

## **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 2003.

### **PRINCIPAL ACTIVITIES**

The principal activities of the Group are property investment and development, hotel and club operations and the provision of management services.

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.

### **MAJOR CUSTOMERS AND SUPPLIERS**

For the financial year ended 31 December 2003:

- (a) the aggregate amount of purchases attributable to the Group's five largest suppliers represented 48% of the Group's total purchases with the largest supplier accounting for 45% of the Group's total purchases.

The directors, Messrs Ho Kian Guan, Ho Kian Hock and Ho Kian Cheong have interests in the largest supplier of the Group. Save as disclosed above, at 31 December 2003, none of the directors, their associates or shareholders (which to the knowledge of the directors owned more than 5% of the Company's issued share capital) had any interest in the above five largest suppliers.

- (b) the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover.

### **FINANCIAL STATEMENTS**

The profit of the Group for the year ended 31 December 2003 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 18 to 68.

An interim dividend of HK\$0.01 per share (2002: HK\$0.01 per share) was paid on 5 November 2003. The directors now recommend the payment of a final dividend of HK\$0.01 (2002: HK\$Nil) per share in respect of the year ended 31 December 2003.

### **TRANSFER TO RESERVES**

Profits attributable to shareholders, before dividends, of HK\$32,860,000 (2002: HK\$28,315,000) have been transferred to reserves.

## **Report of the Directors** (Continued)

### **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 – *Deputy Executive Chairman*

Paul Tse See Fan

#### **Non-executive directors**

Ho Kian Cheong

\* Robin YH Chan

\* Arthur Kwok Chi Shun

*\*Independent non-executive directors*

Messrs Paul Tse See Fan and Robin YH Chan shall retire from the board of directors 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.

Mr Ho Kian Cheong has stepped down as Managing Director of the Company with effect from 17 April 2003. He remains 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.

## Report of the Directors (Continued)

### DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES

The directors and chief executive of the Company who held office at 31 December 2003 had the following interests in the shares of the Company, its holding company, subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")) at that date as recorded in the register of directors' and chief executives' interests and short positions required to be kept under section 352 of the SFO:

	Shares of HK\$1 each			
	Personal interests	Family interests	Corporate interests	Other 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' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES (Continued)

	<b>Amount of capital (US\$)</b>
	<b>Corporate interests</b>
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> )
	<b>Shares of Ptc1 each</b>
	<b>Corporate/Personal interests</b>
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> )
Paul Tse See Fan – personal interest	50,000
	<b>Quota of Ptc1,000 each</b>
	<b>Corporate interests</b>
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> )
	<b>Shares of HK\$1 each</b>
	<b>Corporate interests</b>
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> )

## Report of the Directors (Continued)

### DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES (Continued)

		<b>Shares of M\$1 each</b>
		<b>Corporate interests</b>
KSF Enterprises Sdn Bhd		
Ho Kian Guan		7,500 (Note 3)
Ho Kian Hock		7,500 (Note 3)
Ho Kian Cheong		7,500 (Note 3)
	<b>Common shares</b>	<b>Preferred</b>
	<b>without par value</b>	<b>shares of C\$1 each</b>
	<b>Corporate interests</b>	<b>Corporate interests</b>
Chateau Ottawa Hotel Inc		
Ho Kian Guan	450,000 (Note 3)	370,000 (Note 3)
Ho Kian Hock	450,000 (Note 3)	370,000 (Note 3)
Ho Kian Cheong	450,000 (Note 3)	370,000 (Note 3)

*Notes:*

- (1) At 31 December 2003, Messrs Ho Kian Guan, Ho Kian Hock and Ho Kian Cheong were substantial shareholders of Kansas Holdings Limited and Goodland Limited ("Goodland"), which together beneficially held 253,876,320 shares in the Company.
- (2) At 31 December 2003, Dr Robin YH Chan had a controlling interest in United Asia Enterprises Inc which held 720,000 shares in the Company.
- (3) At 31 December 2003, 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 ("Golden Crown"), Ocean Gardens Management Company Limited, Shun Cheong International Limited, KSF Enterprises Sdn Bhd and Chateau Ottawa Hotel Inc which were held through companies collectively controlled by them.
- (4) At 31 December 2003, 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 2003, capital in the amount of US\$489,000, representing 3% interest in Qing Chuan was held by AKAA Project Management International Limited which was wholly owned by Mr Arthur Kwok Chi Shun.
- (6) At 31 December 2003, 5,500 shares representing 55% interest in Shun Cheong International Limited were held by Larcfort Incorporated in which Mr Arthur Kwok Chi Shun had beneficial interests.

## Report of the Directors (Continued)

### DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES (Continued)

Save as mentioned above, at 31 December 2003, 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, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES

The Company has been notified of the following interests in the Company's issued shares at 31 December 2003 amounting to 5% or more of the ordinary shares in issue:

Name	Capacity in which shares were held	Number of ordinary shares held	% of total issued share capital of the Company
Ocean Inc ( <i>Note 1, 2</i> )	Interests of controlled corporations	253,876,320	74.7%
Pad Inc ( <i>Note 1</i> )	Interests of controlled corporations	153,006,960	45.0%
Lapford Limited ( <i>Note 1</i> )	Interests of controlled corporations	153,006,960	45.0%
Kansas Holdings Limited ( <i>Note 1</i> )	Interests of controlled corporations	153,006,960	45.0%
Kansas Holdings Limited ( <i>Note 2</i> )	Beneficial owner	100,869,360	29.7%
Goodland Limited ( <i>Note 1</i> )	Beneficial owner	153,006,960	45.0%
Kerry Group Limited ( <i>Note 3</i> )	Interests of controlled corporations	20,325,600	6.0%
Kerry Holdings Limited ( <i>Note 3</i> )	Interests of controlled corporations	20,325,600	6.0%

#### Notes:

- (1) Ocean Inc, Pad Inc, Lapford Limited and Kansas Holdings Limited had deemed interests in the same 153,006,960 shares beneficially held by Goodland.
- (2) Ocean Inc had deemed interests in the same 100,869,360 shares beneficially held by Kansas Holdings Limited.
- (3) Kerry Holdings Limited is a wholly owned subsidiary of Kerry Group Limited and both had deemed interests in the same 20,325,600 shares held by the subsidiaries of Kerry Holdings Limited.

