Management Discussion & Analysis

1. OPERATIONS REVIEW

The Group is organised into three main business segments:

Hotel operation	–	Ownership and operation of hotel business
Hotel management	–	Provision of hotel management and related services
Property rentals	–	Ownership and leasing of office, commercial and service apartments

The Group's turnover from operations is derived principally from hotel operations. Turnover from hotel operations has been affected in recent years by global and regional economic problems, political problems in some countries in the Asian region, security concerns and in 2003 by travel advisories issued by the World Health Organization ("WHO") and governments following the outbreak of Severe Acute Respiratory Syndrome ("SARS") in Hong Kong, Mainland China and other countries in South East Asia.

The outbreak of the SARS in late March 2003 led to an unprecedented decline in travel volumes, hotel occupancies and food and beverage spending throughout most of the Asian region and had a material adverse effect on the Group's financial condition and operations for the first half of 2003. The Group's operations in Asia, particularly occupancies, were adversely affected especially in the core markets of Hong Kong, Mainland China and Singapore. In response to the unprecedented business situation, management took immediate actions to minimise expenditures especially salaries, wages and discretionary costs, conserve cash resources and maintain sufficient banking facilities to fund capital commitments and working capital needs. With the progressive lifting of travel warnings issued by the WHO in June 2003, air-travel volumes and hotel occupancies have recovered. Overall weighted average yield for the year decreased by 11% compared to 2002.

The performance of the Group's investment properties showed improvement with the exception of the serviced apartments in Beijing and Shanghai, the commercial and office spaces in Changchun and Singapore; and the office spaces in Malaysia.

Shangri-La Hotel, Kuala Lumpur – Horizon Club

Management Discussion & Analysis

Revenue
For the year ended 31 December

	Combined Revenue by Trade				
	2003		2002		%
	US$ million	%	*US$ million*	%	*Change*
Hotel Operation	**696.3**	77%	775.9	79%	(10%)
Hotel Management	**8.3**	1%	9.2	1%	(9%)
Property Rentals	**196.9**	22%	191.0	20%	3%
Total	**901.5**	100%	976.1	100%	(8%)

Breakdown of Turnover
For the year ended 31 December

	SUBSIDIARIES			ASSOCIATED COMPANIES		
	2003	2002	%	**2003**	2002	%
	US$ Million	*US$ Million*	*Change*	***US$ Million***	*US$ Million*	*Change*
Hotel Operation						
The People's Republic of China						
Hong Kong	**105.5**	137.5	(23%)	**–**	–	N/A
Mainland China	**149.6**	170.7	(12%)	**132.7**	155.2	(15%)
Singapore	**69.2**	79.7	(13%)	**15.2**	19.2	(21%)
The Philippines	**70.9**	72.5	(2%)	**–**	–	N/A
Malaysia	**63.2**	58.5	8%	**10.0**	4.6	116%
Thailand	**32.7**	33.6	(3%)	**–**	–	N/A
Fiji	**20.0**	18.9	6%	**–**	–	N/A
Indonesia	**–**	–	N/A	**22.4**	20.6	9%
Myanmar	**4.9**	4.9	(1%)	**–**	–	N/A
	516.0	576.3	(10%)	**180.3**	199.6	(10%)
Hotel Management	**8.3**	9.2	(9%)	**–**	–	N/A
Hotels Sub-total:	**524.3**	585.5	(10%)	**180.3**	199.6	(10%)
Property Rentals						
The People's Republic of China						
Mainland China	**5.1**	4.4	16%	**168.9**	164.6	3%
Singapore	**6.9**	6.6	6%	**8.1**	8.0	1%
Malaysia	**3.5**	3.5	–	**3.8**	3.4	12%
Thailand	**0.6**	0.5	18%	**–**	–	N/A
Properties Sub-total:	**16.1**	15.0	8%	**180.8**	176.0	3%
Total	**540.4**	600.5	(10%)	**361.1**	375.6	(4%)

Note: Revenue of the hotel management group is stated after elimination of revenue earned from fellow subsidiaries.

N/A Not Applicable

Management Discussion & Analysis

(a) **Revenue**

Hotel Operation

As at 31 December 2003, the Group has equity interest in 36 operating hotels.

