



HILS ENTERPRISE LIMITED

Annual Report 2007



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Hotel Equatorial Shanghai

Hotel Equatorial Shanghai is located in the heart of Shanghai, at the key junction of Hua Shan Road and Yanan Road West, and only minutes from the Shanghai Exhibition Centre and major tourist attractions.

Since its opening in June 1991, Hotel Equatorial Shanghai has been constantly evaluating and improving its guest services and facilities in order to keep up with the needs of the modern day traveller. The latest development has been the completion of the refurbishment of the Equator Club, 526 guestrooms, ballroom, meeting facilities and the office tower. To maintain its market share in the highly competitive hospitality industry in Shanghai, the hotel will be renovating its coffee house and lobby in 2008.



Hotel Equatorial Qingdao

Set amidst the new commercial district of Qingdao, Hotel Equatorial Qingdao is only 30 minutes drive to the airport and within walking distance to major commercial centres and provincial government offices, and is conveniently located beside the most luxurious shopping mall in Qingdao.

The hotel features 455 guestrooms and suites, which were completely renovated in 2007. All essential facilities for the modern day traveller are available at the hotel such as broadband internet connection, a business centre with secretarial services and a modern health club with an indoor swimming pool. A newly refurbished lobby, coffee house, ballroom and other meeting facilities will be ready in 2008 to welcome guests and participants of the Olympic Games.



Changning Equatorial Serviced Apartments

Changning Equatorial Serviced Apartments, centrally located in the thriving Changning district of Shanghai, offers easy access to shopping centres, banks and restaurants, as well as to the MRT and Light Rail station. Overlooking Zhongshan Park, the 16-storey serviced apartment offers a breathtaking view with its 126 units of well-furnished comfortable accommodation. The



apartments also provide kitchenettes with refrigerators and microwave ovens. Other facilities include a self-service launderette, meeting rooms and a business centre. The apartments are slated for a major refurbishment programme in 2008.

Equatorial Hill Resort - Cameron Highlands

Perched at 1,628 metres above sea level and surrounded by majestic mountains and gentle undulating valleys, Equatorial Cameron Highlands is the only resort situated at the highest accessible point of the highlands. The cool climate there, averaging between 12 degrees celsius to 25 degrees celsius, makes the resort the ideal holiday retreat.

Spread over 13 acres, the Tudor-styled resort offers 107 attractive, self-contained low-rise and high-rise units, comprising one, two and three bedroom apartment suites. Each suite comes with a living room, a kitchenette and a spacious balcony which provides a spectacular view of the valley.

The hotel tower comprises 270 superior rooms, deluxe rooms and suites that offer beautiful views of the highland landscape. The resort is famous for its capability in hosting events ranging from company incentive trips to conventions and seminars.



2007 saw quite a number of changes to the Board, including my appointment as Chairman. On behalf of the Board, I would like to welcome the new Board members, consisting of independent Director Ms Martha Tan, non-executive Director Mr Teo Tong Kooi (and his alternate, Mr Philip Ting) and Executive Director Mr Sherman Kwek. As the new Chairman, I am pleased to be able to reflect on an encouraging year for the Group despite the challenges in the China hospitality sector.

Review of the Group's performance

The Group's net profit after tax from continuing operations for 2007 was \$5.2 million as compared to \$2.5 million for 2006. Net profit attributable to shareholders for 2007 was \$5.2 million *vis-à-vis* \$11.3 million (inclusive of profit of \$8.8 million from discontinued operations) for 2006.

The Group's turnover was \$34.5 million in 2007, a 2.7% decrease from \$35.4 million in 2006. However, for a meaningful comparison, the revenue from Tristar Inn Singapore, the sale of which was completed in March 2007, should be excluded. Comparing like-for-like, the Group's turnover for 2007 increased by \$1.1 million, representing an improvement of 3.3% over 2006.

