



**KECK SENG  
INVESTMENTS**  
(HONG KONG) LIMITED

# 2003 KECK SENG

Annual Report 2003

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## Financial Highlights

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

|                                     | 2003<br>\$'000 | 2002<br>\$'000 | + / (-) % |
|-------------------------------------|----------------|----------------|-----------|
| Total Assets                        | 2,227,994      | 2,152,637      | 4         |
| Capital and Reserves                | 1,341,808      | 1,303,924      | 3         |
| Issued Share Capital                | 340,200        | 340,200        | –         |
| Turnover                            | 339,524        | 224,502        | 51        |
| Profit Before Taxation              | 44,208         | 24,122         | 83        |
| Profit Attributable to Shareholders | 32,860         | 28,315         | 16        |
| Basic Earnings Per Share (cents)    | 9.7            | 8.3            | 17        |
| Dividends Per Share (cents)         | 2              | 1              | 100       |

## Corporate Information

### DIRECTORS

Ho Kian Guan – *Executive Chairman*  
Ho Kian Hock – *Deputy Executive Chairman*  
Paul Tse See Fan  
\* Ho Kian Cheong  
\*\* Robin Y.H. Chan  
\*\* Arthur Kwok Chi Shun

\* *Non-executive Director*

\*\* *Independent Non-executive Director*

### AUDIT COMMITTEE

Robin Y.H. Chan – *Chairman*  
Arthur Kwok Chi Shun

### SECRETARY

Ida Yuen Chiu Yuk

### AUDITORS

KPMG  
8th Floor Prince's Building  
10 Chater Road  
Hong Kong

### SHARE REGISTRARS & TRANSFER OFFICE

Tengis Limited  
G/F Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wanchai  
Hong Kong

### REGISTERED OFFICE

Room 2902 West Tower  
Shun Tak Centre  
168-200 Connaught Road Central  
Hong Kong

## Chairman's Statement

On behalf of the Board of Directors, I am pleased to present the results of the Group for the year ended 31 December 2003.

### RESULTS

The consolidated Group net profit for the year 2003 amounted to HK\$32,860,000, an increase of 16% as compared to HK\$28,315,000 in the previous year. Earnings per share for the year 2003 amounted to HK\$ 9.7cents as compared to HK\$ 8.3cents in 2002.

### DIVIDENDS

The Board is recommending that a final dividend of HK\$ 1cent per share be paid for the year ended 31 December 2003. An interim dividend of HK\$ 1cent per share has already been paid. Total dividends for the year will be HK\$ 2cents per share.

### REVIEW OF OPERATIONS

Turnover for your Group increased significantly by 51% to HK\$339.5 million for the year 2003, as compared to the previous year's figure of HK\$224.5 million.

A summary of the operations by geographical location is as following.

#### Macau

During 2003, Macau's property market strengthened considerably as a result of increased buying interest from local residents as well as overseas buyers to capitalize on the anticipated rebound of the market after SARS. Your Group's subsidiaries in Macau reported an increase of 50% in total revenues. Profits also increased significantly by 141%. This improvement is due to the successful launch of two newly completed apartment blocks.

#### Vietnam

**Sheraton Saigon Hotel & Towers and Executive Residences** in Ho Chi Minh City, in which your Group holds 63%, was also completed during 2003. The complex comprises a 382-room hotel tower and a 92-unit serviced apartment, including some office spaces in this five-star twin tower property. The serviced apartments have commenced operation in February 2002, with the hotel also fully operational by the second half of 2003. Occupancy rates and room rates for the serviced apartments remained strong throughout the year. Hotel operations were less than robust due to the SARS epidemic. Presently, the hotel is recognized as the leading hotel in the city due to its superb location, the high quality of its finishing, and its successful branding.

**Caravelle Hotel** which is also located in Ho Chi Minh City, in which your Group holds a 25% interest, was also negatively impacted by SARS. It reported lower revenue and lower profits for 2003 as compared to the previous year.

## **Chairman's Statement** (Continued)

### **The People's Republic of China**

**Holiday Inn Riverside Wuban** was not immune to the impact brought about by SARS. The ban on inter-province tour-group travels in China, as imposed by the Central Government in its bid to contain SARS, was felt strongly and was reflected in the significant reduction in occupancy rates reported for the year as compared to 2002. On a brighter note, however, the hotel has made a conscious and successful shift from focusing primarily on the lower-yield tour group segment to the higher-yield corporate segment of the hotel market. Competition amongst hotels in Wuhan, however, continues to be intense, with Wuhan reporting one of the lowest achievable room rates amongst China's secondary cities.

**Beijing Riviera Development** comprising total number of 635 units of luxurious villas and apartments, 440 units have been sold as at the end of 2003. Of the remaining 195 units, 144 units were leased out for rental income as at year-end.

### **Canada**

Canada's hotel industry, particularly in the Toronto, Ottawa and Quebec markets where your Group has hotel interests, suffered greatly from SARS. Turnover at your Group associates' hotels reduced by 50% in 2003, as compared to the previous year. For the first time in many years, your Group's Canadian operations reported a loss for the year.

### **PROSPECTS**

The hotel sectors in China, Vietnam and Canada where your Group operates and invests in will continue to be under varying degrees of pressure in 2004, both as a result of intense competition inherent in these markets as well as macro-economic factors and geopolitical considerations. Profit contribution to your Group's bottom line from the significant amounts it has invested in China and Vietnam remains an achievable long-term goal. In the short term, however, the sizeable amounts of depreciation and amortization will continue to have a dampening effect on accounting profits.

Macau continues to shine. The Macau SAR Government has provided leadership and foresight in its decision years ago to open Macau's gaming industry to overseas investors and operators. Your Group's Macau property portfolio will be a direct beneficiary of this development.

### **ACKNOWLEDGEMENT**

On behalf of the Board, I wish to express our appreciation to the management and staff of our Group for their invaluable contribution and dedicated efforts in riding us through the difficult times during the SARS period.

### **Ho Kian Guan**

*Executive Chairman*

Hong Kong, 26 April 2004

## **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:

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

#### Shares of S\$1 each Corporate interests

#### Lam Ho Investments Pte Ltd

|                |                  |
|----------------|------------------|
| Ho Kian Guan   | 495,000 (Note 3) |
| Ho Kian Hock   | 495,000 (Note 3) |
| Ho Kian Cheong | 495,000 (Note 3) |

#### Shares of HK\$1 each Corporate interests

#### Shun Seng International Limited

|                      |                 |
|----------------------|-----------------|
| Ho Kian Guan         | 9,990 (Note 3)  |
| Ho Kian Hock         | 9,990 (Note 3)  |
| Ho Kian Cheong       | 9,990 (Note 3)  |
| Arthur Kwok Chi Shun | 15,000 (Note 4) |

## 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<br/>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<br/>without par value<br/>Corporate interests</b> | <b>Preferred<br/>shares of C\$1 each<br/>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

## **Other Corporate Information**

### **FINANCIAL REVIEW**

The Group's turnover was HK\$339,524,000 for the year ended 31 December 2003, an increase of 51% over the corresponding period in 2002. This increase was due primarily to higher revenue generated by sale of properties in Macau and revenue generated from the operation of the Sheraton Saigon Hotel & Towers which commenced business in May 2003 in Vietnam. Profit from operations was HK\$40,934,000 for the year ended 31 December 2003 as compared to a profit of HK\$16,031,000 in 2002. Profit attributable to shareholders amounted to HK\$32,860,000.

The Group's net borrowings as at 31 December 2003 amounted to approximately HK\$296,815,000, representing total bank loans and other borrowings of HK\$584,399,000 less cash equivalents of HK\$287,584,000. The Group's ratio of net borrowings to total assets was 13%. Of the total amount of bank borrowings of HK\$280,573,000, HK\$142,013,000 are repayable within twelve months and the remaining of HK\$138,560,000 are repayable within two to five years.

The Group's bank borrowings are mostly in Hong Kong dollars and United States dollars. Cash and cash equivalents are mostly in Hong Kong dollars, Euros, Australian dollars and United States dollars. Most of the Group's bank borrowings are on a floating rate basis. Taking into account cash in hand and available credit facilities, the Group has sufficient working capital for its present requirements.

### **PLEDGE OF ASSETS**

As at 31 December 2003, the secured bank loan facilities granted to the Group were secured by mortgages over the Group's properties, including investment properties, other properties, a hotel property and properties held for sale with an aggregate carrying value of approximately HK\$510 million. In addition, at 31 December 2003, shares in a subsidiary were pledged to a bank as part of security given to secure a bank loan and shares in an associate were pledged to a bank by a subsidiary of the Group in return for banking facilities granted to that associate.

### **CONTINGENT LIABILITIES**

At 31 December 2003, there were outstanding counter indemnities relating to guarantees issued by bankers of a subsidiary in favour of the Macau SAR Government in respect of properties under development amounting to HK\$6,311,000 (2002: HK\$6,311,000).

At 31 December 2003, there were guarantees given by a subsidiary to banks on behalf of purchasers of flats amounting to HK\$37,379,000 (2002: HK\$Nil).

At 31 December 2003, guarantees given by the Company to banks to secure banking facilities made available to the subsidiaries and the associates amounted to HK\$182.3 million and HK\$62 million (2002: HK\$183 million and HK\$51.5 million) respectively.

## **Other Corporate Information** (Continued)

### **CONTINGENT LIABILITIES** (Continued)

At 31 December 2003, guarantees given by a subsidiary to a bank to secure banking facilities made available to its associate amounted to HK\$37.5 million (2002: HK\$33.1 million).

To finance the capital expenditure of its subsidiary, an intermediate subsidiary provided a guarantee to a bank to secure a banking facility made available to the Company. At 31 December 2003, the guarantee granted by the subsidiary amounted to HK\$62 million (2002: HK\$Nil).

Pursuant to the revised agreement with the Macau SAR Government on 29 August 2003, a subsidiary of the Group is required to complete the remaining phase of the development project by 4 September 2005. Failure to complete the remaining phase of the development by the deadline would give rise to the possibility of fines being imposed by the Macau SAR Government in a manner more particularly described in Note 28 on the financial statements. Delays beyond the 180-day period would give rise to the possibility of rescission of the lease by the Macau SAR Government without compensation to the subsidiary. The directors are confident that the remaining phase of its development project will be completed by 4 September 2005.

## **Other Corporate Information** (Continued)

### **DETAILS OF DIRECTORS AND SENIOR MANAGEMENT PROFILES**

**Mr Ho Kian Guan**, aged 58 is the Executive Chairman of the Company. He was appointed as a director of the Company on 5 December 1979. He is also a director of Goodland Limited and Kansas Holdings Limited which are substantial shareholders of the Company and the Chairman and director of Keck Seng (Malaysia) Berhad (a company listed on the Kuala Lumpur Stock Exchange). He also serves on the board of Shangri-La Asia Limited (a company listed on the Hong Kong Stock Exchange). He is a brother of Mr Ho Kian Hock and Mr Ho Kian Cheong.

**Mr Ho Kian Hock**, aged 56 is the Deputy Executive Chairman of the Company. He was appointed as a director of the Company on 19 December 1979. He is also a director of Goodland Limited and Kansas Holdings Limited which are substantial shareholders of the Company and a Managing Director of Keck Seng (Malaysia) Berhad (a company listed on the Kuala Lumpur Stock Exchange). He is a brother of Mr Ho Kian Guan and Mr Ho Kian Cheong.

**Mr Ho Kian Cheong**, aged 54 is a non-executive director of the Company. He was appointed as a director of the Company on 5 December 1979. He is also a director of Goodland Limited and Kansas Holdings Limited which are substantial shareholders of the Company and Keck Seng (Malaysia) Berhad (a company listed on the Kuala Lumpur Stock Exchange). He is also an alternate director of Shangri-La Asia Limited (a company listed on the Hong Kong Stock Exchange). He is a brother of Mr Ho Kian Guan and Mr Ho Kian Hock.

**Mr Paul Tse See Fan**, aged 49 is an executive director of the Company. He was appointed as a director of the Company on 5 December 1979. He is also a director of Goodland Limited and Kansas Holdings Limited, companies which are substantial shareholders of the Company.

