

Report of the Directors

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and those of its subsidiaries are set out in note 14 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 11 on the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2002 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 20 to 65.

An interim dividend of HK\$0.01 (2001: Nil) per share was paid on 6 November 2002. The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2002.

FIXED ASSETS

Details of the movements in fixed assets during the year are set out in note 12 on the financial statements.

DIRECTORS

The directors during the financial year and up to the date of this report are:

Executive directors

Ho Kian Guan – *Executive Chairman*
Ho Kian Hock – *Vice Executive Chairman*
Paul Tse See Fan

Non-executive directors

Ho Kian Cheong
* Robin YH Chan
* Arthur Kwok Chi Shun

**Independent non-executive directors*

Messrs Ho Kian Hock and Ho Kian Cheong shall retire at the forthcoming annual general meeting in accordance with article 116 of the Company's articles of association and, being eligible, offer themselves for re-election.

Report of the Directors (Continued)

DIRECTORS (Continued)

Mr Ho Kian Cheong has stepped down as Managing Director of the Company with effect from 17 April 2003. He will, however, remain on the Board of Directors as a Non-executive Director.

The Company has not entered into service contracts with any of the above directors.

The appointment of non-executive directors is not for a fixed period of term.

MANAGEMENT ARRANGEMENTS

During the year ended 31 December 2002, there existed the following arrangements for an indefinite period:

- (1) Kansas Holdings Limited provides management services to the Company. No management fee was charged during the year.
- (2) Keck Seng Realty Investment Pte Limited acts as manager and sales agent for the Company's property in Singapore. No management or agency fee was charged during the year.
- (3) Goodland Limited ("Goodland") acts as the project manager of Golden Crown Development Limited's ("Golden Crown") Ocean Gardens development in Taipa Island, Macau for a management fee and is also responsible for marketing the development. Goodland is also a major contractor for the development.
- (4) Goodland acts as project manager of the Sheraton Saigon, a hotel property held by Ocean Place Joint Venture Company Limited ("OPJV") in the Socialist Republic of Vietnam.
- (5) Goodland provides management services to Ocean Incorporation Ltd. ("Ocean Inc") in return for a management fee.

Messrs Ho Kian Guan, Ho Kian Hock and Ho Kian Cheong were interested in the above arrangements as substantial shareholders and directors of Kansas Holdings Limited, Keck Seng Realty Investment Pte Limited and Goodland.

Report of the Directors (Continued)

DIRECTORS' INTERESTS IN SHARES

The interests of the directors and their associates in the share capital of the Company and its associated corporations, as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance as at 31 December 2002 were as follows:

	Personal interests	Family interests	Shares of HK\$1 each Corporate interests	Other Interests
Beneficial interests				
Keck Seng Investments (Hong Kong) Limited				
Ho Kian Guan	480	–	253,876,320 (<i>note 1</i>)	–
Ho Kian Hock	480	–	253,876,320 (<i>note 1</i>)	–
Ho Kian Cheong	480	–	253,876,320 (<i>note 1</i>)	–
Paul Tse See Fan	288,720	–	–	–
Robin YH Chan	180,000	–	720,000 (<i>note 2</i>)	–
Arthur Kwok Chi Shun	–	–	–	–

Shares of S\$1 each Corporate interests

Lam Ho Investments Pte Ltd

Ho Kian Guan	495,000 (<i>note 3</i>)
Ho Kian Hock	495,000 (<i>note 3</i>)
Ho Kian Cheong	495,000 (<i>note 3</i>)

Shares of HK\$1 each Corporate interests

Shun Seng International Limited

Ho Kian Guan	9,990 (<i>note 3</i>)
Ho Kian Hock	9,990 (<i>note 3</i>)
Ho Kian Cheong	9,990 (<i>note 3</i>)
Arthur Kwok Chi Shun	15,000 (<i>note 4</i>)

Report of the Directors (Continued)

DIRECTORS' INTERESTS IN SHARES (Continued)