The key performance indicators of the Group's hotels on a combined basis are as follows:

Country	**2003 Weighted Average**			2002 Weighted Average		
	Occupancy **(%)**	**Transient Room Rate** **(US$)**	**RevPAR** **(US$)**	Occupancy (%)	Transient Room Rate (US$)	RevPAR (US$)
The People's Republic of China						
Hong Kong	**45**	**188**	**113**	66	184	131
Mainland China	**56**	**86**	**49**	68	83	58
Singapore	**56**	**105**	**63**	68	108	72
The Philippines	**59**	**92**	**57**	58	93	56
Malaysia	**58**	**59**	**36**	57	58	33
Thailand	**57**	**103**	**55**	60	96	67
Fiji	**63**	**92**	**60**	72	77	55
Indonesia	**39**	**92**	**32**	36	101	31
Myanmar	**37**	**34**	**12**	39	34	12

Notes: (i) The room yields ("RevPAR") of hotels under renovation have been computed by excluding the number of rooms under renovation.

(ii) Combined Revenue is the aggregate of turnover of all operating subsidiaries and associated companies while consolidated revenues relate to operating subsidiaries only.

Kowloon Shangri-La, Hong Kong – Cafe Kool

The People's Republic of China ("PRC")

Hong Kong

Consolidated revenues of the two hotels decreased by 23% in 2003 largely due to a decline in RevPAR and food and beverage revenues following the outbreak of SARS in late March 2003. The Kowloon Shangri-La, Hong Kong completed its major renovations in October 2003 while the Island Shangri-La, Hong Kong commenced renovation of its guestrooms in July 2003. This is expected to be completed in early 2005.

Kowloon Shangri-La, Hong Kong – Lobby

Mainland China

Combined revenues decreased by 13% in 2003. All the hotels recorded a decline in RevPAR with the exception of the Shangri-La hotels in Hangzhou, Changchun and Harbin which registered an increase by 1%, 7% and 6%, respectively. The hotels located in Beijing, Shanghai and Shenzhen suffered most during the outbreak of SARS. Following the lifting of travel advisories, occupancies at most of the hotels recovered quickly especially at hotels in the provincial cities. The China World Hotel, Beijing and the Shangri-La Golden Flower Hotel, Xian, completed their major renovations in May 2003 and August 2003, respectively.

The Shangri-La Hotel, Beijing closed 480 guestrooms in August 2003 for renovation. The renovation programme is expected to be completed by early 2005. The fit-out of an additional 80 guestrooms at the Shangri-La Hotel, Qingdao was completed in April 2003.

Management Discussion & Analysis

Makati Shangri-La, Manila – Lobby

Singapore

Combined revenues of the three hotels recorded a decline of 15% principally due to the impact of SARS. The Traders Hotel, Singapore completed the renovation of its guestrooms in January 2004. The Shangri-La Hotel, Singapore completed a major refurbishment of its Valley Wing by end of October 2003. The RevPAR of these two hotels decreased by 14% and 9%, respectively. Shangri-La's Rasa Sentosa Resort, Singapore also recorded a decline in RevPAR by 15%. With improvement in arrivals and indications of recovery in the economy, these hotels are expected to improve their performance.

The Philippines

Consolidated revenues decreased marginally by 2%. Apart from the fall-out from the SARS epidemic, the hotels in the Philippines continue to experience some weakness in demand due to persistent security concerns and an uncertain investment climate. The Group's hotels in Manila continue to experience rate pressures. However, the resort in Mactan which completed the renovation of its guestrooms by end of October 2003, registered a RevPAR increase of 30%. The performance of this resort continues to be strong. Renovation of guestrooms at the Edsa Shangri-La, Manila is on-going and is expected to be progressively completed by the year end of 2004.

Malaysia

The consolidated revenue of all the subsidiaries increased by 8% due mainly to the contribution from the Shangri-La Hotel, Kuala Lumpur reflecting the on-going benefits of its extensive renovation programme completed in May 2003. The hotel increased its RevPAR by 21% compared to 2002. The Shangri-La Hotel, Penang also recorded an increase in RevPAR by 15% in a difficult market, driven by a steady improvement in demand for its newly renovated rooms. However, the performance of Shangri-La's Rasa Sayang Resort, Penang ("RSR") and Shangri-La's Golden Sands Resort, Penang was adversely affected by the Iraq war which discouraged long-haul travel and the outbreak of SARS. RSR completed its guestroom renovations in November 2003. Results of the Group's two resorts in Kota Kinabalu improved following an upturn in leisure demand from the regional and domestic markets during the second half of 2003. The RevPAR of Shangri-La's Tanjung Aru Resort, Kota Kinabalu ("TAH") and Shangri-La's Rasa Ria Resort, Sabah increased by 32% and 6%, respectively. Since the 40% equity interest in TAH was only acquired by the Group in July 2002, the revenues from this associated company increased by 116% compared to 2002. Renovation of guestrooms at this resort was completed by end of 2003.