**Dr Robin Chan Yau Hing**, GBS, LLD, JP, aged 71 is an independent non-executive director of the Company. He was appointed as a director of the Company on 8 September 1988. He is also the Chairman and Managing Director of Asia Financial Holdings Limited and a director of K. Wah International Holdings Limited and Liu Chong Hing Bank Limited (companies listed on the Hong Kong Stock Exchange), the Chairman and Chief Executive Officer of Asia Commercial Bank Ltd, and the Chairman of Asia Insurance Company, Limited. He is also a director and adviser of numerous other companies with over 40 years experience in banking business. Dr Chan was awarded the Order of Commander (Third Class) of the Most Exalted Order of the White Elephant by His Majesty, the King of Thailand. He is also a Deputy to the Chinese National People's Congress and the ex-officio Life Honorary Chairman of the Chinese General Chamber of Commerce, Hong Kong.

**Mr Arthur Kwok Chi Shun**, aged 58 is an independent non-executive director of the Company. He was appointed as a director of the Company on 3 January 1995. He is a professional architect with extensive architectural, town planning and interior design experience and has wide business interests in property development, merchandise retailing and wholesale. He is also the Commandant of the Hong Kong Auxiliary Police Force.

## **Auditors' Report**



### **TO THE SHAREHOLDERS OF KECK SENG INVESTMENTS (HONG KONG) LIMITED**

*(Incorporated in Hong Kong with limited liability)*

We have audited the financial statements on pages 18 to 68 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

#### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Hong Kong Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

#### **OPINION**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

#### **KPMG**

*Certified Public Accountants*

Hong Kong, 26 April 2004

## Consolidated Profit and Loss Account

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

|   | Note   | 2003<br>\$'000   | 2002<br>\$'000 |
|---|--------|------------------|----------------|
| <b>Turnover</b>   | 2      | <b>339,524</b>   | 224,502        |
| Cost of sales   |        | <b>(143,878)</b> | (105,021)      |
|   |        | <b>195,646</b>   | 119,481        |
| Other revenue   | 3(a)   | <b>10,173</b>    | 4,107          |
| Other net income  | 3(b)   | <b>19,501</b>    | 3,935          |
| Direct operating expenses                                   |        | <b>(32,855)</b>  | (15,934)       |
| Marketing and selling expenses                              |        | <b>(7,320)</b>   | (5,300)        |
| Administrative and other operating expenses                 |        | <b>(144,211)</b> | (90,258)       |
| <b>Profit from operations</b>                               |        | <b>40,934</b>    | 16,031         |
| Finance costs   | 4(a)   | <b>(8,467)</b>   | (10,795)       |
| Share of profits less losses of associates                  |        | <b>11,741</b>    | 18,886         |
| <b>Profit from ordinary activities before taxation</b>      | 4      | <b>44,208</b>    | 24,122         |
| Taxation  | 5(a)   | <b>(12,056)</b>  | 3,209          |
| <b>Profit after taxation</b>                                |        | <b>32,152</b>    | 27,331         |
| Minority interests  |        | <b>708</b>       | 984            |
| <b>Profit attributable to shareholders</b>                  | 8 & 25 | <b>32,860</b>    | 28,315         |
| <b>Dividends attributable to the year:</b>                  | 9      |                  |                |
| Interim dividend paid – \$0.01<br>(2002: \$0.01) per share  |        | <b>3,402</b>     | 3,402          |
| Proposed final dividend – \$0.01<br>(2002: \$Nil) per share |        | <b>3,402</b>     | –              |
|   |        | <b>6,804</b>     | 3,402          |
| <b>Basic earnings per share</b>                             | 10     | <b>9.7 cents</b> | 8.3 cents      |

The notes on pages 24 to 68 form part of these financial statements.

## Consolidated Balance Sheet

At 31 December 2003

(Expressed in Hong Kong dollars)

|  | Note  | 2003    |                  | 2002    |           |
|--|-------|---------|------------------|---------|-----------|
|  |       | \$'000  | \$'000           | \$'000  | \$'000    |
| <b>Non-current assets</b>                    |       |         |                  |         |           |
| Fixed assets                                 |       |         |                  |         |           |
| – Investment properties                      | 12(a) |         | 147,000          |         | 143,800   |
| – Other properties and fixed assets          | 12(a) |         | 1,014,065        |         | 1,017,946 |
|  |       |         | <b>1,161,065</b> |         | 1,161,746 |
| Interest in associates                       | 15    |         | 346,906          |         | 358,301   |
| Non-trading investments                      | 16    |         | 804              |         | 780       |
|  |       |         | <b>1,508,775</b> |         | 1,520,827 |
| <b>Current assets</b>                        |       |         |                  |         |           |
| Properties under development                 | 13    | 66,827  |                  | 165,841 |           |
| Properties held for sale                     | 17    | 305,326 |                  | 268,169 |           |
| Inventories                                  |       | 3,120   |                  | 2,011   |           |
| Trade and other receivables                  | 18    | 56,362  |                  | 33,477  |           |
| Cash and cash equivalents                    | 19    | 287,584 |                  | 162,312 |           |
|  |       |         | <b>719,219</b>   |         | 631,810   |
| <b>Current liabilities</b>                   |       |         |                  |         |           |
| Bank overdrafts                              | 20    | 4       |                  | 41      |           |
| Bank loans                                   | 20    | 142,009 |                  | 141,160 |           |
| Trade and other payables                     | 21    | 81,581  |                  | 57,486  |           |
| Amounts due to an affiliated company         | 31    | 105,342 |                  | 114,204 |           |
| Loans from associates                        |       | 1,364   |                  | 1,364   |           |
| Taxation                                     | 22(a) | 43,481  |                  | 31,789  |           |
|  |       |         | <b>373,781</b>   |         | 346,044   |
| <b>Net current assets</b>                    |       |         | <b>345,438</b>   |         | 285,766   |
| <b>Total assets less current liabilities</b> |       |         | <b>1,854,213</b> |         | 1,806,593 |
| <b>Non-current liabilities</b>               |       |         |                  |         |           |
| Bank loans                                   | 20    | 138,560 |                  | 129,194 |           |
| Loans from minority shareholders             | 23    | 197,120 |                  | 182,478 |           |
|  |       |         | <b>(335,680)</b> |         | (311,672) |
| <b>Minority interests</b>                    |       |         | <b>(176,725)</b> |         | (190,997) |
| <b>NET ASSETS</b>                            |       |         | <b>1,341,808</b> |         | 1,303,924 |
| <b>CAPITAL AND RESERVES</b>                  |       |         |                  |         |           |
| Share capital                                | 24    |         | 340,200          |         | 340,200   |
| Reserves                                     | 25    |         | 1,001,608        |         | 963,724   |
|  |       |         | <b>1,341,808</b> |         | 1,303,924 |

Approved and authorised for issue by the board of directors on 26 April 2004

**Ho Kian Guan**  
Executive Chairman

**Paul Tse See Fan**  
Executive Director

The notes on pages 24 to 68 form part of these financial statements.

## Balance Sheet

At 31 December 2003

(Expressed in Hong Kong dollars)

|  | Note  | 2003    |                       | 2002    |                       |
|--|-------|---------|-----------------------|---------|-----------------------|
|  |       | \$'000  | \$'000                | \$'000  | \$'000                |
| <b>Non-current assets</b>                    |       |         |                       |         |                       |
| Fixed assets                                 |       |         |                       |         |                       |
| – land and buildings                         | 12(b) |         | 3,937                 |         | 4,013                 |
| – furniture and fixtures                     | 12(b) |         | 402                   |         | 486                   |
| Interest in subsidiaries                     | 14    |         | 831,691               |         | 740,586               |
| Interest in associates                       | 15    |         | 146,024               |         | 165,342               |
| Non-trading investments                      | 16    |         | 804                   |         | 780                   |
|  |       |         | <u>982,858</u>        |         | <u>911,207</u>        |
| <b>Current assets</b>                        |       |         |                       |         |                       |
| Properties held for sale                     | 17    | 14,903  |                       | 14,903  |                       |
| Trade and other receivables                  | 18    | 83      |                       | 129     |                       |
| Cash and cash equivalents                    | 19    | 51,746  |                       | 54,486  |                       |
|  |       |         | <u>66,732</u>         |         | <u>69,518</u>         |
| <b>Current liabilities</b>                   |       |         |                       |         |                       |
| Bank overdrafts and loans                    | 20    | 118,462 |                       | 70,597  |                       |
| Trade and other payables                     | 21    | 884     |                       | 838     |                       |
| Taxation                                     | 22(a) | 40      |                       | 1,515   |                       |
|  |       |         | <u>119,386</u>        |         | <u>72,950</u>         |
| <b>Net current liabilities</b>               |       |         | <u>(52,654)</u>       |         | <u>(3,432)</u>        |
| <b>Total assets less current liabilities</b> |       |         | <u>930,204</u>        |         | <u>907,775</u>        |
| <b>Non-current liabilities</b>               |       |         |                       |         |                       |
| Amounts due to subsidiaries                  | 14    |         | (3,410)               |         | (27,972)              |
| <b>NET ASSETS</b>                            |       |         | <u><u>926,794</u></u> |         | <u><u>879,803</u></u> |
| <b>CAPITAL AND RESERVES</b>                  |       |         |                       |         |                       |
| Share capital                                | 24    | 340,200 |                       | 340,200 |                       |
| Reserves                                     | 25    | 586,594 |                       | 539,603 |                       |
|  |       |         | <u><u>926,794</u></u> |         | <u><u>879,803</u></u> |

Approved and authorised for issue by the board of directors on 26 April 2004

**Ho Kian Guan**  
Executive Chairman

**Paul Tse See Fan**  
Executive Director

The notes on pages 24 to 68 form part of these financial statements.

## Consolidated Statement of Changes in Equity

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

|   | <i>Note</i>          | <b>2003</b><br><b>\$'000</b> | 2002<br>\$'000   |
|---|----------------------|------------------------------|------------------|
| Shareholders' equity at 1 January   |                      | <u>1,303,924</u>             | <u>1,281,026</u> |
| Surplus on revaluation of investment properties                                     | 25                   | <b>2,847</b>                 | –                |
| Surplus on revaluation of non-trading investments                                   | 25                   | <b>24</b>                    | 144              |
| Exchange differences on translation of the financial statements of foreign entities | 25                   | <u>5,555</u>                 | <u>(2,159)</u>   |
| Net gains/(losses) not recognised in the consolidated profit and loss account       |                      | <u>8,426</u>                 | <u>(2,015)</u>   |
| Net profit for the year   |                      | <u>32,860</u>                | <u>28,315</u>    |
| Interim dividend paid in respect of the current year                                | <i>9(a) &amp; 25</i> | <u>(3,402)</u>               | <u>(3,402)</u>   |
| Shareholders' equity at 31 December   |                      | <u><b>1,341,808</b></u>      | <u>1,303,924</u> |

The notes on pages 24 to 68 form part of these financial statements.

## Consolidated Cash Flow Statement

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

|   | Note | 2003<br>\$'000  | 2002<br>\$'000 |
|---|------|-----------------|----------------|
| <b>Operating activities</b>                                   |      |                 |                |
| Profit from ordinary activities before taxation               |      | 44,208          | 24,122         |
| Adjustments for:  |      |                 |                |
| – Interest income   |      | (2,810)         | (1,828)        |
| – Dividend income from non-trading listed investments         |      | (17)            | (13)           |
| – Depreciation  |      | 77,843          | 50,479         |
| – Finance costs   |      | 8,467           | 10,795         |
| – Share of profits less losses of associates                  |      | (11,741)        | (18,886)       |
| – Loss on disposal of fixed assets                            |      | 5               | –              |
| – Effect of foreign exchange rates                            |      | 4,246           | (796)          |
| – Gain arising from liquidation of a subsidiary               |      | –               | (2,187)        |
|   |      | <hr/>           | <hr/>          |
| <b>Operating profit before changes in working capital</b>     |      | <b>120,201</b>  | <b>61,686</b>  |
| Increase in properties under development                      |      | (72,784)        | (29,269)       |
| Decrease in properties held for sale                          |      | 134,641         | 94,460         |
| (Increase)/decrease in inventories                            |      | (1,109)         | 160            |
| Increase in trade and other receivables                       |      | (22,885)        | (954)          |
| Increase/(decrease) in trade and other payables               |      | 26,636          | (7,474)        |
| Decrease in amounts due to an affiliated company              |      | (8,862)         | (17,260)       |
|   |      | <hr/>           | <hr/>          |
| <b>Cash generated from operations</b>                         |      | <b>175,838</b>  | <b>101,349</b> |
| Overseas tax paid   |      | (1,453)         | (3,712)        |
|   |      | <hr/>           | <hr/>          |
| <b>Net cash generated from operating activities</b>           |      | <b>174,385</b>  | <b>97,637</b>  |
|   |      | -----           | -----          |
| <b>Investing activities</b>                                   |      |                 |                |
| Purchase of fixed assets                                      |      | (79,765)        | (7,943)        |
| Proceeds from disposal of fixed assets                        |      | –               | 34             |
| Repayment from associates                                     |      | 31,332          | 23,658         |
| Interest received   |      | 2,810           | 1,828          |
| Dividends received from non-trading listed investments        |      | 17              | 13             |
| Proceeds from share redemption of an associate                |      | –               | 3,988          |
|   |      | <hr/>           | <hr/>          |
| <b>Net cash (used in)/generated from investing activities</b> |      | <b>(45,606)</b> | <b>21,578</b>  |
|   |      | -----           | -----          |

## Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

|  | <i>Note</i> | <b>2003</b><br><b>\$'000</b> | 2002<br>\$'000 |
|--|-------------|------------------------------|----------------|
| <b>Financing activities</b>                      |             |                              |                |
| Draw down of new bank loan                       |             | <b>50,872</b>                | 20,000         |
| Repayment of bank loans                          |             | <b>(40,657)</b>              | (10,096)       |
| Advance from minority shareholders               |             | <b>14,642</b>                | 12,036         |
| Interest paid                                    |             | <b>(8,467)</b>               | (13,736)       |
| Dividends paid                                   |             | <b>(3,402)</b>               | (3,402)        |
| Dividends paid to minority shareholders          |             | <b>(16,458)</b>              | (20,573)       |
|  |             | <hr/>                        | <hr/>          |
| <b>Net cash used in financing activities</b>     |             | <b>(3,470)</b>               | (15,771)       |
|  |             | <hr/>                        | <hr/>          |
| <b>Net increase in cash and cash equivalents</b> |             | <b>125,309</b>               | 103,444        |
| <b>Cash and cash equivalents at 1 January</b>    |             | <b>162,271</b>               | 58,827         |
|  |             | <hr/>                        | <hr/>          |
| <b>Cash and cash equivalents at 31 December</b>  | <i>19</i>   | <b>287,580</b>               | 162,271        |
|  |             | <hr/>                        | <hr/>          |

The notes on pages 24 to 68 form part of these financial statements.

## Notes on the Financial Statements

*(Expressed in Hong Kong dollars)*

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

#### (b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties, and the marking to market of certain investments in securities as explained in the accounting policies set out below.

#### (c) Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in accordance with the policy on investments in securities (see note 1(k)).

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the consolidated profit and loss account.

## **Notes on the Financial Statements** (Continued)

*(Expressed in Hong Kong dollars)*

### **1. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

#### **(c) Subsidiaries** (Continued)

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(j)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in accordance with the policy on investments in securities (see note 1(k)).

#### **(d) Associates**

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case it is stated at fair value with changes in fair value recognised in accordance with the policy on investments in securities (see note 1(k)). The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e). When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

## **Notes on the Financial Statements** (Continued)

*(Expressed in Hong Kong dollars)*

### **1. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

#### **(d) Associates** (Continued)

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 1(j)). Any such provisions are recognised as an expense in the profit and loss account.

#### **(e) Goodwill**

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries and associates, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life which does not exceed 20 years. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(j)).

Negative goodwill arising on acquisitions of controlled subsidiaries and associates represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated profit and loss account.

On disposal of a controlled subsidiary or an associate during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated profit and loss account is included in the calculation of the profit or loss on disposal.

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (f) Fixed assets

- (i) Fixed assets are carried in the balance sheets on the following bases:
  - investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers;
  - land and buildings, hotel and other properties are stated in the balance sheet at cost less accumulated depreciation (see note 1(i)) and impairment losses (see note 1(j)).
  - furniture, fixtures and equipment and other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(i)) and impairment losses (see note 1(j)).
- (ii) Changes arising on the revaluation of investment properties are generally dealt with in reserves. The only exceptions are as follows:
  - when a deficit arises on revaluation, it will be charged to the profit and loss account, if and to the extent that it exceeds the amount held in the reserve in respect of the portfolio of investment properties, immediately prior to the revaluation; and
  - when a surplus arises on revaluation, it will be credited to the profit and loss account, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties, had previously been charged to the profit and loss account.
- (iii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the profit and loss account for the year.

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (g) Properties under development

Properties under development are stated at specifically identified cost, including borrowing costs capitalised, aggregate cost of development, materials and supplies, wages and other direct expenses, less any provisions considered necessary by the directors.

Properties under development are transferred to fixed assets or properties held for sale upon the date of practical completion.

#### (h) Properties held for sale

Properties held for sale are stated at the lower of cost and the estimated net realisable value. In the case of properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, including borrowing costs capitalised, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

#### (i) Depreciation

##### (i) *Investment properties*

No depreciation is provided on investment properties with an unexpired lease term of more than 20 years, including renewal periods, since the valuation takes into account the state of the property at the date of valuation.

##### (ii) *Properties under development*

No depreciation is provided on properties under development.

##### (iii) *Hotel properties*

Depreciation on hotel properties is provided on a straight line basis over the shorter of the joint venture period and 25 years on the cost of the hotel properties.

##### (iv) *Land and buildings and other properties*

Depreciation is provided on a straight line basis over the unexpired period of the lease.

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (i) Depreciation (Continued)

##### (v) Other fixed assets

Depreciation is calculated to write off the cost of these assets on a straight line basis over their estimated useful lives as follows:

Furniture, fixtures and equipment – 3 to 5 years

Motor vehicles –  $6\frac{2}{3}$  years

#### (j) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets (other than properties carried at revalued amounts);
- investments in subsidiaries and associates; and
- positive goodwill (recognised as an asset).

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the profit and loss account whenever the carrying amount of such an asset exceeds its recoverable amount.

##### (i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the assets. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

## **Notes on the Financial Statements** (Continued)

*(Expressed in Hong Kong dollars)*

### **1. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

#### **(j) Impairment of assets** (Continued)

##### *(ii) Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

#### **(k) Investments in securities**

The Group's and the Company's policies for investments in securities other than investments in subsidiaries and associates are as follows:

- (i) Non-trading investments are stated in the balance sheet at their fair values. Changes in fair value are recognised in the investment revaluation reserve until the investment is sold, collected, or otherwise disposed of, or until there is objective evidence that the investment is impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the profit and loss account.
- (ii) Transfers from the investment revaluation reserve to the profit and loss account as a result of impairments are reversed when the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- (iii) Profits or losses on disposal of non-trading investments are accounted for in the profit and loss account as they arise. The profit or loss includes any amount previously held in the investment revaluation reserve in respect of that investment.

## **Notes on the Financial Statements** (Continued)

*(Expressed in Hong Kong dollars)*

### **1. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

#### **(l) Inventories**

Inventories are carried at the lower of cost and net realisable value. Cost represents purchase cost computed on a first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

#### **(m) Cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

#### **(n) Employee benefits**

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and central pension schemes operated by the local governments in Mainland China are recognised as an expense in the profit and loss account as incurred, except to the extent that they are included in the cost of intangible assets and inventories not yet recognised as an expense.

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (n) Employee benefits (Continued)

- (iii) Contributions to the social insurance fund schemes operated by the local governments in Vietnam are recognised as an expense in the profit and loss account as incurred, except to the extent that they are incurred during the construction period, in which case they are capitalised as part of properties under development.
- (iv) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

#### (o) Income tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the profit and loss account except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (o) Income tax (Continued)

arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:
- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
  - in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
    - the same taxable entity; or
    - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

## **Notes on the Financial Statements** (Continued)

*(Expressed in Hong Kong dollars)*

### **1. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

#### **(p) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

#### **(q) Revenue recognition**

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

- (i) Revenue arising from the sale of properties is recognised upon the completion of the sales agreements or the issue of an occupation permit by the relevant government authorities, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under trade and other payables.
- (ii) Rental income receivable under operating leases is recognised in the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.
- (iii) Hotel and club revenue from room rental, food and beverage sales and other ancillary services is recognised when the services are rendered.
- (iv) Interest income is accrued on a time-apportioned basis by reference to the principal outstanding and the rates applicable.
- (v) Management fees are recognised when the services are rendered.

## **Notes on the Financial Statements** (Continued)

*(Expressed in Hong Kong dollars)*

### **1. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

#### **(r) Translation of foreign currencies**

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies and the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date.

The results of overseas subsidiaries and associates are translated into Hong Kong dollars at the average exchange rate for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date

Exchange gains and losses on foreign currency translation are dealt with in the profit and loss account, except for those arising from the translation of the financial statements of overseas subsidiaries and associates which are taken directly to the exchange reserve.

#### **(s) Operating leases**

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the profit and loss account in the accounting period in which they are incurred.

#### **(t) Borrowing costs**

Borrowing costs are expensed in the profit and loss account in the year in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

## **Notes on the Financial Statements** (Continued)

*(Expressed in Hong Kong dollars)*

### **1. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

#### **(u) Affiliated companies**

An affiliated company is a company, not being a subsidiary or an associate, in which a director of the Company has a significant beneficial interest.

#### **(v) Related parties**

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities, and include affiliated companies.

#### **(w) Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services within a particular economic environment (geographical segment), or in providing products or services (business segment), which is subject to risks and rewards that are different from those of other segments.

Information relating to geographical segments based on the location of assets is chosen as the primary reporting format because this is considered by management to be more relevant to the Group in making operating and financial decisions.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing borrowings and corporate expenses.

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 2. TURNOVER

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

Turnover represents the proceeds from the sale of properties, rental income and income from hotel and club operations and the provision of management services. The amount of each significant category of revenue recognised in turnover during the year is as follows:

|                                      | <b>2003</b>           | 2002           |
|--------------------------------------|-----------------------|----------------|
|                                      | <b>\$'000</b>         | \$'000         |
| Proceeds from the sale of properties | <b>223,033</b>        | 151,988        |
| Rental income                        | <b>8,031</b>          | 7,986          |
| Hotel and club operations            | <b>103,677</b>        | 59,263         |
| Management fee income                | <b>4,783</b>          | 5,265          |
|                                      | <u><b>339,524</b></u> | <u>224,502</u> |

### 3. OTHER REVENUE AND OTHER NET INCOME

|  | <b>2003</b>          | 2002         |
|--|----------------------|--------------|
|  | <b>\$'000</b>        | \$'000       |
| <b>(a) Other revenue</b>                                     |                      |              |
| Interest income  | <b>2,810</b>         | 1,828        |
| Dividend income from non-trading listed investments          | <b>17</b>            | 13           |
| Other revenue from hotel operations and miscellaneous income | <b>7,346</b>         | 2,266        |
|  | <u><b>10,173</b></u> | <u>4,107</u> |
| <b>(b) Other net income</b>                                  |                      |              |
| Exchange gain  | <b>19,435</b>        | 1,799        |
| Loss on disposal of fixed assets                             | <b>(5)</b>           | -            |
| (Loss)/gain on liquidation of a subsidiary                   | <b>(18)</b>          | 2,187        |
| Others   | <b>89</b>            | (51)         |
|  | <u><b>19,501</b></u> | <u>3,935</u> |

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 4. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

|  | 2003<br>\$'000  | 2002<br>\$'000  |
|--|-----------------|-----------------|
| <b>(a) Finance costs</b>   |                 |                 |
| Interest on bank overdrafts and other advances<br>repayable within five years  | 8,106           | 9,049           |
| Interest paid on amounts due to an affiliated<br>company   | 889             | 3,966           |
| Other borrowing costs  | 121             | 721             |
|  | <u>9,116</u>    | <u>13,736</u>   |
| Total borrowing costs  | 9,116           | 13,736          |
| Less: Borrowing costs capitalised into<br>properties under development*  | (649)           | (2,941)         |
|  | <u>8,467</u>    | <u>10,795</u>   |
| * The borrowing costs have been capitalised at a rate of 3.6% per annum (2002: 3% per annum) for properties under development. |                 |                 |
| <b>(b) Staff costs</b>   |                 |                 |
| Contributions to defined contribution<br>retirement schemes  | 919             | 771             |
| Salaries, wages and other benefits   | 28,716          | 16,263          |
|  | <u>29,635</u>   | <u>17,034</u>   |
| <b>(c) Other items</b>   |                 |                 |
| Cost of properties sold  | 136,762         | 95,014          |
| Cost of inventories  | 6,522           | 7,428           |
| Depreciation   | 77,843          | 50,479          |
| Auditors' remuneration   | 1,097           | 1,018           |
| Operating lease charges for hire of premises   | 254             | 254             |
| Rentals receivable from investment<br>properties less direct outgoings   | (6,016)         | (6,120)         |
| Other rental income less direct outgoings  | (40,408)        | (15,696)        |
|  | <u>(40,408)</u> | <u>(15,696)</u> |