The improvement in the business of Changning Equatorial Serviced Apartments ("CESA"), Hotel Equatorial Qingdao ("HEQ") and Hotel Equatorial Cameron ("HEC") contributed to the increase in the turnover. The overall increase in turnover for these three hotels was approximately \$1.5 million, representing an 11.5% improvement over 2006.

Hotel Equatorial Shanghai ("HES") produced similar revenue as the previous year, partly due to the closure for renovations of its ballroom and meeting facilities for several months in 2007 as well as the challenging market conditions in Shanghai.

The Group sold two shop-units at Tristar Complex ("shop-units") during the year but there was no sale of any apartment units at Cameron Highlands, thereby resulting in a decrease of \$385,000 in the turnover of the property development segment.

The Group reported an operating profit of \$3.8 million before other income, unallocated costs and finance expenses. This is an increase of \$0.6 million over 2006. Excluding the profit from Tristar Inn Singapore, the Group posted an increase in profit of \$1.1 million more than the preceding year. This increase was mainly attributed to the rise in profit of \$168,000 in the property development segment resulting from the gain on disposal of the shop-units as well as savings of \$1.0 million in corporate overheads. This was partially offset by a decline resulting from the write-off of property, plant and equipment amounting to \$700,000.

Other gains in 2007 consisted of the gain and write-back of an intercompany debt totaling \$5.1 million in connection with the disposal of the Group's equity interest in LKN (PNG) Ltd and the novation of an intercompany debt. There was also a gain of \$4.5 million on the sale of Tristar Inn Singapore, a surplus of \$1.4 million on the revaluation of an investment property and the recognition of \$1.6 million in interest income.

The Group's finance cost increased from \$6.0 million in 2006 to \$8.2 million in 2007, a result of the accrual of higher interest on the zero coupon unsecured non-convertible bonds issued in July 2006 and due in 2009. The increase in administrative expenses was mainly due to \$1.5 million of expenses incurred in relation to a potential acquisition which did not materialize. Due to the revaluation of net foreign currency monetary assets arising mainly from the appreciation of the Singapore Dollar against the US Dollar, the Group also recognized an exchange loss of \$518,000 in 2007.

Hospitality Operations

HES

Although there was an increase in the supply of guestrooms in Shanghai, HES was able to maintain its competitive edge and achieve a similar gross operating profit ("GOP") as the previous year. This was due to the newly-refurbished rooms and facilities, including an upgraded ballroom. Occupancy increased from 56.4% in 2006 to 60.6% in 2007, while revenue per available room remained almost the same as the preceding year. However, higher depreciation resulting from the rooms, facilities and office renovation coupled with rising operating costs, including payroll expenses, have significantly affected the net results of HES.

HEQ

HEQ's average room rate ("ARR") improved by about RMB14.5 to RMB510.3 though occupancy declined marginally from 62.3% to 61.1% in 2007.

Signing of a Franchise Agreement

On 16 November 2007, Hotel Equatorial Qingdao Co., Ltd ("HEQD"), which owns the HEQ asset, and Equatorial Hotel Management Pte. Ltd. (a wholly-owned subsidiary

of the Company), HEQD's sole manager and operator of HEQ, entered into a franchise agreement with Millennium & Copthorne Hotels plc ("M&C") for an initial term of one year (the "Franchise Agreement"). HEQD as the franchisee has been granted fourteen options to renew the Franchise Agreement for a term of one year each. Under this franchise arrangement, HEQ will be operated as part of the Copthorne Franchise Group. M&C, as the franchisor, will provide the property with, among other things, sales and marketing support, human resource assistance, training and other related hotel advisory and support functions. HEQ is scheduled to be rebranded as "Copthorne Qingdao Hotel" in May 2008.

CESA

CESA showed significant growth of 58% and 97% for 2007 in terms of revenue and GOP respectively. The growth was contributed by new sales and marketing initiatives which allowed CESA to carve out a niche market.

HEC

HEC reported a growth in GOP of 21% compared to the preceding year. It was able to achieve an 11.0% increase in ARR to RM165.8.

