interests in the share capital of the Company under the provisions of Part XV of the Securities and Futures Ordinance as at 31 March 2004.

**Dr David SIN Wai Kin**, *DSSc (Hon)*

Aged 74. Dr Sin was appointed director in 1974 and has been a Vice Chairman of the Company since 1985. He is the Chairman of Myer Jewelry Manufacturer Limited, the executive director of New World Development Company Limited and a director of Hang Seng Bank Limited and King Fook Holdings Limited.

**Mr WOO Kim Phoe**

Aged 85. Mr Woo was appointed director in 1978 and has been a Vice Chairman of the Company since 1985. He is also the Chairman of Tectona Enterprises Limited and Tong Seng Enterprises Limited.

**The Honourable LEE Quo Wei**, *GBM, JP*

Aged 86. Dr Lee was appointed director of the Company in 1957. He is the Chairman of Wideland Investors Limited and Wei Lun Foundation Limited, Honorary Senior Adviser of Hang Seng Bank Limited, a director of New World Development Company Limited and the life member of the Council of The Chinese University of Hong Kong.

**Mr Patrick FUNG Yuk Bun**

Aged 57. Mr Fung was appointed director of the Company in 1985. He graduated from the University of Toronto in 1971 with an Engineering degree and in the same University in 1973 with a Master of Business Administration degree. He joined Wing Hang Bank, Limited in 1976 and appointed a Director in 1980. In 1992, he was elected by the Board to become the Chief Executive Officer. In 1996, he was appointed Chairman and Chief Executive. Outside the Wing Hang Group, he holds numerous appointments, serving as Governor of Fung Yiu King Charitable Foundation, Ltd., a member of the Court of The Hong Kong Polytechnic University, Chairman of University of Toronto (Hong Kong) Foundation, a member of the Dean’s Advisory Council of the Faculty of Management, University of Toronto, Chairman of Travel Industry Compensation Fund Management Board, a Vice President of the Hong Kong Institute of Bankers and a Co-opt member of Planning, Development and Conservation Committee of Urban Renewal Authority.

**Mr Dominic CHENG Ka On**

Aged 54. Mr Cheng was appointed director of the Company in 1985. He is an executive director of King Fook Holdings Limited and the Managing Director of the Onflo International Group of Companies.

**Mr Richard TANG Yat Sun, MBA, BBS, JP**

Aged 51. Mr Tang was appointed director of the Company in 1986. He is an MBA graduate from the University of Santa Clara, California, U.S.A., and a holder of Bachelor of Science degree in Business Administration from Menlo College, California, U.S.A. He is currently the Chairman and Managing Director of Richcom Company Limited, Vice Chairman of King Fook Holdings Limited, a director of Hang Seng Bank Limited and various private business enterprises. He is a member of Tang Shiu Kin and Ho Tim Charitable Fund.

**Mr Stephen HO Tze Tung**

Aged 68. Mr Ho was appointed director of the Company in 1991. He is currently a director of Design 2, Bethlehem Management Limited.

**Mr Colin LAM Ko Yin, BSc, ACIB, MBIM, FCILT**

Aged 53. Mr Lam was appointed director of the Company in 1993. He holds a Bachelor of Science (Honours) degree from the University of Hong Kong and has over 30 years' experience in banking and property development. He is also the Chairman of Hong Kong Ferry (Holdings) Company Limited, the Vice Chairman of Henderson Land and Henderson Investment, an executive director of Henderson China, Henderson Cyber and Henderson Development as well as a director of The Hong Kong and China Gas Company Limited, Multiglade, Higgins, Threadwell, Aynbury, Hopkins (Cayman) Limited ("Hopkins"), Riddick (Cayman) Limited ("Riddick") and Rimmer (Cayman) Limited ("Rimmer"). Multiglade, Higgins, Threadwell, Aynbury, Henderson Investment, Henderson Land, Henderson Development, Hopkins, Riddick and Rimmer have discloseable interests in the share capital of the Company under the provisions of Part XV of the Securities and Futures Ordinance as at 31 March 2004.