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 5. INCOME TAX IN THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

(a) Taxation in the consolidated profit and loss account represents:

|  | <b>2003</b>    | 2002     |
|--|----------------|----------|
|  | <b>\$'000</b>  | \$'000   |
| <b>Current tax – Provision for Hong Kong Profits Tax</b> |                |          |
| Tax for the year   | —              | —        |
| <b>Current tax – Overseas</b>                            |                |          |
| Tax for the year   | <b>13,811</b>  | 8,784    |
| Over-provision in respect of prior years                 | <b>(652)</b>   | (15,185) |
|  | <b>13,159</b>  | (6,401)  |
| Share of associates' taxation                            | <b>(1,103)</b> | 3,192    |
| Total income tax expense/(credit)                        | <b>12,056</b>  | (3,209)  |

In March 2003, the Hong Kong SAR Government announced an increase in the Profits Tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. This increase is taken into account in the preparation of the Group's 2003 financial statements. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 5. INCOME TAX IN THE CONSOLIDATED PROFIT AND LOSS ACCOUNT (Continued)

- (b) Reconciliation between tax expense/(credit) and accounting profit at applicable tax rates

|   | <b>2003</b>          | 2002           |
|---|----------------------|----------------|
|   | <b>\$'000</b>        | \$'000         |
| Profit before tax   | <b><u>44,208</u></b> | <u>24,122</u>  |
| Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned | <b>4,222</b>         | 3,293          |
| Tax effect of non-deductible expenses   | <b>2,594</b>         | 5,382          |
| Tax effect of non-taxable revenue   | <b>(9,537)</b>       | (8,764)        |
| Tax effect of unused tax losses not recognised  | <b>16,683</b>        | 13,365         |
| Tax effect of prior years' tax losses utilised this year  | <b>(58)</b>          | (306)          |
| Tax effect of temporary differences not recognised  | <b>31</b>            | (1,227)        |
| Over-provision in prior years   | <b>(652)</b>         | (15,185)       |
| Tax effect of change of rate of tax applicable to associates  | <b>(1,227)</b>       | 233            |
| Actual tax expense/(credit)   | <b><u>12,056</u></b> | <u>(3,209)</u> |

### 6. DIRECTORS' REMUNERATION

- (a) Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

|   | <b>2003</b>       | 2002       |
|---|-------------------|------------|
|   | <b>\$'000</b>     | \$'000     |
| Fees  | <b>60</b>         | 47         |
| Salaries and other emoluments                 | <b>240</b>        | 480        |
| Discretionary and performance related bonuses | –                 | 40         |
| Retirement scheme contributions               | –                 | –          |
|   | <b><u>300</u></b> | <u>567</u> |

Included in the above are the following payments to independent non-executive directors:

|      | <b>2003</b>      | 2002      |
|------|------------------|-----------|
|      | <b>\$'000</b>    | \$'000    |
| Fees | <b><u>10</u></b> | <u>10</u> |

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 6. DIRECTORS' REMUNERATION (Continued)

(b) The directors' remuneration is in the following range:

|                   | <b>2003</b>      | 2002      |
|-------------------|------------------|-----------|
|                   | <b>Number of</b> | Number of |
|                   | <b>directors</b> | directors |
| Nil – \$1,000,000 | <u><b>6</b></u>  | <u>6</u>  |

### 7. MANAGEMENT REMUNERATION

(a) The aggregate amount of the remuneration of the five (2002: five) employees who, not being directors of the Company, are amongst the top five highest paid individuals, including directors, employed by the Group is as follows:

|   | <b>2003</b>         | 2002         |
|---|---------------------|--------------|
|   | <b>\$'000</b>       | \$'000       |
| Salaries and other emoluments                 | <b>4,449</b>        | 2,772        |
| Discretionary and performance related bonuses | <b>1,648</b>        | 527          |
| Retirement scheme contributions               | <b>268</b>          | 12           |
|   | <u><b>6,365</b></u> | <u>3,311</u> |

(b) The employees' remuneration is in the following range:

|                           | <b>2003</b>        | 2002        |
|---------------------------|--------------------|-------------|
|                           | <b>Number of</b>   | Number of   |
|                           | <b>individuals</b> | individuals |
| Nil – \$1,000,000         | –                  | 5           |
| \$1,000,001 – \$2,000,000 | <b>4</b>           | –           |
| \$2,000,001 – \$3,000,000 | <b>1</b>           | –           |
|                           | <u><b>1</b></u>    | <u>–</u>    |

### 8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of \$50,369,000 (2002: \$45,691,000) which has been dealt with in the financial statements of the Company.

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 9. DIVIDENDS

#### (a) Dividends attributable to the year

|   | 2003<br>\$'000      | 2002<br>\$'000      |
|---|---------------------|---------------------|
| Interim dividend declared and paid of \$0.01<br>(2002: \$0.01) per share                  | 3,402               | 3,402               |
| Final dividend proposed after the balance<br>sheet date of \$0.01 (2002: \$Nil) per share | <u>3,402</u>        | <u>–</u>            |
|   | <u><b>6,804</b></u> | <u><b>3,402</b></u> |

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

#### (b) Dividends attributable to the previous financial year, approved and paid during the year

|   | 2003<br>\$'000 | 2002<br>\$'000 |
|---|----------------|----------------|
| Final dividend in respect of the previous<br>financial year, approved and paid during<br>the year, of \$Nil (2002: \$Nil) per share | <u>–</u>       | <u>–</u>       |

### 10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$32,860,000 (2002: \$28,315,000) and on the 340,200,000 ordinary shares in issue during both years 2003 and 2002.

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 11. SEGMENT REPORTING

#### (a) Geographical segments by the location of assets

The Group's business operations are sub-divided into the Macau, the People's Republic of China ("PRC"), Socialist Republic of Vietnam ("Vietnam"), Canada and other markets classified by the location of assets.

#### Geographical segments

|  | Year ended 31 December 2003 (\$'000) |                |                |               |                | Total            |
|--|--------------------------------------|----------------|----------------|---------------|----------------|------------------|
|  | Macau                                | PRC            | Vietnam        | Canada        | Others         |                  |
| Turnover   | 238,765                              | 33,562         | 65,500         | 786           | 911            | 339,524          |
| Other revenue  |                                      |                |                |               |                |                  |
| – allocated  | 844                                  | 2,974          | 3,488          | –             | –              | 7,306            |
| – unallocated  | –                                    | –              | –              | –             | 2,867          | 2,867            |
| Total revenue  | <u>239,609</u>                       | <u>36,536</u>  | <u>68,988</u>  | <u>786</u>    | <u>3,778</u>   | <u>349,697</u>   |
| Segment result   | 85,084                               | (22,104)       | (28,838)       | (768)         | 7,560          | 40,934           |
| Finance costs  | (1,070)                              | (2,258)        | –              | (2)           | (5,137)        | (8,467)          |
| Share of profits less losses of associates             | (27)                                 | 8,799          | 5,035          | (2,063)       | (3)            | 11,741           |
| Profit/(loss) from ordinary activities before taxation | 83,987                               | (15,563)       | (23,803)       | (2,833)       | 2,420          | 44,208           |
| Taxation   |                                      |                |                |               |                | (12,056)         |
| Profit from ordinary activities after taxation         |                                      |                |                |               |                | 32,152           |
| Minority interests                                     | (24,417)                             | 14,310         | 10,531         | –             | 284            | 708              |
| Profit attributable to shareholders                    |                                      |                |                |               |                | <u>32,860</u>    |
| Depreciation and amortisation                          | 4,205                                | 26,141         | 47,319         | –             | 178            | 77,843           |
| Capital expenditure incurred during the year           | <u>73,057</u>                        | <u>1,874</u>   | <u>77,314</u>  | <u>–</u>      | <u>18</u>      | <u>152,263</u>   |
| Segment assets #                                       | 619,288                              | 186,399        | 769,385        | 393           | 18,002         | 1,593,467        |
| Interest in associates                                 | –                                    | 136,868        | 157,777        | 47,275        | 4,986          | 346,906          |
| Unallocated assets                                     | –                                    | –              | –              | –             | 287,621        | 287,621          |
| Total assets   | <u>619,288</u>                       | <u>323,267</u> | <u>927,162</u> | <u>47,668</u> | <u>310,609</u> | <u>2,227,994</u> |
| Segment liabilities #                                  | 67,007                               | 59,689         | 34,447         | 487           | 245,368        | 406,998          |
| Unallocated liabilities                                | –                                    | –              | –              | –             | 302,463        | 302,463          |
| Total liabilities                                      | <u>67,007</u>                        | <u>59,689</u>  | <u>34,447</u>  | <u>487</u>    | <u>547,831</u> | <u>709,461</u>   |
| Minority interests                                     |                                      |                |                |               |                | <u>176,725</u>   |

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 11. SEGMENT REPORTING (Continued)

#### (a) Geographical segments by the location of assets (Continued)

|  | Year ended 31 December 2002 (\$'000) |                |                |               |                | Total            |
|--|--------------------------------------|----------------|----------------|---------------|----------------|------------------|
|  | Macau                                | PRC            | Vietnam        | Canada        | Others         |                  |
| Turnover   | 158,305                              | 38,422         | 14,291         | 1,518         | 11,966         | 224,502          |
| Other revenue  |                                      |                |                |               |                |                  |
| – allocated  | 931                                  | –              | –              | –             | –              | 931              |
| – unallocated  | –                                    | –              | –              | –             | 3,176          | 3,176            |
| <b>Total revenue</b>                                   | <b>159,236</b>                       | <b>38,422</b>  | <b>14,291</b>  | <b>1,518</b>  | <b>15,142</b>  | <b>228,609</b>   |
| Segment result   | 37,294                               | (16,208)       | (13,205)       | 204           | 7,946          | 16,031           |
| Finance costs  | (2,453)                              | (5,846)        | –              | –             | (2,496)        | (10,795)         |
| Share of profits less losses of associates             | (13)                                 | 7,950          | 7,589          | 3,365         | (5)            | 18,886           |
| Profit/(loss) from ordinary activities before taxation | 34,828                               | (14,104)       | (5,616)        | 3,569         | 5,445          | 24,122           |
| Taxation   |                                      |                |                |               |                | 3,209            |
| Profit from ordinary activities after taxation         |                                      |                |                |               |                | 27,331           |
| Minority interests                                     | (15,938)                             | 14,904         | 4,871          | –             | (2,853)        | 984              |
| Profit attributable to shareholders                    |                                      |                |                |               |                | <b>28,315</b>    |
| Depreciation and amortisation                          | 4,244                                | 26,251         | 19,981         | –             | 3              | 50,479           |
| Capital expenditure incurred during the year           | 17,342                               | 1,735          | 13,637         | –             | 4,498          | 37,212           |
| Segment assets #                                       | 664,017                              | 214,324        | 735,033        | –             | 18,182         | 1,631,556        |
| Interest in associates                                 | –                                    | 141,031        | 174,718        | 37,522        | 5,030          | 358,301          |
| Unallocated assets                                     | –                                    | –              | –              | –             | 162,780        | 162,780          |
| <b>Total assets</b>                                    | <b>664,017</b>                       | <b>355,355</b> | <b>909,751</b> | <b>37,522</b> | <b>185,992</b> | <b>2,152,637</b> |
| Segment liabilities #                                  | 71,259                               | 76,425         | 13,955         | 7             | 199,388        | 361,034          |
| Unallocated liabilities                                | –                                    | –              | –              | –             | 296,682        | 296,682          |
| <b>Total liabilities</b>                               | <b>71,259</b>                        | <b>76,425</b>  | <b>13,955</b>  | <b>7</b>      | <b>496,070</b> | <b>657,716</b>   |
| Minority interests                                     |                                      |                |                |               |                | <b>190,997</b>   |

# Segment assets and liabilities are before elimination of inter-segment balances.

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 11. SEGMENT REPORTING (Continued)

#### (b) Business segments

The Group comprises the following main business segments:

- (i) Property development, investment and the provision of management services
- (ii) Hotel and club operations