Outlook

China will be hosting the Olympic Games in Beijing in August 2008. As part of the Olympic Games, Shanghai will be hosting the football competition and hotels in the city are expected to benefit from this event. It is perceived that most visitors to the Olympic Games in Beijing will also take the opportunity to visit other key cities of interest such as Shanghai. In Qingdao, there is similar excitement with the holding of the sailing competition and water sports events. It is with pride that HEQ has been selected as one of the official hotels for the competition.

Shanghai will see the continued influx of 4- and 5-star hotels as a result of sustained growth in the China economy. It is expected that over 5,000 hotel rooms will be added to this highly competitive segment in 2008.

Shanghai and Qingdao continue to experience a tight labour market faced with rising payroll expenses and a shortage of skilled employees. With the increase in the number of new hotels, it is anticipated that management and handling of these areas will become even more challenging.

The Group intends to carry out a major refurbishment programme for CESA, its wholly-owned serviced apartment building in the thriving Changning district of Shanghai. In continuation of previous renovations efforts and to maintain its competitiveness, HES will be renovating its coffee house and lobby during the first quarter of 2008. Similarly, HEQ will be looking to enhance its appeal by improving its lobby, lounge, banquet and meeting facilities in 2008.

In view of the Group's hospitality and property development operations in China and Malaysia, it continues to be exposed to currency fluctuation risks. The Group would consider the feasibility of hedging such exposure after taking into account the prevailing market conditions.

Expansion Plans

For 2008, the Group will continue its efforts to improve and boost the returns from its existing assets portfolio, whilst at the same time exploring merger and acquisition opportunities so as to grow its earnings base. One of the key areas of focus in the Group's expansion plans will be the serviced apartment sector, which is a subset of the hospitality business.

Such business expansion opportunities, if and when they materialize, may be funded by the Group's existing financial resources, new additional debt financing and/or new funds from shareholders.

Appreciation

I would like to express my appreciation of the hard work and support put in by our dedicated management team and staff. I would like to acknowledge the invaluable contributions from my fellow Directors on the Board and look forward to their continued guidance in the years ahead. We are also sincerely appreciative of the unwavering support from our stakeholders, including our investors, suppliers, customers, bankers and business partners.

On behalf of the Board of Directors and management, thank you for your continued support in HLG Enterprise Limited.

Gan Khai Choon

Chairman

17 March 2008

GAN KHAI CHOON, Age 61

Appointed to the Board as Chairman on 21 September 2007, Mr Gan is also the Managing Director of Hong Leong International (Hong Kong) Limited, Executive Director of Hong Kong listed City e-Solutions Limited and Director of Hong Kong listed Safety Godown Company Limited and New York listed China Yuchai International Limited ("CYI").

Mr Gan has extensive experience in the banking, real estate investment and development sectors, having been involved in a number of international projects for the Hong Leong Group of companies, which include the management and development of the Grand Hyatt Taipei.

Mr Gan holds a Bachelor of Arts Degree (Honours) in Economics from the University of Malaya.

SHERMAN KWEK EIK TSE, Age 32

Appointed to the Board as an Executive Director on 21 September 2007, Mr Kwek is also the Chief Operating Officer of Thakral Corporation Ltd ("TCL"). He was previously a Director of RECAP Investments Limited, a wholly-owned subsidiary of Real Estate Capital Asia Partners, LP., a real estate private equity fund. Prior to that, he spent several years in New York, starting out as a Financial Analyst in Telligent Capital, a technology venture capital firm, before progressing on to the Investment Banking Division of Credit Suisse First Boston and then subsequently holding a hotel management and property development role for the U.S. division of Millennium & Copthorne Hotels plc.

Mr Kwek has experience in the areas of finance, mergers and acquisitions, real estate, information technology and hotel management. He graduated from Boston University with a Bachelor of Science in Business Administration, majoring in Finance and Marketing with a minor in Psychology.

FLORENCE TAY ENG NEO, Age 54

First appointed to the Board as a Director (executive) on 26 December 2000, Ms Tay became a non-executive Director on 31 May 2006. She was last re-elected on 25 April 2007.