**Mr Eddie LAU Yum Chuen**

Aged 58. Mr Lau was appointed director of the Company in 1996. He has over 30 years' experience in banking, finance and investment. He is also an executive director of Henderson Land and Henderson Investment as well as a director of Hong Kong Ferry (Holdings) Company Limited. Both Henderson Land and Henderson Investment have discloseable interests in the share capital of the Company under the provisions of Part XV of the Securities and Futures Ordinance as at 31 March 2004.

**Mr Tony NG**

Aged 63. Mr Ng was appointed director of the Company in 1997. He is a graduate of Hotel Management from Ecole Hoteliere Lausanne, Switzerland. He has over 35 years' experience in the fields of hotel management and food and beverage in Hong Kong, Switzerland, Australia, Hawaii and Singapore. He is the brother-in-law of Mr Howard Yeung Ping Leung.

**Mr Norman HO Hau Chong, BA, ACA, FHKSA**

Aged 48. Mr Ho was appointed director of the Company in 1998. He is an executive director of Honorway Investments Limited and Tak Hung (Holding) Company Limited and has over 22 years' experience in management and property development. He is also a director of CITIC Pacific Limited, Lee Hing Development Limited and a few other listed companies as well as an independent non-executive director of Hong Kong Ferry (Holdings) Company Limited. He is the son of Dr Ho Tim.

**Mr Howard YEUNG Ping Leung**

Aged 47. Mr Yeung was appointed director of the Company in 2000. He is also the Chairman of King Fook Holdings Limited and a director of New World Development Company Limited. He is the brother-in-law of Mr Tony Ng.

**Mr Peter YU Tat Kong, BSc, MBA, CA, CHA**

Aged 55. Mr Yu joined the Company in 1996 as the Group General Manager and was appointed director of the Company in 1997. He holds a Bachelor degree in Statistics & Computer Science from the University of Manitoba and a Master degree in Business Administration from the University of British Columbia in Canada. He is a U.S. Certified Hotel Administrator as well as a Canadian Chartered Accountant. He has over 26 years' solid experience in the fields of hospitality and tourism, general administration and corporate finance.

***Senior Management***

**Mr Frankie CHAN Fung Kee**

Aged 66. Mr Chan holds a Diploma in Building Course from the Hong Kong Technical College. He joined the Group in 1970. He is now the Director of Property Development and Maintenance.

**Ms Sylvia CHUNG Wai Man**

Aged 43. Ms Chung joined the Group as General Manager of the Hotel Miramar in 1997 and was recently appointed as the Director of Business Development of the Group of which she is involved in a number of the Group's food and beverages businesses. She is a Certified Hotel Administrator and was awarded the Bauhinia Cup Outstanding Entrepreneur Awards by the Hong Kong Polytechnic University in 2002. She is the Advisory Committee Member of the School of Hotel & Tourism Management of Hong Kong Polytechnic University, Executive Committee Member of the Hong Kong Hotels Association and the President of the Women Executives Club of the Hong Kong General Chamber of Commerce.

**Mr Uris FONG See Shun**

Aged 48. Mr Fong joined the Henderson Group in 1992, and then transferred to the Group in 1998 as Vice President - Group Marketing & Sales of Group Hotel Management Company. He is responsible for marketing, sales, planning & development for all hotels within our Group. He also manages overseas offices in Beijing, Shanghai, Taipei, Tokyo, London and Frankfurt. He has worked for some renowned International Chain hotels in Hong Kong and Europe. Mr Fong has over 25 years of extensive sales & marketing experience in the hospitality and tourism industry.

**Mr Clarence LAM Kong Fuk**, *FCCA, FHKSA*

Aged 39. Mr Lam graduated from the Hong Kong Polytechnic University in 1987 with a professional diploma in accountancy. He is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants. He has solid experience in financial control, audit and accounting field. He joined the Group in 1997 and is now the Group Financial Controller.

**Mr Eddy LAU Wai Lik**, *MPA, FHKSA, FCCA, ACMA*

Aged 48. Mr Lau holds a Master of Professional Accounting degree from the Hong Kong Polytechnic University and is a fellow member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants. He is also an associate member of the Chartered Institute of Management Accountants. He has over 25 years' experience in auditing, financial management and accounting. He joined the Group in 1989 and his present position is Director of Internal Audit, reporting to the Audit Committee of the Group. He is responsible for the Group's operations review, both financial and otherwise, to ensure that adequate internal controls are in place for the smooth running of the Group's operations.