Save as mentioned above, at 31 December 2003, the Company had not been notified of any interests and short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under section 336 of the SFO.

## **Report of the Directors** (Continued)

### **MANAGEMENT ARRANGEMENTS**

During the year ended 31 December 2003, 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 acts as the project manager of Golden Crown's 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. 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.

### **CONNECTED TRANSACTIONS**

On 26 March 2004, the Company, Goodland, Larch Management Incorporated and AKAA Project Management International Limited provided a guarantee, on a joint and several basis, to a bank in connection with a term loan facility obtained by a subsidiary of the Company, Qing Chuan. Qing Chuan is a connected person of the Company by virtue of it being an associate of Goodland, a substantial shareholder of the Company. As such, the guarantee constitutes a connected transaction of the Company under the Listing Rules and a press announcement was made by the Company on 30 March 2004.

A term loan facility of up to an aggregate principal amount of US\$3,800,000 (approximately HK\$29,640,000) was made available by a bank for a period of three years subject to the terms and conditions of a facility agreement between Qing Chuan and the bank entered into on 26 March 2004. The interest rate shall be the sum of 1.46% per annum and 3 or 6 months' LIBOR at Qing Chuan's option. The option will be exercised at Qing Chuan's discretion. It is intended that Qing Chuan will choose whichever is the lower of LIBOR on an interest payment date.

## **Report of the Directors** (Continued)

### **CONNECTED TRANSACTIONS** (Continued)

Approximately 50% of the facility will be used to finance and/or refinance the borrower's existing loans and approximately 50% will be retained as the general working capital of the borrower.

The directors of the Company, including the independent non-executive directors, consider that the guarantee is granted upon normal commercial terms which are arrived at after arm's length negotiations. They consider that the terms of the guarantee are fair and reasonable. The obtaining of the facility by the borrower is in the interests of the Company as a whole due to the lower interest rate of the facility as compared to the existing loans of the borrower.

### **DIRECTORS' INTERESTS 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 Incorporation Ltd. and interest was charged on the outstanding balance at market rates. At 31 December 2003, the balance due by Ocean Incorporation Ltd. on this account amounted to HK\$60,994,580 (2002: HK\$91,733,642). The interest charge for the year ended 31 December 2003 was HK\$884,516 (2002: HK\$2,131,721).
- (2) Goodland maintained an interest bearing current account with Golden Crown. At 31 December 2003, the balance due by Golden Crown amounted to HK\$92,320 (2002: HK\$280,106). The interest charge for the year ended 31 December 2003 payable by Golden Crown was HK\$5,216 (2002: HK\$5,470).

At 31 December 2003, 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\$8,841,149, HK\$31,985,931, HK\$3,428,372, HK\$Nil and HK\$Nil (2002: 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 (2002: HK\$1,011,204) for the year ended 31 December 2003.
- (4) Loans from minority shareholders include an amount due to Goodland of HK\$141,660,000 (2002: HK\$128,889,000) and are non-interest bearing except for an amount of HK\$Nil (2002: HK\$38,336,000) due by Qing Chuan to Goodland which is interest bearing at market rates and repayable on 30 April 2005.

By a mutual agreement between Qing Chuan and its shareholders, the shareholders agreed to waive interest expenses on certain shareholders' loans. The interest payable to Goodland was HK\$Nil (2002: HK\$Nil).

## **Report of the Directors** (Continued)

### **DIRECTORS' INTERESTS IN CONTRACTS** (Continued)

- (5) Ocean Incorporation Ltd., OPJV and Golden Crown paid management fees of HK\$1,456,311, HK\$2,954,388 and HK\$1,747,573 (2002: 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 (2002: 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 10 of the directors' 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 2003 are set out in notes 20 and 23 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 69 and 70 of the annual report.

## **Report of the Directors** (Continued)

### **PROPERTIES**

Particulars of the properties and property interests held by the Group are shown on pages 71 to 72 of the annual report.

### **PERSONNEL**

At 31 December 2003, the Company and its subsidiaries had approximately 1,200 employees. A policy of localizing as many of the positions as possible is in place throughout the Group, subject to suitable and sufficient local executives and staff with relevant qualifications and experiences being available. Salary and remuneration are competitive and are based on varying conditions of human resources in the different countries in which the Company and its subsidiaries operate.

### **RETIREMENT SCHEMES**

The Group has defined contribution schemes in Hong Kong, the People's Republic of China and Vietnam. Particulars of these retirement schemes are set out in Note 26 on the financial statements.

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

The Company has complied throughout the year ended 31 December 2003 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 presently 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. The audit committee intends to appoint an additional member prior to 30 September 2004.

### **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**  
*Executive Chairman*

Hong Kong, 26 April 2004