#### Business segments

|   | Year ended 31 December                                |         |                              |           |             |         |           |           |
|---|---|---------|------------------------------|-----------|-------------|---------|-----------|-----------|
|   | Property development,<br>investment<br>and management |         | Hotel and club<br>operations |           | Unallocated |         | Total     |           |
|   | 2003  | 2002    | 2003                         | 2002      | 2003        | 2002    | 2003      | 2002      |
|   | \$'000  | \$'000  | \$'000                       | \$'000    | \$'000      | \$'000  | \$'000    | \$'000    |
| Revenue from external customers               | 235,847   | 165,239 | 103,677                      | 59,263    | -           | -       | 339,524   | 224,502   |
| Segment assets #                              | 773,967   | 822,163 | 1,161,420                    | 1,162,663 | 292,607     | 167,811 | 2,227,994 | 2,152,637 |
| Contribution to profit/(loss) from operations | 93,535  | 46,828  | (52,601)                     | (30,797)  | -           | -       | 40,934    | 16,031    |
| Capital expenditure incurred during the year  | 73,075  | 21,830  | 79,188                       | 15,382    | -           | -       | 152,263   | 37,212    |

# Segment assets are before elimination of inter-segment balances.

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 12. FIXED ASSETS

#### (a) The Group

|                                  | Land and<br>buildings | Hotel<br>properties | Other<br>properties | Furniture,<br>fixtures<br>and<br>equipment | Motor<br>vehicles | Investment<br>Sub-total<br>properties | Total            |
|----------------------------------|-----------------------|---------------------|---------------------|--|-------------------|---------------------------------------|------------------|
|                                  | \$'000                | \$'000              | \$'000              | \$'000                                     | \$'000            | \$'000                                | \$'000           |
| <b>Cost or valuation:</b>        |                       |                     |                     |  |                   |                                       |                  |
| At 1 January 2003                | 4,013                 | 892,448             | 89,886              | 173,404                                    | 6,603             | 1,166,354                             | 1,310,154        |
| Additions                        | -                     | 19,385              | -                   | 60,014                                     | 366               | 79,765                                | 79,765           |
| Disposals                        | -                     | -                   | -                   | (4)  | (185)             | (189)                                 | (189)            |
| Surplus on revaluation           | -                     | -                   | -                   | -  | -                 | 3,200                                 | 3,200            |
| Reclassification                 | -                     | (98,991)            | -                   | 98,991                                     | -                 | -                                     | -                |
| Exchange adjustments             | -                     | (5,728)             | -                   | (1,351)                                    | (1)               | (7,080)                               | (7,080)          |
| At 31 December 2003              | <u>4,013</u>          | <u>807,114</u>      | <u>89,886</u>       | <u>331,054</u>                             | <u>6,783</u>      | <u>1,238,850</u>                      | <u>1,385,850</u> |
| <b>Representing:</b>             |                       |                     |                     |  |                   |                                       |                  |
| Cost                             | 4,013                 | 807,114             | 89,886              | 331,054                                    | 6,783             | 1,238,850                             | 1,238,850        |
| Valuation - 2003                 | -                     | -                   | -                   | -  | -                 | 147,000                               | 147,000          |
|                                  | <u>4,013</u>          | <u>807,114</u>      | <u>89,886</u>       | <u>331,054</u>                             | <u>6,783</u>      | <u>1,238,850</u>                      | <u>1,385,850</u> |
| <b>Accumulated depreciation:</b> |                       |                     |                     |  |                   |                                       |                  |
| At 1 January 2003                | -                     | 39,345              | 16,201              | 88,150                                     | 4,712             | 148,408                               | 148,408          |
| Charge for the year              | 76                    | 24,712              | 3,594               | 48,990                                     | 471               | 77,843                                | 77,843           |
| Written back on disposals        | -                     | -                   | -                   | (2)  | (182)             | (184)                                 | (184)            |
| Exchange adjustments             | -                     | (426)               | -                   | (843)                                      | (13)              | (1,282)                               | (1,282)          |
| At 31 December 2003              | <u>76</u>             | <u>63,631</u>       | <u>19,795</u>       | <u>136,295</u>                             | <u>4,988</u>      | <u>224,785</u>                        | <u>224,785</u>   |
| <b>Net book value:</b>           |                       |                     |                     |  |                   |                                       |                  |
| At 31 December 2003              | <u>3,937</u>          | <u>743,483</u>      | <u>70,091</u>       | <u>194,759</u>                             | <u>1,795</u>      | <u>1,014,065</u>                      | <u>1,161,065</u> |
| At 31 December 2002              | <u>4,013</u>          | <u>853,103</u>      | <u>73,685</u>       | <u>85,254</u>                              | <u>1,891</u>      | <u>1,017,946</u>                      | <u>1,161,746</u> |

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 12. FIXED ASSETS (Continued)

#### (a) The Group (Continued)

- (i) The investment properties comprise various units of Luso International Bank Building and Ocean Gardens in Macau. The lease of Luso International Bank Building is for a period of 50 years, commencing from 6 May 1957 and thereafter renewable for successive periods of 10 years up to 19 December 2049. The lease of Ocean Gardens is for a period of 25 years, commencing from 5 September 1980 and thereafter renewable for successive periods of 10 years up to 19 December 2049.
- (ii) The investment properties were revalued by Chesterton Petty Limited, an independent firm of professional surveyors, at 31 December 2003 on an open market value basis, after taking into consideration the net rental income allowing for reversionary potential.
- (iii) The formal transfer of titles of the relevant units of the investment properties in Luso International Bank Building with a value of \$25,000,000 (2002: \$23,000,000) into a subsidiary's name has not been completed (Note 29). Although the titles have not yet been transferred, the directors are of the opinion that the subsidiary has acquired beneficial title to these properties at 31 December 2003.
- (iv) At 31 December 2003, certain investment properties, other properties and a hotel property together with its integral fixtures and fittings with a net book value of \$375,388,000 (2002: \$404,626,000) were mortgaged to various banks to secure banking facilities granted to the Group.
- (v) Hotel properties comprise land use rights for 30 years commencing on 21 August 1995 and 48 years commencing on 7 May 1994 granted to the Group's subsidiaries in Wuhan, the PRC and Vietnam respectively.
- (vi) Other properties comprise a club house situated in Ocean Gardens. The lease of the club house is for a period of 25 years, commencing from 5 September 1980 and thereafter renewable for successive periods of 10 years up to 19 December 2049.
- (vii) The Group leases out investment properties under operating leases, which generally run for an initial period of one to three years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The gross amount of investment properties of the Group held for use in operating leases was \$147,000,000 (2002: \$143,800,000).

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 12. FIXED ASSETS (Continued)

#### (a) The Group (Continued)

(viii) The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

|                                 | 2003<br>\$'000 | 2002<br>\$'000 |
|---------------------------------|----------------|----------------|
| Within 1 year                   | 12,000         | 5,865          |
| After 1 year but within 5 years | 30,764         | 2,343          |
| After 5 years                   | 6,909          | –              |
|                                 | <u>49,673</u>  | <u>8,208</u>   |

#### (b) The Company

|                                  | Land and<br>buildings<br>\$'000 | Furniture,<br>fixtures<br>and<br>equipment<br>\$'000 | Total<br>\$'000 |
|----------------------------------|---------------------------------|--|-----------------|
| <b>Cost:</b>                     |                                 |  |                 |
| At 1 January 2003                | 4,013                           | 1,017  | 5,030           |
| Additions                        | –                               | 18   | 18              |
|                                  | <u>4,013</u>                    | <u>1,035</u>   | <u>5,048</u>    |
| At 31 December 2003              | 4,013                           | 1,035  | 5,048           |
| <b>Accumulated depreciation:</b> |                                 |  |                 |
| At 1 January 2003                | –                               | 531  | 531             |
| Charge for the year              | 76                              | 102  | 178             |
|                                  | <u>76</u>                       | <u>633</u>   | <u>709</u>      |
| At 31 December 2003              | 76                              | 633  | 709             |
| <b>Net book value:</b>           |                                 |  |                 |
| At 31 December 2003              | <u>3,937</u>                    | <u>402</u>   | <u>4,339</u>    |
| At 31 December 2002              | <u>4,013</u>                    | <u>486</u>   | <u>4,499</u>    |

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 12. FIXED ASSETS (Continued)

(c) The analysis of the net book value of land and buildings is as follows:

|                                | The Group and<br>the Company |              |
|--------------------------------|------------------------------|--------------|
|                                | 2003                         | 2002         |
|                                | \$'000                       | \$'000       |
| In Hong Kong under long leases | <u>3,937</u>                 | <u>4,013</u> |

### 13. PROPERTIES UNDER DEVELOPMENT

|                                       | The Group     |                |
|---------------------------------------|---------------|----------------|
|                                       | 2003          | 2002           |
|                                       | \$'000        | \$'000         |
| Properties under development for sale | <u>66,827</u> | <u>165,841</u> |

The property, which comprises certain leasehold land on Taipa Island, Macau, was acquired by a subsidiary from the Government of Macau as a site for the development, in several phases, of a residential and commercial complex. The lease is for a period of 25 years, commencing from 5 September 1980 and thereafter renewable for successive periods of 10 years up to 19 December 2049.

Under the terms of an agreement dated 1 March 1983 and a supplementary agreement dated 20 June 1994 and a revised agreement on 6 August 1999 with the Government of Macau in respect of the leasehold land, the subsidiary had undertaken to complete the remaining phases of the development by various specified dates with the whole project due to be completed by 31 December 2001. On 5 October 2001, the Macau SAR Government agreed to extend the final completion date up to 31 December 2003 without any penalty.

Whilst construction work has already commenced on all the remaining phases of the development, the directors were of the view that one of the phases would not be completed by the final completion date of 31 December 2003. Accordingly, an application for extension was made to the Macau SAR Government by the subsidiary and on 29 August 2003, the Macau SAR Government agreed to extend the final completion date up to 4 September 2005 without any penalty. Delays in completing the various phases of up to 180 days would give rise to the possibility of fines being imposed by the Macau SAR Government in a manner more particularly described in Note 28(c). Delays beyond the 180-day period would give rise to the possibility of rescission of the lease by the Macau SAR Government without compensation to the subsidiary.

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 13. PROPERTIES UNDER DEVELOPMENT (Continued)

The directors consider that the remaining phase of the development project will be completed by 4 September 2005 (see also Note 28(c)).

The subsidiary has mortgaged its leasehold land on Taipa Island to a bank to secure banking facilities to the extent of \$85,000,000 (2002: \$85,000,000) granted to the subsidiary. At 31 December 2003, no such facilities had been utilised (2002: \$21,000,000) (see Note 20).

### 14. INTEREST IN SUBSIDIARIES

|  | The Company    |                |
|--|----------------|----------------|
|  | 2003<br>\$'000 | 2002<br>\$'000 |
| Unlisted shares, at cost                           | 43,823         | 49,291         |
| Less: Dividend paid out of pre-acquisition profits | (4,156)        | (4,156)        |
| Provision  | —              | (5,468)        |
|  | <u>39,667</u>  | <u>39,667</u>  |
| Amounts due from subsidiaries                      |                |                |
| – Current account                                  | 792,024        | 700,919        |
|  | <u>831,691</u> | <u>740,586</u> |
| Amounts due to subsidiaries                        | <u>3,410</u>   | <u>27,972</u>  |

Amounts due from/to subsidiaries are unsecured, interest-free and will not be settled within next twelve months.