**Mr Ian LEE King Hang**, *AICPA, AHKSA*

Aged 37. Mr Lee joined the Group in 1998 and his present capacity is the Group's Hotel Management Company Vice President of Hotel Operation and Control. He is responsible for the Group's hotel business management, planning and assessment. Mr Lee holds a Bachelor of Business & Administration degree in Accounting from the University of Houston. He is a member of the American Institute of Certified Public Accountants and associate member of the Hong Kong Society of Accountants. He has over 10 years of experience in the fields of hotel management, finance and internal controls.

**Ms Doris LEE Sau Kuen**, *BA (Hons), LLB (Peking University), FCCA, AHKSA*

Aged 36. Ms Lee joined the Group in 1997 and her present capacity is Director of Group Treasury. She is responsible for the treasury, financing and tax planning functions of the Group. She holds a Bachelor of Arts in Accountancy and a Bachelor of Law. She is a fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants and has over 11 years of experience in auditing, accounting and finance.

**Mr Christopher YICK Kwok Hung**, *BA (Hons), PhD (Hon), FIBA, MBIM, MCMI, MINSTLM, MIHRM (HK)*

Aged 56. Mr Yick graduated from the University of Hong Kong in 1971 with an honours degree in Comparative Literature and Translation. He furthered his studies in Personnel Management from the University of Hong Kong in a one-year part-time course in 1977. He was awarded an honorary Doctorate in Commercial Science by The London Institute of Applied Research in 1993. He has over 27 years' experience in personnel management and has strong attributes in industrial relations and quality management. He has had ample experience in both commercial and industrial sectors. He joined the Group in 1996 as Director of Group Human Resources and Administration.

## **DIRECTORS' SERVICE CONTRACTS**

No director proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract which is not determinable by the Company within one year without payment of compensation, other than normal statutory obligations.

## DISCLOSURE OF INTERESTS

### DIRECTORS' INTERESTS IN SHARES

As at 31 March 2004, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (“Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of Company	Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Percentage of total issued shares
Miramar Hotel And Investment Company, Limited	Dr HO Tim	1,628,000	5,935,000	—	—	1.31%
	Dr LEE Shau Kee	—	—	252,169,250	—	43.69%
				(note 1)		
	Dr David SIN Wai Kin	4,158,000	—	—	—	0.72%
	Mr WOO Kim Phoe	11,426,400	—	—	—	1.98%
	The Honourable LEE Quo Wei	5,693,760	1,080,000	—	6,180,000	2.24%
					(note 2)	
	Mr Patrick FUNG Yuk Bun	—	—	—	8,426,710	1.46%
					(note 3)	
	Mr Dominic CHENG Ka On	7,774,640	4,000	—	—	1.35%
Mr Richard TANG Yat Sun	125,000	—	11,241,900	—	1.97%	
				(note 4)		
Mr Stephen HO Tze Tung	5,000	33,000	—	—	0.01%	
Booneville Company Limited	Dr LEE Shau Kee	—	—	2	—	100%
				(note 5)		
Fook Po Enterprises Company Limited	Dr LEE Shau Kee	270	—	—	—	9.80%
	Dr David SIN Wai Kin	225	—	—	—	8.17%
Henderson-Miramar Hotels Holdings Limited	Dr LEE Shau Kee	—	—	2	—	100%
				(note 6)		
Placer Holdings, Inc.	Mr Richard TANG Yat Sun	4,000	—	—	—	2%
Strong Guide Property Limited	Dr LEE Shau Kee	—	—	2	—	100%
				(note 7)		

Save as disclosed above, as at 31 March 2004, none of the directors or chief executive of the Company had held any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as defined in the SFO.