Ms Tay has 25 years of experience in the information technology field. Prior to joining HLG Enterprise Limited as its Chief Executive Officer, a position which she relinquished in May 2006, she was a Director of Radio Corporation of Singapore Pte Ltd (now known as Mediacorp Radio Singapore Pte Ltd) for 5 years from 1994 to 1999 and the Chairman of Microcomputer Trade Association of Singapore for 3 years from 1989 to 1992.

Ms Tay holds a Bachelor of Arts (Honours) Degree in Political Science from McGill University, Montreal, Canada.

MICHAEL YEO CHEE WEE, Age 70

Appointed a Director since 1 January 1985 and last re-elected on 25 April 2007, Mr Yeo is the Chairman of the Audit, Remuneration and HLG Enterprise Share Option Scheme 2006 Committees and a member of the Nominating Committee.

Mr Yeo has over 30 years of extensive experience including finance-related matters in the Singapore Administrative Service, Budget Division, Ministry of Finance and with Yeo Hiap Seng Ltd, a food and beverage public listed company, where he served as Executive Director for 8 years until 1998. During his time with Yeo Hiap Seng Ltd, he was also a director of its other listed companies in Malaysia and Hong Kong.

Mr Yeo has previously served on a number of government organisations including Chairmanship in the Public Advisory Panel on Police Licensing (until 2007), National Crime Prevention Council (until 2002), Singapore Science Centre Board (until 1997) and the Singapore Manufacturers' Association (until 1979), and Deputy Chairman of the Singapore National Shippers' Council (until 1995), and a member of the Trade



Development Board, the Singapore Securities Industry Council and the Economic Development Board (until 1985) and Jurong Town Corporation (until 1982). He was awarded the Public Service Medal - PBM in 1992 and the Public Service Star - BBM in 1999.

Mr Yeo holds a BA (MOD) Honours Degree in Economics and Political Science and a Master of Arts Degree from Trinity College, University of Dublin.

LEE KIM SHIN, Age 47

Appointed a Director since 25 January 2006 and last re-elected on 27 April 2006, Mr Lee is the Chairman of the Nominating Committee and a member of the Audit, Remuneration and HLG Enterprise Share Option Scheme 2006 Committees. He has been a Partner of Allen & Gledhill (now known as Allen & Gledhill LLP) since 1991 and is currently the Head of the firm's Corporate and Commercial Department. His experience encompasses mergers and acquisitions, local and regional joint ventures, schemes of reconstruction, amalgamations, capital reductions and restructurings. He also provides general corporate advice to companies across a broad spectrum of industries with particular emphasis on power and telecommunications.

Mr Lee holds a Bachelor of Laws, LL.B (National University of Singapore) and was called to the Singapore Bar in 1986.

MARTHA TAN HUI KENG, Age 50

Appointed a Director on 21 September 2007, Ms Tan also sits on the Audit, Nominating, Remuneration and HLG Enterprise Share Option Scheme 2006 Committees. She joined KPMG in 1979 as a graduate assistant and was admitted as audit partner in 1989. She retired from the partnership since 30 September 2005. Ms Tan has more than 25 years of experience in the public accounting field, which includes auditing, taxation, initial public offering assignments, due diligence, mergers and acquisitions, internal control reviews and general advisory services.

Ms Tan holds a Degree (Honours) in Accountancy from the University of Singapore and is also a Fellow of the Institute of Certified Public Accountants of Singapore.

TEO TONG KOOI, Age 50

Appointed a Director on 21 September 2007, Mr Teo is also a Director and Chief Executive Officer of Hong Leong Asia Ltd. ("HLA"), the President and Director of CYI, Executive Director of Malaysia listed Tasek Corporation Berhad ("TCB") and a Director of TCL and Malaysia listed Isyoda Corporation Berhad. During the past 3 years, he was a Director of Malaysia listed Bintai Kinden Corporation Berhad.