	Amount of capital (US\$)
	Corporate interests
Hubei Qing Chuan Hotel Company Limited	
Ho Kian Guan	5,216,000 (<i>note 3</i>)
Ho Kian Hock	5,216,000 (<i>note 3</i>)
Ho Kian Cheong	5,216,000 (<i>note 3</i>)
Arthur Kwok Chi Shun	489,000 (<i>note 5</i>)
	Shares of Ptc1 each
	Corporate interests
Golden Crown Development Limited	
Ho Kian Guan	9,000,000 (<i>note 3</i>)
Ho Kian Hock	9,000,000 (<i>note 3</i>)
Ho Kian Cheong	9,000,000 (<i>note 3</i>)
	Quota of Ptc1,000
	Corporate interests
Ocean Gardens Management Company Limited	
Ho Kian Guan	1 (<i>note 3</i>)
Ho Kian Hock	1 (<i>note 3</i>)
Ho Kian Cheong	1 (<i>note 3</i>)
	Shares of HK\$1 each
	Corporate interests
Shun Cheong International Limited	
Ho Kian Guan	999 (<i>note 3</i>)
Ho Kian Hock	999 (<i>note 3</i>)
Ho Kian Cheong	999 (<i>note 3</i>)
Arthur Kwok Chi Shun	5,500 (<i>note 6</i>)
	Shares of M\$1 each
	Corporate interests
KSF Enterprises Sdn Bhd	
Ho Kian Guan	7,500 (<i>note 3</i>)
Ho Kian Hock	7,500 (<i>note 3</i>)
Ho Kian Cheong	7,500 (<i>note 3</i>)

Report of the Directors (Continued)

DIRECTORS' INTERESTS IN SHARES (Continued)

	Common shares without par value Corporate interests	Preferred shares of C\$1 each Corporate interests
Chateau Ottawa Hotel Inc.		
Ho Kian Guan	450,000 (<i>note 3</i>)	370,000 (<i>note 3</i>)
Ho Kian Hock	450,000 (<i>note 3</i>)	370,000 (<i>note 3</i>)
Ho Kian Cheong	450,000 (<i>note 3</i>)	370,000 (<i>note 3</i>)

Notes:

- (1) At 31 December 2002, Messrs Ho Kian Guan, Ho Kian Hock and Ho Kian Cheong were substantial shareholders of Kansas Holdings Limited and Goodland, which together beneficially held 253,876,320 shares in the Company.
- (2) At 31 December 2002, Dr Robin YH Chan had controlling interest in United Asia Enterprises Inc which held 720,000 shares in the Company.
- (3) At 31 December 2002, Messrs Ho Kian Guan, Ho Kian Hock and Ho Kian Cheong had deemed corporate interests in Lam Ho Investments Pte Limited, Shun Seng International Limited, Hubei Qing Chuan Hotel Company Limited ("Qing Chuan"), Golden Crown Development Limited, Ocean Gardens Management Company Limited, Shun Cheong International Limited, KSF Enterprises Sdn Bhd and Chateau Ottawa Hotel Inc. which were held through companies jointly controlled by them.
- (4) At 31 December 2002, Mr Arthur Kwok Chi Shun was a substantial shareholder of Larch Management Incorporated which beneficially held 15,000 shares representing 15% interest in Shun Seng International Limited.
- (5) At 31 December 2002, capital in the amount of US\$489,000, representing 3% interest in Qing Chuan were held by AKAA Project Management Limited which was wholly owned by Mr Arthur Kwok Chi Shun.
- (6) At 31 December 2002, 5,500 shares representing 55% interest in Shun Cheong International Limited were held by Larcfort Incorporated in which Mr Arthur Kwok Chui Shun had beneficial interests.

Report of the Directors (Continued)

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The Company has been notified of the following interests in the Company's issued shares as at 31 December 2002, amounting to 10% or more of the Company's shares in issue which were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

	Shares held	Percentage of total issued shares
Goodland Limited	153,006,960	45.0%
Kansas Holdings Limited	100,869,360	29.7%
	<u>253,876,320</u>	<u>74.7%</u>

INTEREST IN CONTRACTS

During the year, certain subsidiaries of the Company had the following transactions which were on normal commercial terms with Goodland:

- (1) A current account was maintained between Goodland and Ocean Inc and interest was charged on the outstanding balance at market rates. At 31 December 2002, the balance due by Ocean Inc on this account amounted to HK\$91,733,642. The interest charge for the year ended 31 December 2002 was HK\$2,131,721.
- (2) Goodland maintained an interest bearing current account with Golden Crown. At 31 December 2002, the balance due by Golden Crown amounted to HK\$280,106. The interest charge for the year ended 31 December 2002 payable by Golden Crown was HK\$5,470.