Apart from the foregoing, at no time during the year was the Company or any subsidiary a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

#### ***SUBSTANTIAL SHAREHOLDERS AND OTHERS***

The Company has been notified of the following interests in the Company's issued shares at 31 March 2004, amounting to 5% or more of the shares in issue:

<b>Substantial Shareholders</b>	<b>Ordinary shares held</b>	<b>Percentage of total issued shares</b>
Dr Lee Shau Kee	252,169,250 <i>(note 1)</i>	43.69%
Rimmer (Cayman) Limited ("Rimmer")	252,169,250 <i>(note 8)</i>	43.69%
Riddick (Cayman) Limited ("Riddick")	252,169,250 <i>(note 8)</i>	43.69%
Hopkins (Cayman) Limited ("Hopkins")	252,169,250 <i>(note 8)</i>	43.69%
Henderson Development Limited ("Henderson Development")	252,169,250 <i>(note 9)</i>	43.69%
Henderson Land Development Company Limited ("Henderson Land")	252,169,250 <i>(note 9)</i>	43.69%
Kingslee S.A.	252,169,250 <i>(note 10)</i>	43.69%
Henderson Investment Limited ("Henderson Investment")	252,169,250 <i>(note 10)</i>	43.69%
Aynbury Investments Limited ("Aynbury")	252,169,250 <i>(note 10)</i>	43.69%
Higgins Holdings Limited ("Higgins")	100,612,750 <i>(note 10)</i>	17.43%
Multiglade Holdings Limited ("Multiglade")	79,121,500 <i>(note 10)</i>	13.71%
Threadwell Limited ("Threadwell")	72,435,000 <i>(note 10)</i>	12.55%
<b>Persons other than Substantial Shareholders</b>		
Mr Chong Wing Cheong	57,587,210	9.98%

Save as disclosed above, as at 31 March 2004, none of the above shareholders had held any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation as defined in the SFO.



*Notes :*

- (1) Dr Lee Shau Kee beneficially owned all the issued shares in Rimmer, Riddick and Hopkins. By virtue of the SFO, Dr Lee Shau Kee is taken to be interested in 252,169,250 shares, which are duplicated in the interests described in Notes 8, 9 and 10.
- (2) The Honourable Lee Quo Wei and his spouse, Mrs Lee, were members of the Board of Trustees of a charitable foundation which held 6,180,000 shares of the Company. Neither The Honourable Lee Quo Wei and Mrs Lee was a beneficiary of such shareholdings.
- (3) All these shares were held by a unit trust of which Mr Patrick Fung Yuk Bun was a beneficiary.
- (4) These shares were held through corporations in which Mr Richard Tang Yat Sun owned more than 30% of the issued share capital.
- (5) These 2 shares in Booneville Co Ltd were equally owned by a wholly-owned subsidiary of the Company and Henderson Land. By virtue of the SFO, Dr Lee Shau Kee is taken to be interested in Henderson Land and the Company as set out in Notes 1, 8, 9 and 10.
- (6) These 2 shares in Henderson-Miramar Hotels Holdings Ltd were equally owned by a wholly-owned subsidiary of the Company and Henderson Investment. By virtue of the SFO, Dr Lee Shau Kee is taken to be interested in Henderson Investment and the Company as set out in Notes 1, 8, 9 and 10.
- (7) These 2 shares in Strong Guide Property Ltd were equally owned by a wholly-owned subsidiary of the Company and of Henderson China Holdings Ltd which was 65.32% held by Henderson Land. By virtue of the SFO, Dr Lee Shau Kee is taken to be interested in Henderson Land and the Company as set out in Notes 1, 8, 9 and 10.
- (8) Rimmer and Riddick, trustees of different discretionary trusts, held units in a unit trust ("Unit Trust"). Hopkins was the trustee of the Unit Trust which beneficially owned all the issued ordinary shares in the share capital of Henderson Development. These 252,169,250 shares are duplicated in the interests described in Notes 1, 9 and 10.
- (9) Henderson Development had a controlling interest in Henderson Land which was the holding company of Kingslee S.A. These 252,169,250 shares are duplicated in the interests described in Notes 1, 8 and 10.
- (10) Kingslee S.A., a subsidiary of Henderson Land, was the holding company of Henderson Investment. The 252,169,250 shares were beneficially owned by some of the subsidiaries of Henderson Investment. Higgins, Multiglade and Threadwell were subsidiaries of Aynbury. Aynbury was a subsidiary of Henderson Investment. These 252,169,250 shares represent the shares described in Notes 1, 8 and 9.