Mr Teo has a wealth of corporate and commercial banking experience with many years in senior management positions where he was Head of Corporate Banking of Deutsche Bank, Malaysia and Chief Operating Officer of Hong Leong Bank, Malaysia.

Mr Teo holds a Bachelor of Science Degree in Marketing Management and a Master of Business Administration (both from Golden Gate University, San Francisco, California, USA). He has also completed the Executive Management Programme at the Stanford University Graduate School of Business.

PHILIP TING SII TIEN @ YAO SIK TIEN, Age 53 (Alternate to Teo Tong Kooi)

Appointed an Alternate Director to Mr Teo Tong Kooi on 21 September 2007, Mr Ting is the Group Chief Financial Officer of HLA and a Director of TCB. He is also an Alternate Director to Mr Teo Tong Kooi on the Board of TCL. During the past 3 years, he was a Director and the Chief Financial Officer of CYI.

Mr Ting has over 20 years of experience as a financial controller in various companies including Deutsche Bank Aktiengesellschaft (Singapore) and Bank of Montreal, Singapore.

Mr Ting is an associate member of the Institute of Chartered Accountants in England and Wales.

FOO YANG HYM

Ms Foo joined HLG Enterprise Limited ("HLGE") in 1984 as an Accountant and became the Group Accountant in 1994 and the Financial Controller in 2004. She was re-designated as Senior Vice President (Finance/Administration) of HLGE in April 2006. Prior to joining HLGE, she was an Audit Senior at Deloitte Haskins & Sells (now known as Deloitte & Touche).

Ms Foo is a Fellow of the Institute of Certified Public Accountants of Singapore.

YAM KIT SUNG

Mr Yam joined HLGE as Vice President (Finance) in June 2006. He is also the General Manager of Philippines listed Grand Plaza Hotel Corporation which owns The Heritage Hotel Manila, since April 2000. Prior to joining HLGE, he was an internal auditor at CDL Hotels International Limited (until 1996). He also worked at Price Waterhouse (now known as PricewaterhouseCoopers) as an auditor (until 1995) and was an Operations Analyst with The Heritage Hotel Manila from 1996 to 1999.

Mr Yam obtained his Bachelor of Accountancy (Honours) Degree from the Nanyang Technological University, Singapore.



BOARD OF DIRECTORS

Gan Khai Choon (Chairman, non-executive)

EXECUTIVE

Sherman Kwek Eik Tse

NON-EXECUTIVE

Florence Tay Eng Neo

Michael Yeo Chee Wee (Independent)

Lee Kim Shin (Independent)

Martha Tan Hui Keng (Independent)

Teo Tong Kooi

Philip Ting Sii Tien

(Alternate to Teo Tong Kooi)

AUDIT COMMITTEE

Michael Yeo Chee Wee (Chairman)

Lee Kim Shin

Martha Tan Hui Keng

NOMINATING COMMITTEE

Lee Kim Shin (Chairman)

Michael Yeo Chee Wee

Martha Tan Hui Keng

REMUNERATION COMMITTEE

Michael Yeo Chee Wee (Chairman)

Lee Kim Shin

Martha Tan Hui Keng

**HLG ENTERPRISE SHARE OPTION SCHEME
2006 COMMITTEE**

Michael Yeo Chee Wee (Chairman)

Lee Kim Shin

Martha Tan Hui Keng

SECRETARIES

Yeo Swee Gim, Joanne

Aw Siew Yen, Patricia

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Singapore 049317

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Singapore 188721

Tel: (65) 6837 2133

Fax: (65) 6338 3493

AUDITORS

KPMG

Certified Public Accountants

16 Raffles Quay

#22-00 Hong Leong Building

Singapore 048581

(Partner-in-charge: Adeline Lee, appointed
from commencement of the financial
year ended 31 December 2007)

PRINCIPAL BANKERS

DBS Bank Ltd

HL Bank

The Hongkong and Shanghai Banking
Corporation Limited

United Overseas Bank Limited