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 14. INTEREST IN SUBSIDIARIES (Continued)

Details of the subsidiaries are as follows:

| Name of company                 | Place of incorporation/<br>operation | Issued<br>equity capital   | Percentage of equity            |                           |                            | Principal<br>activity                      |
|---------------------------------|--------------------------------------|--|---------------------------------|---------------------------|----------------------------|--|
|                                 |                                      |  | attributable<br>to the<br>Group | held<br>by the<br>Company | held<br>by<br>subsidiaries |  |
| Ocean Incorporation Ltd.        | Macau                                | Two quotas of Ptc9,999,000 and Ptc1,000 respectively totalling Ptc10,000,000 | 100%                            | 100%                      | –                          | Property investment and investment holding |
| Carrigold Limited*              | British Virgin Islands               | 1 share of US\$1   | 100%                            | 100%                      | –                          | Investment holding                         |
| Compton Developments Limited*   | British Virgin Islands               | 1 share of US\$1   | 100%                            | 100%                      | –                          | Investment holding                         |
| Crichton Assets Limited*        | British Virgin Islands               | 1 share of US\$1   | 100%                            | 100%                      | –                          | Investment holding                         |
| Labond Developments Limited*    | British Virgin Islands               | 1 share of US\$1   | 100%                            | 100%                      | –                          | Investment holding                         |
| KSB Enterprises Limited*        | Canada                               | 1 share of no par value issued at CAD\$1                                     | 100%                            | 100%                      | –                          | Investment holding                         |
| Bardney Investment Limited*     | Republic of Liberia/Macau            | 2 shares of no par value issued at HK\$5,000 each                            | 100%                            | –                         | 100%                       | Investment holding                         |
| Lam Ho Investments Pte Limited  | Singapore                            | 5,000,000 shares of S\$1 each  | 90.10%                          | –                         | 90.10%                     | Investment holding                         |
| Shun Seng International Limited | Hong Kong                            | 100,000 shares of HK\$1 each   | 75.01%                          | –                         | 75.01%                     | Investment holding                         |

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 14. INTEREST IN SUBSIDIARIES (Continued)

| Name of company   | Place of incorporation/<br>operation   | Issued equity capital  | Percentage of equity      |                     |                      | Principal activity   |
|---|--|--|---------------------------|---------------------|----------------------|----------------------|
|   |  |  | attributable to the Group | held by the Company | held by subsidiaries |                      |
| Golden Crown Development Limited ("Golden Crown")         | Macau                                  | 70,000,000 shares of Ptc1 each   | 70.61%                    | –                   | 70.61%               | Property development |
| Ocean Gardens Management Company Limited *                | Macau                                  | Two quotas of Ptc99,000 and Ptc1,000 respectively totalling Ptc100,000 | 69.90%                    | –                   | 99%                  | Building management  |
| Honister Investment Limited                               | Republic of Liberia/Macau              | 2 shares of no par value issued at HK\$5,000 each                      | 70.61%                    | –                   | 100%                 | Investment holding   |
| Ocean Club Recreational Company Limited                   | Macau                                  | 100,000 shares of Ptc1 each  | 70.61%                    | –                   | 100%                 | Club operation       |
| Ocean Place Joint Venture Company Limited ("OPJV")        | Socialist Republic of Vietnam          | US\$29,100,000   | 63.07%                    | –                   | 70%                  | Operation of a hotel |
| Hubei Qing Chuan Hotel Company Limited # * ("Qing Chuan") | The People's Republic of China ("PRC") | US\$16,300,000   | 41.26%                    | –                   | 55%                  | Operation of a hotel |
| Lam Ho Finance Limited *                                  | British Virgin Islands                 | 1 share of US\$1   | 90.10%                    | –                   | 100%                 | Financial investment |

\* The accounts of the subsidiaries not audited by KPMG reflect total assets and total turnover constituting approximately 13% (2002: 15%) and 11% (2002: 19%) of the respective consolidated totals.

# Sino-foreign equity joint venture

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 15. INTEREST IN ASSOCIATES

|                                   | The Group      |                | The Company    |                |
|-----------------------------------|----------------|----------------|----------------|----------------|
|                                   | 2003<br>\$'000 | 2002<br>\$'000 | 2003<br>\$'000 | 2002<br>\$'000 |
| Unlisted shares, at cost          | –              | –              | 5              | 5              |
| Share of net assets               | 173,269        | 153,332        | –              | –              |
| Interest free loans to associates | 173,637        | 204,969        | 146,019        | 165,337        |
|                                   | <u>346,906</u> | <u>358,301</u> | <u>146,024</u> | <u>165,342</u> |

The following list contains the particulars of associates, all of which are unlisted corporate entities:

| Name of company  | Form of business structure | Place of incorporation/<br>operation | Percentage of equity      |                     |                      | Principal activity   |
|--|----------------------------|--------------------------------------|---------------------------|---------------------|----------------------|----------------------|
|  |                            |                                      | attributable to the Group | held by the Company | held by subsidiaries |                      |
| Chateau Ottawa Hotel Inc – note (a)                            | Incorporated               | Canada                               | 50%                       | –                   | 50%                  | Operation of a hotel |
| Worldwide Properties Limited                                   | Incorporated               | Macau                                | 50%                       | –                   | 50%                  | Dormant              |
| Trans-International Development Limited                        | Incorporated               | Macau                                | 40%                       | –                   | 40%                  | Dormant              |
| Shun Cheong International Limited – note (b)                   | Incorporated               | Hong Kong                            | 35.01%                    | –                   | 35.01%               | Property investment  |
| Porchester Assets Limited (“PAL”) – note (c)                   | Incorporated               | British Virgin Islands               | 49%                       | 49%                 | –                    | Investment holding   |
| Crown Pacific Development Limited (“Crown Pacific”) – note (d) | Incorporated               | Hong Kong                            | 24%                       | –                   | 24%                  | Investment holding   |
| KSF Enterprises Sdn Bhd (“KSF”) – note (e)                     | Incorporated               | Malaysia                             | 25%                       | 25%                 | –                    | Investment holding   |

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 15. INTEREST IN ASSOCIATES (Continued)

- (a) Chateau Ottawa Hotel Inc owns a hotel in Ottawa licensed with Sheraton Inns Canada operating as the Sheraton Ottawa Hotel.
- (b) Shun Cheong International Limited is engaged in property investment in the PRC.
- (c) PAL has a wholly owned subsidiary, Glynhill Investments (Vietnam) Pte Ltd (“Glynhill”), which holds 51% in Chains Caravelle Hotel Joint Venture Company Limited (“CCH”). CCH is a joint venture company established under the laws of Vietnam between Glynhill and a local Vietnamese entity for the purpose of developing, renovating and operating the Caravelle Hotel in Vietnam. In accordance with the joint venture agreement and the subsequent increase in registered share capital on 19 May 1997, the legal capital of CCH is \$143.8 million (US\$18.6 million). Glynhill contributed \$73.3 million (US\$9.5 million), and the remaining balance of \$70.5 million (US\$9.1 million) was contributed by the Vietnamese joint venture partner in the form of the right of use to a parcel of land (2,612 sq.m.) for a term of 40 years. In addition, Glynhill is committed to secure on behalf of CCH or, alternatively, to provide further finance of up to \$305 million (US\$39.4 million) in the form of an interest bearing shareholder’s loan towards the costs of developing and renovating the hotel and for general working capital requirements. As at 31 December 2003, PAL has advanced interest bearing loans totalling \$298 million (US\$38.4 million) (2002: \$332.6 million (US\$42.7 million)) to CCH. The joint venture has a duration of 40 years from 8 October 1992 and may be extended for a further period subject to the mutual agreement of the joint venture partners and approval from the relevant local authority.
- (d) Crown Pacific is engaged in the development for resale and investment purposes of a residential compound in Beijing in the PRC through Beijing Hong Gong Garden Villa House Property Development Co Limited (“BHGG”), a Sino-foreign cooperative joint venture company established in the PRC with a local Beijing party. In accordance with the joint venture agreement, the legal capital of BHGG is approximately \$256 million (US\$33.1 million), which has been fully paid up. Crown Pacific is entitled to share 100% of the financial results and net assets of BHGG save for a distribution of profit of a fixed sum of \$2.8 million to the local Beijing party.

The joint venture lasts for a period of 30 years from 15 January 1993 to 14 January 2023. All four phases of the development have been completed and most of the units have been sold.

- (e) KSF has a wholly owned subsidiary, KSD Enterprises Limited, which operates the DoubleTree International Plaza Hotel in Toronto, Canada. It also has a 50% interest in KSE Enterprises Limited which operates the Four Points Hotel by Sheraton in Quebec, Canada.

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 15. INTEREST IN ASSOCIATES (Continued)

The following supplementary financial information is disclosed relating to a principal associate, Crown Pacific, which is based on its audited consolidated financial statements for the year ended 31 December 2003.

#### Consolidated profit and loss account

|  | <b>2003</b>          | 2002          |
|--|----------------------|---------------|
|  | <b>\$'000</b>        | \$'000        |
| Turnover   | <b>23,335</b>        | 9,979         |
| Other revenue and gains  | <b>84,607</b>        | 82,578        |
| Profit from ordinary activities before taxation                  | <b>36,662</b>        | 33,125        |
| Profit attributable to shareholders                              | <b><u>32,656</u></b> | <u>24,777</u> |
| <br>   |                      |               |
| Group's share of profit from ordinary activities before taxation | <b><u>8,799</u></b>  | <u>7,950</u>  |

#### Consolidated balance sheet

|                             | <b>2003</b>           | 2002           |
|-----------------------------|-----------------------|----------------|
|                             | <b>\$'000</b>         | \$'000         |
| Long term assets            | <b>184,869</b>        | 166,757        |
| Current assets              | <b>755,612</b>        | 792,519        |
| Current liabilities         | <b>(370,197)</b>      | (371,648)      |
| Long term liabilities       | <b>(100,000)</b>      | (150,000)      |
| <br>                        |                       |                |
| Shareholders' funds         | <b><u>470,284</u></b> | <u>437,628</u> |
| <br>                        |                       |                |
| Group's share of net assets | <b><u>112,868</u></b> | <u>105,031</u> |

### 16. NON-TRADING INVESTMENTS

|  | <b>The Group and<br/>the Company</b> |            |
|--|--------------------------------------|------------|
|  | <b>2003</b>                          | 2002       |
|  | <b>\$'000</b>                        | \$'000     |
| Listed shares outside Hong Kong, at market value | <b><u>804</u></b>                    | <u>780</u> |

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 17. PROPERTIES HELD FOR SALE

Properties held for sale comprise:

**(a) Ocean Park held by the Company**

The property is freehold and situated in Singapore.

**(b) Heng Fa Chuen held by the Company**

The property is held under a long lease and situated in Hong Kong.

**(c) Properties in Macau held by subsidiaries**

*(i) Ocean Centre II*

The lease is for a period of 30 years, commencing from 9 June 1973 and thereafter renewable for successive periods of 10 years up to 19 December 2049.

*(ii) Keck Seng Industrial Centre III*

The lease is for a period of 30 years, commencing from 4 September 1973 and thereafter renewable for successive periods of 10 years up to 19 December 2049.

At 31 December 2003, the formal transfer of titles of the above properties with a carrying value of \$3,260,000 (2002: \$3,260,000) into a subsidiary's name had not been completed and the properties were still registered in the names of the previous owners (see also Note 29). Although the titles have not been transferred, the directors are of the opinion that the subsidiary had acquired beneficial title to these properties at 31 December 2003.

*(iii) Ocean Gardens*

These are completed units of a property development on Taipa Island in Macau. The lease is for a period of 25 years, commencing from 5 September 1980 and thereafter renewable for successive periods of 10 years up to 19 December 2049.

Certain of these properties with a carrying value of \$135,048,000 (2002: \$157,270,000) have been mortgaged to secure the subsidiary's banking facilities at 31 December 2003.

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 18. TRADE AND OTHER RECEIVABLES

|                                    | The Group      |                | The Company    |                |
|------------------------------------|----------------|----------------|----------------|----------------|
|                                    | 2003<br>\$'000 | 2002<br>\$'000 | 2003<br>\$'000 | 2002<br>\$'000 |
| Amount expected to be recoverable: |                |                |                |                |
| – within 1 year                    | 56,009         | 33,129         | 83             | 129            |
| – after 1 year                     | 353            | 348            | –              | –              |
|                                    | <u>56,362</u>  | <u>33,477</u>  | <u>83</u>      | <u>129</u>     |
| Trade and other receivables        | <u>56,362</u>  | <u>33,477</u>  | <u>83</u>      | <u>129</u>     |

Included in trade and other receivables are trade receivables (net of specific provisions for bad and doubtful debts) with the following ageing analysis:

|                             | The Group      |                |
|-----------------------------|----------------|----------------|
|                             | 2003<br>\$'000 | 2002<br>\$'000 |
| Current                     | 4,707          | 3,034          |
| 1 to 3 months overdue       | 38,497         | 20,186         |
| 4 to 12 months overdue      | 147            | –              |
| More than 12 months overdue | 5              | 7              |
|                             | <u>43,356</u>  | <u>23,227</u>  |

Debts are due within 30 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 19. CASH AND CASH EQUIVALENTS

|   | The Group      |                | The Company    |                |
|---|----------------|----------------|----------------|----------------|
|   | 2003<br>\$'000 | 2002<br>\$'000 | 2003<br>\$'000 | 2002<br>\$'000 |
| Deposits with banks and other<br>financial institutions | 211,494        | 143,237        | 51,628         | 54,059         |
| Cash at bank and in hand                                | 76,090         | 19,075         | 118            | 427            |
| Cash and cash equivalents in the<br>balance sheet       | 287,584        | 162,312        | 51,746         | 54,486         |
| Bank overdrafts (Note 20)                               | (4)            | (41)           |                |                |
| Cash and cash equivalents in the<br>cash flow statement | 287,580        | 162,271        |                |                |