## **DIRECTORS' AND MANAGEMENT EMOLUMENTS**

Particulars of directors' emoluments and the five highest paid individuals in the Group are set out in notes 6 and 7 respectively on the financial statements.

## **ONGOING CONNECTED TRANSACTIONS**

On 27 February 2003, the Company entered into the following agreements with Henderson Investment Limited ("Henderson Investment"), details of which are set out below:

### **1. Supplemental Hotel Management Agreement**

Reference is made to the hotel management agreement dated 26 February 1998 (the "Original Hotel Management Agreement") entered into between Contender Limited ("Contender") and Henderson-Miramar Hotel Management Company Limited ("HM Hotel Management") pursuant to which HM Hotel Management was appointed the manager of Miramar Hotel to provide management and marketing services. The duration of the Original Hotel Management Agreement was five years from 1 March 1998 to 28 February 2003, both days inclusive, subject to the right of early termination without cause by either parties by giving six months' prior written notice to the other. The management fees of Miramar Hotel payable under the Original Hotel Management Agreement was calculated at 3% of all gross income or revenues of any kind derived from the operations of Miramar Hotel. On 27 February 2003, Contender and HM Hotel Management entered into a supplemental agreement named First Supplemental Hotel Management Agreement (the "Supplemental Hotel Management Agreement") pursuant to which, upon the expiry of the duration of the Original Hotel Management Agreement on 28 February 2003, the Original Hotel Management Agreement shall be renewed for a duration of 5 years commencing from 1 March 2003 and expiring on 29 February 2008, subject to and upon the same terms and conditions as set out in the Original Hotel Management Agreement. Save for the renewal of the duration of the Original Hotel Management Agreement as mentioned above, all other terms of the Original Hotel Management Agreement shall remain in full force and effect.

### **2. Supplemental Agreement for the Supply of Services**

Reference is made to the agreement for the supply of services dated 26 February 1998 (the "Original Service Agreement") entered into between the Company and Henderson-Miramar Hotels Holdings Limited ("HM Holdings") whereby the Company shall provide HM Holdings and its subsidiaries with management and general administrative services relating to hotel management for a service fee of HK\$350,000 per month which shall be adjusted annually at a rate as may be agreed between the Company and HM Holdings and for a duration of five years from 1 March 1998 to 28 February 2003, both days inclusive, subject to the right of early termination without cause by either parties by giving six months' prior written notice to the other. On 27 February 2003, the Company and HM Holdings entered into a supplemental agreement for the supply of services named the First Supplemental Agreement for Supply of Services (the "Supplemental Service Agreement") pursuant to which, upon the expiry of the duration of the Original Service Agreement on 28 February 2003, the Original Service Agreement shall be renewed for a duration of 5 years commencing from 1 March 2003 and expiring on 29 February 2008, subject to and upon the same terms and conditions as set out in the Original Service Agreement, except that the monthly service fee of HK\$350,000 as originally provided in the Original Service Agreement shall be changed to HK\$275,000 for the renewed duration.

Save as amended or supplemented by the Supplemental Service Agreement, all other terms and conditions contained in the Original Service Agreement shall remain in full force and effect.

Henderson Investment is a substantial shareholder of the Company holding approximately 43.69% of the issued share capital of the Company. HM Hotel Management is a wholly-owned subsidiary and the sole major operating asset of HM Holdings which is 50% owned by each of the Company and Henderson Investment. HM Holdings and HM Hotel Management are therefore associates of Henderson Investment. Contender is a wholly-owned subsidiary of the Company. Accordingly, Henderson Investment, HM Holdings and HM Hotel Management are all connected persons of the Company and the Original Hotel Management Agreement (as supplemented by the Supplemental Hotel Management Agreement) and the Original Service Agreement (as supplemented by the Supplemental Service Agreement) constituted ongoing connected transactions (the “Ongoing Connected Transactions”) for the Company under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The directors of the Company considered that the Ongoing Connected Transactions will benefit the Company as HM Holdings, being a joint venture between the Company and Henderson Investment, will continue to provide economy of scale, market competitive advantage, trade specialization and optimum use of resources.