At 31 December 2002, the balances due to/(from) Goodland by OPJV, Golden Crown, Qing Chuan, Shun Seng International Limited and Lam Ho Investments Pte Limited on non-interest bearing current accounts amounted to HK\$3,441,152, HK\$13,600,000, HK\$5,153,154, HK\$188 and HK\$(3,904) respectively.

- (3) Golden Crown rented certain of its properties to Goodland and received rental income (net of outgoings) amounting to HK\$1,011,204 for the year ended 31 December 2002.
- (4) Loans from minority shareholders include an amount due to Goodland of HK\$128,889,269 and are non-interest bearing except for an amount of HK\$38,335,881 due by Qing Chuan to Goodland which is interest bearing at market rates and repayable on 30 April 2005.

The interest payable to Goodland was HK\$1,828,744.

Report of the Directors (Continued)

INTEREST IN CONTRACTS (Continued)

- (5) Ocean Inc, OPJV and Golden Crown paid management fees of HK\$1,456,311, HK\$3,113,200 and HK\$1,747,573 respectively for the year to Goodland.
- (6) Golden Crown rented certain properties from Goodland and rental amounting to HK\$174,757 was paid during the year.

Messrs Ho Kian Guan, Ho Kian Hock and Ho Kian Cheong each had an interest in the above transactions as beneficial owners, through intermediate companies, of a substantial part of the issued capital of Goodland.

Apart from the foregoing and the management arrangements set out on page 8 of the annual report, no 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.

DIRECTORS' INTEREST IN COMPETING BUSINESS

One of the direct competitors of the Group's hotel in Wuhan, Holiday Inn Riverside Wuhan, is the Shangri-La Hotel, Wuhan whose majority owner and operator is Shangri-La Asia Limited ("SAL").

Mr Ho Kian Guan is an independent non-executive director of SAL, a company whose shares are listed on the Hong Kong Stock Exchange and Mr Ho Kian Cheong is his alternate on the board of SAL.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S OWN SHARES

No purchase, sale or redemption of the Company's own shares was made by the Company or any of its subsidiaries during the year.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group at 31 December 2002 are set out in notes 20 and 21 on the financial statements.

FIVE YEAR 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 pages 66 and 67 of the annual report.

PROPERTIES

Particulars of the properties and property interests held by the Group are shown on pages 68 to 69 of the annual report.

Report of the Directors (Continued)

RETIREMENT SCHEMES

The companies of the Group operating in Hong Kong operate a Mandatory Provident Fund Scheme (“the MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$20,000.

The employees of the Group’s subsidiary operating in the People’s Republic of China (“the PRC”) are members of central pension schemes operated by the local governments in the PRC and the subsidiary makes mandatory contributions to these central pension schemes to fund the employees’ retirement benefits. The retirement contributions paid by the PRC subsidiary are based on 20% of the employees’ salaries cost in accordance with the relevant regulations in the PRC and are charged to the consolidated profit and loss account as incurred. The subsidiary discharges its retirement obligations upon payment of the retirement contributions to the central pension schemes operated by the local governments in the PRC.

The employees of the Group’s subsidiary operating in Vietnam are members of social insurance fund schemes operated by the local governments in Vietnam and the subsidiary makes mandatory contributions to these social insurance fund schemes to fund the employees’ retirement benefits, maternity benefits and sick leave benefits. The social insurance contributions paid by the Vietnam subsidiary are based on Social Insurance Regulations at the prevailing rate of 15% of basic salaries.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31 December 2002 with the Code of Best Practice as set out by the Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules except for not specifying the terms of appointment of non-executive directors.

AUDIT COMMITTEE

The audit committee comprises two 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.

Report of the Directors (Continued)

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.

By Order of the Board
Ho Kian Guan
Chairman

Hong Kong, 17 April 2003