### 20. BANK OVERDRAFTS AND LOANS

|  | The Group      |                | The Company    |                |
|--|----------------|----------------|----------------|----------------|
|  | 2003<br>\$'000 | 2002<br>\$'000 | 2003<br>\$'000 | 2002<br>\$'000 |
| Repayable within 1 year and<br>included in current liabilities:                  |                |                |                |                |
| Bank overdrafts (Note 19)  | 4              | 41             | 1              | 8              |
| Bank loans   | 142,009        | 141,160        | 118,461        | 70,589         |
|  | 142,013        | 141,201        | 118,462        | 70,597         |
| Bank loans repayable after<br>1 year and included in<br>non-current liabilities: |                |                |                |                |
| Between 2 and 5 years  | 138,560        | 129,194        | —              | —              |
|  | 280,573        | 270,395        | 118,462        | 70,597         |

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 20. BANK OVERDRAFTS AND LOANS (Continued)

At 31 December 2003, the bank loans and overdrafts outstanding were secured as follows:

|                           | The Group             |                | The Company           |                |
|---------------------------|-----------------------|----------------|-----------------------|----------------|
|                           | 2003<br>\$'000        | 2002<br>\$'000 | 2003<br>\$'000        | 2002<br>\$'000 |
| Unsecured bank overdrafts | <u>4</u>              | <u>41</u>      | <u>1</u>              | <u>8</u>       |
| Bank loans                |                       |                |                       |                |
| – secured (Note 13)       | <b>15,143</b>         | 48,005         | –                     | –              |
| – unsecured               | <b>265,426</b>        | 222,349        | <b>118,461</b>        | 70,589         |
|                           | <u><b>280,569</b></u> | <u>270,354</u> | <u><b>118,461</b></u> | <u>70,589</u>  |
|                           | <u><b>280,573</b></u> | <u>270,395</u> | <u><b>118,462</b></u> | <u>70,597</u>  |

### 21. TRADE AND OTHER PAYABLES

|  | The Group            |                | The Company       |                |
|--|----------------------|----------------|-------------------|----------------|
|  | 2003<br>\$'000       | 2002<br>\$'000 | 2003<br>\$'000    | 2002<br>\$'000 |
| Creditors and accruals                 | <b>74,615</b>        | 51,804         | <b>680</b>        | 530            |
| Sales deposits and receipts in advance | <b>6,966</b>         | 5,682          | <b>204</b>        | 308            |
|  | <u><b>81,581</b></u> | <u>57,486</u>  | <u><b>884</b></u> | <u>838</u>     |

Included in trade and other payables are trade creditors with the following ageing analysis:

|  | The Group           |                |
|--|---------------------|----------------|
|  | 2003<br>\$'000      | 2002<br>\$'000 |
| Due within 1 month or on demand        | <b>4,833</b>        | 4,304          |
| Due after 1 month but within 3 months  | <b>2,340</b>        | –              |
| Due after 3 months but within 6 months | <b>110</b>          | –              |
|  | <u><b>7,283</b></u> | <u>4,304</u>   |

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 22. INCOME TAX IN THE BALANCE SHEET

#### (a) Current taxation in the balance sheet represents:

|  | The Group     |               | The Company |              |
|--|---------------|---------------|-------------|--------------|
|  | 2003          | 2002          | 2003        | 2002         |
|  | \$'000        | \$'000        | \$'000      | \$'000       |
| Provision for overseas taxation<br>for the year              | 13,811        | 8,784         | 40          | 1,515        |
| Balance of overseas tax provision<br>relating to prior years | 29,670        | 23,005        | —           | —            |
|  | <u>43,481</u> | <u>31,789</u> | <u>40</u>   | <u>1,515</u> |

#### (b) Deferred tax

At 31 December 2003, the Group did not have any material deferred tax liabilities (2002: \$Nil).

The major component of unprovided deferred taxation of the Group is the future benefit of tax losses, which have been agreed with the relevant tax authorities, of \$4,241,000 (2002: \$1,356,000). The future benefit of tax losses which are subject to agreement by the relevant tax authorities at 31 December 2003 amount to \$105,954,000 (2002: \$91,650,000). The future benefit of tax losses are not recognised as it is not probable that there will be sufficient appropriate taxable profits before expiry of tax losses in the respective tax jurisdictions.

The tax losses can be carried forward to offset against the taxable profits of subsequent years for up to three to five years from the year in which they were incurred or there is no restriction on their expiry, depending on the tax jurisdiction concerned.

As at 31 December 2003, the Company did not have any material deferred tax assets and liabilities (2002: \$Nil).

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 23. LOANS FROM MINORITY SHAREHOLDERS

Loans from minority shareholders include an amount due to an affiliated company of \$141,660,000 (2002: \$128,889,000) and are non-interest bearing except for an amount of \$Nil (2002: \$38,336,000) 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 all shareholders' loans. The interest payable to the affiliated company for the year ended 31 December 2003 was \$Nil (2002: \$Nil).

### 24. SHARE CAPITAL

|                               | 2003                     |                | 2002                     |                |
|-------------------------------|--------------------------|----------------|--------------------------|----------------|
|                               | <i>No. of<br/>shares</i> | <i>\$'000</i>  | <i>No. of<br/>shares</i> | <i>\$'000</i>  |
| <i>Authorised:</i>            |                          |                |                          |                |
| Ordinary shares of \$1 each   | <u>500,000,000</u>       | <u>500,000</u> | <u>500,000,000</u>       | <u>500,000</u> |
| <i>Issued and fully paid:</i> |                          |                |                          |                |
| At 1 January and 31 December  | <u>340,200,000</u>       | <u>340,200</u> | <u>340,200,000</u>       | <u>340,200</u> |

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 25. RESERVES

|   | The Group        |         | The Company    |         |
|---|------------------|---------|----------------|---------|
|   | 2003             | 2002    | 2003           | 2002    |
|   | \$'000           | \$'000  | \$'000         | \$'000  |
| <b>Share premium account:</b>                   |                  |         |                |         |
| At 1 January and 31 December                    | <b>158,105</b>   | 158,105 | <b>158,105</b> | 158,105 |
| <b>Legal reserve:</b>                           |                  |         |                |         |
| At 1 January and 31 December                    | <b>12,758</b>    | 12,758  | —              | —       |
| <b>Exchange reserve:</b>                        |                  |         |                |         |
| At 1 January                                    | <b>9,269</b>     | 11,428  | <b>891</b>     | 1,178   |
| Movement during the year                        | <b>5,555</b>     | (2,159) | —              | (287)   |
| At 31 December                                  | <b>14,824</b>    | 9,269   | <b>891</b>     | 891     |
| <b>Investment property revaluation reserve:</b> |                  |         |                |         |
| At 1 January                                    | <b>8,080</b>     | 8,080   | —              | —       |
| Revaluation surplus                             | <b>2,847</b>     | —       | —              | —       |
| At 31 December                                  | <b>10,927</b>    | 8,080   | —              | —       |
| <b>Investment revaluation reserve:</b>          |                  |         |                |         |
| At 1 January                                    | <b>188</b>       | 44      | <b>188</b>     | 44      |
| Revaluation surplus                             | <b>24</b>        | 144     | <b>24</b>      | 144     |
| At 31 December                                  | <b>212</b>       | 188     | <b>212</b>     | 188     |
| <b>Retained profits:</b>                        |                  |         |                |         |
| At 1 January                                    | <b>775,324</b>   | 750,411 | <b>380,419</b> | 338,130 |
| Profit for the year                             | <b>32,860</b>    | 28,315  | <b>50,369</b>  | 45,691  |
| Dividends paid in respect of the current year   | <b>(3,402)</b>   | (3,402) | <b>(3,402)</b> | (3,402) |
| At 31 December                                  | <b>804,782</b>   | 775,324 | <b>427,386</b> | 380,419 |
|   | <b>1,001,608</b> | 963,724 | <b>586,594</b> | 539,603 |

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 25. RESERVES (Continued)

Profit for the year is retained as follows:

|                                     | <b>2003</b>               | 2002               |
|-------------------------------------|---------------------------|--------------------|
|                                     | <b>\$'000</b>             | \$'000             |
| By the Company and its subsidiaries | <b>20,016</b>             | 12,621             |
| By associates                       | <b>12,844</b>             | 15,694             |
|                                     | <hr/> <b>32,860</b> <hr/> | <hr/> 28,315 <hr/> |

The application of the share premium is governed by section 48B of the Hong Kong Companies Ordinance.

The legal reserve is non-distributable and represents transfers from annual profits up to a maximum of 20 percent of the issued and paid up capital of the Macau subsidiaries in accordance with the Macau Commercial Code.

The exchange reserve of the Group arises on translation of the financial statements of foreign subsidiaries and associates (see Note 1(r)).

The investment property revaluation and investment revaluation reserves have been set up and dealt in accordance with the accounting policies adopted for the revaluation of investment properties (see Note 1(f)) and non-trading investments (see Note 1(k)).

Distributable profits of the Company at 31 December 2003 amounted to \$427,386,000 (2002: \$380,419,000).

### 26. EMPLOYEE BENEFITS

The Group participates in defined contribution retirement schemes in Hong Kong, the PRC and Vietnam.

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 \$20,000.

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 26. EMPLOYEE BENEFITS (Continued)

The employees of the Group's subsidiary operating in 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.

### 27. COMMITMENTS

At 31 December 2003, the Group had commitments in respect of development expenditure not provided for in the financial statements as follows:

|                                   | <b>2003</b>          | 2002                  |
|-----------------------------------|----------------------|-----------------------|
|                                   | <b>\$'000</b>        | \$'000                |
| Contracted for                    | <b>29,890</b>        | 91,906                |
| Authorised but not contracted for | —                    | 93,396                |
|                                   | <b><u>29,890</u></b> | <b><u>185,302</u></b> |

At 31 December 2003, the total future minimum lease payments under non-cancellable operating leases are as follows:

|                             | <b>2003</b>       | 2002              |
|-----------------------------|-------------------|-------------------|
|                             | <b>\$'000</b>     | \$'000            |
| Leases on premises expiring |                   |                   |
| – within one year           | <b><u>180</u></b> | <b><u>180</u></b> |

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 28. CONTINGENT LIABILITIES

- (a) At 31 December 2003, there were outstanding counter indemnities relating to guarantees issued by a subsidiary's bankers in favour of the Macau SAR Government in respect of properties under development amounting to \$6,311,000 (2002: \$6,311,000).
- (b) At 31 December 2003, there were guarantees given by a subsidiary to banks on behalf of purchasers of flats amounting to \$37,379,000 (2002: \$Nil).
- (c) Pursuant to the revised agreement with the Macau SAR Government on 29 August 2003 (Note 13), Golden Crown is required to complete the remaining phase of the development project in Ocean Gardens by 4 September 2005. Failure to comply with the development schedule may render the subsidiary liable to a fine of \$4,854 for each day of delay up to a limit of 90 days and thereafter the fine may be increased up to \$9,709 per day. When the delay reaches 180 days, the Macau SAR Government may terminate the agreement totally or partially and the specified areas granted together with the work already done shall revert to the Macau SAR Government and the subsidiary shall have no right of compensation. The directors are confident that the remaining phase of the development project will be completed by 4 September 2005.
- (d) At 31 December 2003, guarantees given by the Company to banks to secure banking facilities made available to the subsidiaries and the associates amounted to \$182,312,000 (2002: \$183,017,000) and \$61,980,000 (2002: \$51,495,000) respectively.
- (e) At 31 December 2003, guarantees given by a subsidiary to a bank to secure banking facilities made available to an associate amounted to \$37,500,000 (CAD\$6,250,000) (2002: \$33,075,000 (CAD\$6,635,000)).
- (f) To finance the capital expenditure of its subsidiary, an intermediate subsidiary provided a guarantee to a bank to secure a banking facility made available to the Company. At 31 December 2003, the guarantee granted by the subsidiary amounted to \$62,024,000 (US\$8,000,000) (2002: \$Nil).