Thailand

The Shangri-La Hotel, Bangkok recorded a decline in RevPAR of 17% for the year. However, the hotel experienced a good recovery especially in the last quarter and thereafter which was also facilitated by the completion of renovations of its main wing guestrooms. Construction of the hotel's spa commenced in early December and will be completed by end of May 2004.

Fiji

Consolidated revenues of the two hotels increased by 6% in line with an 8% increase in the weighted average RevPAR. Shangri-La's Fijian Resort, Yanuca commenced the renovation of its Lagoon Wing guestrooms in November 2003 which is expected to be completed in late 2004.

Indonesia and Myanmar

The hotels in Jakarta and Yangon continue to suffer on account of the political and economic problems facing Indonesia and Myanmar. The Shangri-La Hotel, Jakarta has commenced a soft refurbishment of its horizon floor guestrooms in October 2003 which is expected to be completed in the second half of 2004.

Shangri-La Hotel, Sydney – Exterior

Management Discussion & Analysis

Hotel Management

The hotel management arm of the Group, SLIM International Limited and its subsidiaries (the "SLIM Group"), provides hotel management and/or technical consultation and project management services for hotels under development or renovation and hotel management and marketing services for operating hotels. The SLIM Group has hotel management and/or technical consultation and project management services contracts in respect of all the Group's hotels with the exception of the Portman Ritz-Carlton Hotel, Shanghai. As at 31 December 2003, it also had hotel management contracts in respect of 6 operating hotels and technical services and hotel management contracts in respect of 12 hotel projects owned by third parties in Australia, Mainland China, Malaysia, the Philippines, Taiwan, United Arab Emirates, Sultanate of Oman, Maldives, Qatar and India.

Due to the poor performance of the operating hotels for reasons set out earlier and also due to the opening of new overseas sales and/or reservation offices in Guangzhou, Melbourne, Dubai and Kuala Lumpur, the hotel management group's profit before tax and before elimination for consolidation for 2003 was US$0.7 million compared to US$6.9 million in 2002.

Shangri-La's Tanjung Aru Resort, Kota Kinabalu – Swimming pool

Property Rentals

The Group's principal investment properties are located in Shanghai and Beijing and owned by associated companies. Yields of the commercial space in these two cities registered increases ranging from 4% at the Shanghai Centre to 16% at the Phase II of the China World Trade Center ("CWTC"). Yields of the office space in Beijing registered a 2% to 4% increase but the emergence of competitive supply led to a decline in the yields of the serviced apartments ranging between 3% to 28%. Yields of the serviced apartments in the Shanghai Centre recorded a marginal growth of 1% but those at the Shanghai Kerry Centre recorded a decline of 6%. Yields of the office space in the Shanghai Kerry Centre increased by 21% but the increase in total office leasable area at the Shanghai Centre led to a decrease in occupancy and yields by 6% and 7%, respectively.

Shangri-La Hotel, Wuhan – Shang Palace Restaurant

The serviced apartments in the Century Tower, Dalian recorded a 12% increase in yields with the occupancy rate increasing to 59% from 49% in 2002.

Weighted average yields of the serviced apartments in Singapore increased by 5%. Yields of the commercial space in Tanglin Mall and the office space in Tanglin Place registered a decline by 5% and 17%, respectively.

In Kuala Lumpur, the yields of the serviced apartments remained constant. The yields of the commercial space increased by 2% while the yields of the office space recorded a decline of 5%. In Johor Bahru, the property recorded yield improvements for its commercial and office space of 9% and 8%, respectively.

Yields of the office space in Bangkok registered an increase of 8%.

(b) Consolidated Profits

Consolidated profits attributable to shareholders for 2003 increased to US$72.7 million from US$63.4 million after incorporating the financial effects of the following:

(a) The high component of fixed operating costs in the hotel business. In the context of a decrease in revenues, the impact of these costs on profits is exacerbated.

(b) Increased depreciation charge relative to 2002 arising from:

(i) Completion of major renovations at the Group's hotels.