The Ongoing Connected Transactions are disclosed in the annual report in accordance with the Listing Rules and have been previously announced in the newspapers by the Company.

In the opinion of the directors, the Ongoing Connected Transactions:

- (a) have been entered into by the Group in the ordinary and usual course of its business;
- (b) are conducted on normal commercial terms and in accordance with the terms of the agreements governing the transactions; and
- (c) are conducted on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company had been granted a waiver by the Stock Exchange from strict compliance with the requirements of the Listing Rules for a period of five years commencing from 1 March 2003. The independent non-executive directors of the Company have reviewed the Ongoing Connected Transactions and confirmed that the Ongoing Connected Transactions have been entered into:

- (a) in the ordinary and usual course of business of the Group;
- (b) in accordance with the terms of the agreements governing such transactions;
- (c) on normal commercial terms; and
- (d) that the annual fee payable or receivable under each of the Ongoing Connected Transactions have not exceeded the higher of HK\$10 million or 3% of the Group’s consolidated net tangible asset value for the financial year ended 31 March 2004.

The auditors of the Company have reviewed the Ongoing Connected Transactions and confirmed in writing to the board of directors of the Company stating that the Ongoing Connected Transactions:

- (a) have received the approval of the board of directors of the Company;
- (b) have been entered into in accordance with the terms of the agreements governing such transactions; and
- (c) have been conducted in the manner that the annual fee payable or receivable under the Ongoing Connected Transactions have not exceeded the higher of HK\$10 million or 3% of the Group's consolidated net tangible asset value for the financial year ended 31 March 2004.

### **CONNECTED TRANSACTIONS**

On 3 June 2003, a subsidiary of the Company entered into two sale and purchase agreements with two entities which are both indirectly wholly owned by Dr Lee Shau Kee and therefore connected persons of the Company, for the sale of approximately 567.18 acres of real property in the City of Lincoln, County of Placer, State of California, the United States of America for an aggregate cash consideration of US\$24,000,000. The transactions were completed on 30 June 2003.

The two sale and purchase agreements constituted connected transactions as defined by the Listing Rules and were announced by way of a press announcement by the Company on 5 June 2003.

### **DIRECTORS' INTERESTS IN CONTRACTS**

Apart from the material interest that some of the directors held in the contracts under the paragraph of the Ongoing Connected Transactions and Connected Transactions, there were no contracts of significance which subsisted during or at the end of the financial year in which the Company or any subsidiary was a party and in which a director was interested, directly or indirectly, and the director's interest was material.

### **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

The following directors are considered to have interests in businesses which compete or are likely to compete with the businesses of the Group pursuant to the Listing Rules:

1. Dr David Sin Wai Kin is also a director of New World Development Company Limited. The principal activities of this group include property investment, hotel management and operation and other related services.
2. Dr Lee Shau Kee and Mr Colin Lam Ko Yin are also directors of Henderson Development, Henderson Land and Henderson Investment which, through their subsidiaries, are also engaged in the businesses of property investment, hotel management and operation and other related services.
3. Mr Eddie Lau Yum Chuen is also a director of Henderson Land and Henderson Investment which, through their subsidiaries, are also engaged in the businesses of property investment, hotel management and operation and other related services.
4. Dr Lee Shau Kee, Mr Colin Lam Ko Yin and Mr Eddie Lau Yum Chuen are also directors of Hong Kong Ferry (Holdings) Company Limited, the principal activities of this group include property investment, hotel management and operation, travel and other related services.

5. The Honourable Lee Quo Wei is the Chairman of Wideland Investors Limited which, through its subsidiaries, is engaged in the ownership and management of investment properties.
6. Mr Howard Yeung Ping Leung is the Chairman of King Fook Holdings Limited and also director of New World Development Company Limited, Chi Kai Company Limited, New Lee Yuen Investment Company Limited and Wui Fung Lee Investment Company Limited, which themselves or through their subsidiaries are also engaged in the like business of the Company.