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 29. MACAU PROPERTIES

It is common practice in Macau for transfer of interests in property to be effected by agreements or by the grant of irrevocable powers of attorney, without any change being made in the registered ownership of the property. At 31 December 2003, the Group's interests in certain properties situated in Macau held in this manner were as follows:

|   | <b>2003</b>          | 2002          |
|---|----------------------|---------------|
|   | <b>\$'000</b>        | \$'000        |
| Investment properties (Note 12(a)(iii))   | <b>25,000</b>        | 23,000        |
| Properties held for sale (Note 17(c)(ii)) | <b>3,260</b>         | 3,260         |
|   | <b><u>28,260</u></b> | <u>26,260</u> |

### 30. CHANGE IN ACCOUNTING POLICY

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all materials timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) issued by the Hong Kong Society of Accountants, the Group adopted a new accounting policy for deferred tax as set out in Note 1(o). The new accounting policy does not have any impact on the Group's profit for the current and prior year and net assets at the current and prior year end.

### 31. MATERIAL RELATED PARTY TRANSACTIONS

During the year, certain subsidiaries of the Company had the following transactions, which were on normal commercial terms, with Goodland Limited ("Goodland"), an affiliated company which holds 45% of the issued shares of the Company at 31 December 2003:

- (a) 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 \$60,994,580 (2002: \$91,733,642). The interest charge for the year ended 31 December 2003 was \$884,516 (2002: \$2,131,721).

## Notes on the Financial Statements (Continued)

(Expressed in Hong Kong dollars)

### 31. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

- (b) Goodland maintained interest bearing current account with Golden Crown. At 31 December 2003, the balance due by Golden Crown amounted to \$92,320 (2002: \$280,106). The interest charge for the year ended 31 December 2003 payable by Golden Crown was \$5,216 (2002: \$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 accounts amounted to \$8,841,149 (2002: \$3,441,152), \$31,985,931 (2002: \$13,600,000), \$3,428,372 (2002: \$5,153,154), \$Nil (2002: \$188) and \$Nil (2002: \$(3,904)) respectively.

- (c) Loans from minority shareholders include an amount due to Goodland of \$141,660,000 (2002: \$128,889,000) and are non-interest bearing except for an amount of \$Nil (2002: \$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 all shareholders' loans. The interest payable to Goodland was \$Nil (2002: \$Nil).

- (d) Golden Crown rented certain of its properties to Goodland and received rental income (net of outgoings) amounting to \$1,011,204 for the year ended 31 December 2003 (2002: \$1,011,204).
- (e) Ocean Incorporation Ltd., OPJV and Golden Crown paid management fees of \$1,456,311 (2002: \$1,456,311), \$2,954,388 (2002: \$3,113,200) and \$1,747,573 (2002: \$1,747,573) respectively for the year to Goodland.
- (f) Golden Crown rented certain properties from Goodland and rental amounting to \$174,757 (2002: \$174,757) was paid during the year.

Kansas Holdings Limited provides management services to the Company. No management fee was charged during the years 2002 and 2003.

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 years 2002 and 2003.

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.

## **Notes on the Financial Statements** (Continued)

*(Expressed in Hong Kong dollars)*

### **32. POST BALANCE SHEET EVENTS**

On 26 March 2004, the Company, Goodland, Larch Management Incorporated and AKAAs 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.

A term loan facility of up to an aggregate principal amount of US\$3,800,000 (approximately \$29,640,000) was made available by the 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. It is intended that Qing Chuan will choose whichever is the lower of LIBOR on an interest payment date.

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 have been 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.

## Five Year Financial Summary

(Expressed in Hong Kong dollars)

|   | 2003                    | 2002             | 2001             | 2000             | 1999               |
|---|-------------------------|------------------|------------------|------------------|--------------------|
|   | \$'000                  | \$'000           | \$'000           | \$'000           | (Note 2)<br>\$'000 |
| <b>Profit and loss account</b>                |                         |                  |                  |                  |                    |
| Turnover                                      | <u>339,524</u>          | <u>224,502</u>   | <u>246,589</u>   | <u>104,829</u>   | <u>370,947</u>     |
| Operating profit/(loss)                       | <b>32,467</b>           | 5,236            | (16,802)         | (58,652)         | 34,280             |
| Share of profits less losses<br>of associates | <u>11,741</u>           | <u>18,886</u>    | <u>31,437</u>    | <u>22,528</u>    | <u>12,516</u>      |
| Profit/(loss) before taxation                 | <b>44,208</b>           | 24,122           | 14,635           | (36,124)         | 46,796             |
| Taxation                                      | <u>(12,056)</u>         | <u>3,209</u>     | <u>11,101</u>    | <u>21,074</u>    | <u>(1,655)</u>     |
| Profit/(loss) after taxation                  | <b>32,152</b>           | 27,331           | 25,736           | (15,050)         | 45,141             |
| Minority interests                            | <u>708</u>              | <u>984</u>       | <u>1,557</u>     | <u>21,998</u>    | <u>(5,034)</u>     |
| Profit attributable to<br>shareholders        | <u><b>32,860</b></u>    | <u>28,315</u>    | <u>27,293</u>    | <u>6,948</u>     | <u>40,107</u>      |
| <b>Balance sheet</b>                          |                         |                  |                  |                  |                    |
| Fixed assets                                  | <b>1,161,065</b>        | 1,161,746        | 458,838          | 472,958          | 514,769            |
| Properties under development                  | –                       | –                | 731,163          | 737,026          | 726,568            |
| Interest in associates                        | <b>346,906</b>          | 358,301          | 369,814          | 370,367          | 354,928            |
| Non-trading investments                       | <b>804</b>              | 780              | 636              | 567              | 584                |
| Current assets                                | <u><b>719,219</b></u>   | <u>631,810</u>   | <u>606,182</u>   | <u>736,917</u>   | <u>834,838</u>     |
|   | <u><b>2,227,994</b></u> | <u>2,152,637</u> | <u>2,166,633</u> | <u>2,317,835</u> | <u>2,431,687</u>   |
| Share capital                                 | <b>340,200</b>          | 340,200          | 340,200          | 340,200          | 340,200            |
| Share premium                                 | <b>158,105</b>          | 158,105          | 158,105          | 158,105          | 158,105            |
| Investment property<br>revaluation reserve    | <b>10,927</b>           | 8,080            | 8,080            | 91               | 3,696              |
| Other reserves                                | <b>832,576</b>          | 797,539          | 774,641          | 745,558          | 745,491            |
| Minority interests                            | <b>176,725</b>          | 190,997          | 212,562          | 245,020          | 281,284            |
| Non-current liabilities                       | <b>335,680</b>          | 311,672          | 345,571          | 328,712          | 304,774            |
| Current liabilities                           | <u><b>373,781</b></u>   | <u>346,044</u>   | <u>327,474</u>   | <u>500,149</u>   | <u>598,137</u>     |
|   | <u><b>2,227,994</b></u> | <u>2,152,637</u> | <u>2,166,633</u> | <u>2,317,835</u> | <u>2,431,687</u>   |

## Five Year Financial Summary (Continued)

(Expressed in Hong Kong dollars)

|                                  | 2003          | 2002   | 2001   | 2000   | 1999               |
|----------------------------------|---------------|--------|--------|--------|--------------------|
|                                  | <b>\$'000</b> | \$'000 | \$'000 | \$'000 | (Note 2)<br>\$'000 |
| <b>Other data</b>                |               |        |        |        |                    |
| Basic earnings per share (cents) |               |        |        |        |                    |
| (Note 1)                         | <b>9.7</b>    | 8.3    | 8      | 2      | 16                 |
| Dividends per share (cents)      |               |        |        |        |                    |
| (Note 1)                         | <b>2.0</b>    | 1.0    | Nil    | Nil    | 1.5                |
| Dividend cover (times)           | <b>4.8</b>    | 8.3    | Nil    | Nil    | 10.1               |

*Note 1:* Basic earnings per share and dividends per share for 1999 have been adjusted for 113,400,000 shares issued by way of rights on 16 November 1999.

*Note 2:* Current liabilities and retained profits included in other reserves were adjusted at 31 December 1999, pursuant to the revised Statement of Standard Accounting Practice No. 9 "Events after the balance sheet date".

## Schedule of Principal Properties

At 31 December 2003

### PROPERTIES HELD FOR RENTAL/INVESTMENT

| Properties  | Group's interest | Type                   | No. of units | Gross floor area (sq. ft.) | Lease term   |
|---|------------------|------------------------|--------------|----------------------------|--------------|
| Luso International Bank Building<br>1, 3 and 3A Rua Do Dr. Pedro Jose Lobo<br>Macau | 100%             | Office                 | 40           | 30,264                     | Medium lease |
| Ocean Plaza, I & II<br>Ocean Gardens, Macau   | 70.61%           | Commercial             | 48           | 94,525                     | Medium lease |
| Ocean Tower<br>Ocean Gardens, Macau   | 70.61%           | Office                 | 19           | 49,703                     | Medium lease |
| Sheraton Ottawa Hotel<br>Ottawa, Canada   | 50%              | Hotel                  | 236          | 193,408                    | Freehold     |
| DoubleTree International Plaza Hotel<br>Toronto Airport, Canada                     | 25%              | Hotel                  | 433          | 450,000                    | Freehold     |
| Four Points Hotel by Sheraton<br>Gatineau, Quebec, Canada                           | 12.5%            | Hotel                  | 201          | 121,206                    | Freehold     |
| Caravelle Hotel<br>Ho Chi Minh City, Vietnam  | 25%              | Hotel                  | 335          | 247,500                    | Medium lease |
| Holiday Inn Riverside Wuhan<br>Wuhan, PRC   | 41.26%           | Hotel                  | 336          | 295,224                    | Medium lease |
| Sheraton Saigon Executive Residences<br>Ho Chi Minh City, Vietnam                   | 63.07%           | Serviced<br>apartments | 92           | 202,650                    | Medium lease |
| Sheraton Saigon Hotel & Towers<br>Ho Chi Minh City, Vietnam                         | 63.07%           | Hotel                  | 382          | 472,850                    | Medium lease |

### PROPERTIES HELD FOR AND UNDER DEVELOPMENT

| Properties                           | Group's interest | Type        | Gross floor area (sq. ft.) | Stage of completion                | Estimated completion |
|--------------------------------------|------------------|-------------|----------------------------|------------------------------------|----------------------|
| Aster Court<br>Ocean Gardens, Macau  | 70.61%           | Residential | 103,302                    | Superstructure works<br>up to roof | 31 August<br>2005    |
| Bamboo Court<br>Ocean Gardens, Macau | 70.61%           | Residential | 103,302                    | Superstructure works<br>up to roof | 31 August<br>2005    |

## Schedule of Principal Properties (Continued)

At 31 December 2003

### PROPERTIES HELD FOR SALE

| Properties   | Group's interest | Type        | No. of units | Gross floor area (sq. ft.) | Lease term   |
|--|------------------|-------------|--------------|----------------------------|--------------|
| Ocean Industrial Centre, Phase II<br>Rua dos Pescadores, Macau | 100%             | Industrial  | 3            | 22,921                     | Medium lease |
| Ocean Park<br>530 East Coast Road, Singapore                   | 100%             | Residential | 6            | 12,438                     | Freehold     |
| Heng Fa Chuen<br>Chaiwan, Hong Kong                            | 100%             | Residential | 2            | 1,812                      | Long lease   |
| Poplar Court<br>Ocean Gardens, Macau                           | 70.61%           | Residential | 4            | 5,576                      | Medium lease |
| Rose Court<br>Ocean Gardens, Macau                             | 70.61%           | Residential | 3            | 11,121                     | Medium lease |
| Begonia Court<br>Ocean Gardens, Macau                          | 70.61%           | Residential | 19           | 50,103                     | Medium lease |
| Orchid Court<br>Ocean Gardens, Macau                           | 70.61%           | Residential | 36           | 94,932                     | Medium lease |
| Sakura Court<br>Ocean Gardens, Macau                           | 70.61%           | Residential | 42           | 155,694                    | Medium lease |
| Kapok Court<br>Ocean Gardens, Macau                            | 70.61%           | Residential | 1            | 1,030                      | Medium lease |
| Lily Court<br>Ocean Gardens, Macau                             | 70.61%           | Residential | 33           | 60,993                     | Medium lease |
| Dahlia Court<br>Ocean Gardens, Macau                           | 70.61%           | Residential | 2            | 2,108                      | Medium lease |
| Cattleya Court<br>Ocean Gardens, Macau                         | 70.61%           | Residential | 47           | 63,935                     | Medium lease |
| Magnolia Court<br>Ocean Gardens, Macau                         | 70.61%           | Residential | 1            | 1,503                      | Medium lease |
| Beijing Riviera<br>Beijing, PRC                                | 24%              | Residential | 195          | 606,782                    | Long lease   |