As the board of directors of the Company is independent from the boards of the above-mentioned companies and none of the above directors controls the board of the Company, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of those companies.

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

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

#### **BANK LOANS AND OTHER BORROWINGS**

Particulars of bank loans and other borrowings of the Company and the Group as at 31 March 2004 are set out in notes 24 and 25 on the financial statements.

#### **PARTICULARS OF LOAN CAPITAL, CONVERTIBLE SECURITIES, WARRANTS OR OPTIONS ISSUED BY THE COMPANY AND ITS SUBSIDIARIES**

The Company and its subsidiaries have not issued, during the financial year, any loan capital, convertible securities, warrants or options.

#### **BORROWING COST CAPITALISATION**

Borrowing cost capitalised by the Company and its subsidiaries during the year amounted to HK\$1.9 million (2003: HK\$9.7 million).

#### **RETIREMENT SCHEMES**

Particulars of the retirement schemes of the Group are set out in note 28 on the financial statements.

#### **SHARE CAPITAL**

Details of the share capital during the year are set out in note 29 on the financial statements.

#### **RESERVES**

Movements in reserves during the year are set out in note 30 on the financial statements.

#### **GROUP'S FIVE-YEAR FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 80.

## **GROUP PROPERTIES**

Particulars of the major properties and property interests of the Group are shown on pages 81 to 83.

## **CORPORATE FINANCE**

The Group maintains its conservative financial policy, with high liquidity and low gearing. Gearing, expressed as a percentage of consolidated net borrowings to the total of consolidated net borrowings and consolidated net assets, fell to 11% (at 31 March 2003: 14%) in the year.

The Group has negligible foreign currency risk, given that the majority of the financing facilities obtained by the Group are denominated in Hong Kong dollars. Interests on bank loans and borrowings of the Group are chargeable mainly based on certain agreed interest margin over the Hong Kong Interbank Offer Rate, which is therefore of floating rate in nature.

The Group has adequate lines of credit available to fund its development programme for the foreseeable future. At 31 March 2004, total available facilities amounted to HK\$2.3 billion (at 31 March 2003: HK\$2.4 billion), and 45% (at 31 March 2003: 51%) were drawn down. At 31 March 2004, consolidated net borrowings were HK\$0.8 billion (at 31 March 2003: HK\$1.1 billion), of which HK\$0.1 billion was secured borrowings (at 31 March 2003: HK\$0.1 billion).

## **EMPLOYEES**

As at 31 March 2004, the Company employed a total of about 1,314 full-time employees, including 975 employed in Hong Kong, 326 employed in the People's Republic of China and 13 employed in the United States of America. The Company rewards the employees through the comprehensive compensation and benefits packages which are commensurate with their performance and contribution to the Company. Besides, the Company always keeps an eye on the current labour market and maintains competitive remuneration for its staff. The Company continues to offer various incentive schemes to employees in order to stimulate outstanding work performance. Human resources are the valuable asset of the Group, thus staff's training and development are being highly emphasized. During the past year, the Group has provided various training courses. Courses provided for the office staff are Chinese Input Method, Business Putonghua, and Handling Customers over the Telephone; whereas Survival Putonghua, Service Standard Enhancement are provided for the F & B staff. Besides, to further enhance employees' professional knowledge, the Group also subsidizes staff who have outstanding performance to attend related certificate courses, like English Proficiency Course, Basic Food Hygiene Certificate for Hygiene Manager Course and Supervisory Certificate Courses.

## **AUDIT COMMITTEE**

The Audit Committee comprises three non-executive directors, with a majority of independent non-executive directors, two of whom have been appointed for a term of three years, and one for a term of two years. The Audit Committee reports regularly to the board of directors and meets with the Group's senior management and external auditors regularly to review the effectiveness of the internal control systems and the financial performance of the Group. Audit Committee meetings were held twice during the financial year.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

The Company has complied throughout the year with the Code of Best Practice as set out by the Stock Exchange in Appendix 14 to the Listing Rules.

## **AUDITORS**

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

By Order of the Board

**LEE SHAU KEE**

Chairman

Hong Kong, 29 June 2004