(ii) Reversal of depreciation over provided in earlier years in 2002, in respect of Shangri-La Hotel, Singapore; and

(iii) Realignment of depreciation policy in respect of the Fiji hotels.

(c) Increase in interest costs of corporate borrowings by US$5.3 million.

(d) Net credit of all non-operating items of US$22.2 million compared to a net charge of US$31.0 million in 2002.

Management Discussion & Analysis

The detailed breakdown of the profits is as follows:

Consolidated Profit Attributable to Shareholders
For the year ended 31 December

	2003 US$ million	2002 US$ million	% Change
Company & Subsidiaries			
Hotel Operation			
Hong Kong	**12.5**	28.1	(56%)
Mainland China	**28.8**	29.7	(3%)
Singapore	**9.8**	24.0	(59%)
The Philippines	**9.8**	11.0	(11%)
Malaysia	**2.6**	2.0	27%
Thailand	**4.9**	6.3	(22%)
Fiji	**0.7**	4.5	(84%)
Myanmar	**(1.2)**	(2.4)	51%
	67.9	103.2	(34%)
Property Rentals			
Mainland China	**1.6**	0.1	2,515%
Singapore	**1.3**	1.7	(21%)
Malaysia	**0.4**	0.6	(36%)
Thailand	**0.1**	0.1	(22%)
	3.4	2.5	36%
Hotel Management	**(0.2)**	6.0	NM
Associated Companies			
Hotel Operation			
Mainland China	**4.7**	5.2	(11%)
Singapore	**–**	0.6	NM
Malaysia	**0.3**	0.3	40%
Indonesia	**(0.3)**	(0.2)	(79%)
	4.7	5.9	(21%)
Property Rentals			
Mainland China	**18.5**	16.8	11%
Singapore	**0.5**	1.0	(53%)
Malaysia	**0.4**	0.3	42%
	19.4	18.1	7%
Operating Profit After Tax	**95.2**	135.7	(30%)
Less:			
– Corporate expenses net	**(4.5)**	(6.4)	29%
– Net interest expenses on corporate borrowings	**(40.2)**	(34.9)	(15%)
Profit before Non-Operating Items	**50.5**	94.4	(46%)
Non-Operating Items:			
– Net realised and unrealised gains/(losses) on other investments and provision for long-term investments	**17.1**	(5.4)	NM
– Discarding of fixed assets due to hotels renovations	**(13.9)**	(3.8)	(269%)
– Provision for impairment losses on other land and project under development	**(9.5)**	(13.3)	28%
– Surplus/(deficit) on valuation of investment properties	**22.6**	(12.9)	NM
– Amortisation of negative goodwill	**5.9**	5.2	14%
– Loss on disposal of 0.75% interest in a subsidiary	**–**	(0.8)	NM
	22.2	(31.0)	NM
Profit attributable to shareholders of the Group	**72.7**	63.4	15%

Notes:

1. Interest expenses of operating units' bank borrowings and deferred tax provision are included in operating results.

2. All balances stated are net of share of minority interests.

3. Profit of the hotel management group is stated before elimination of revenue earned from fellow subsidiaries and operating results of the subsidiaries are stated before elimination of management fees charged by the hotel management group.

NM: Not Meaningful

(c) Consolidated Net Asset Value and Gearing Ratio

The Group has changed an accounting policy following its adoption of the revised Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 12 "Income Taxes" issued by the Hong Kong Society of Accountants ("HKSA") which became effective for accounting periods commencing on or after 1 January 2003. Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. However, in prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The balance of negative goodwill was also restated as a result of the restatement of the fair value of deferred tax liabilities on the date of acquisition of subsidiaries and associated companies. This change in accounting policy has been applied retrospectively so that the Group's consolidated net asset value as at 31 December 2002 has been reduced by US$337.1 million by way of restatement of the accounts. Substantial amount of the additional

Shangri-La Hotel, Singapore – Lobby of the Valley Wing

Management Discussion & Analysis

provision relates to the full effect of temporary differences arising from depreciation of fixed assets and revaluations of the investment properties. The Group believes that most of the provisions will not crystalise in the foreseeable future and thus will not create substantial burden to the Group's operating cash flow as:

1. The temporary differences arising from depreciation of fixed assets are not expected to reverse in the foreseeable future; and

2. The temporary differences relating to the surplus arising from the revaluation will not materialise as the management intends to operate the investment properties which include hotels on a long-term basis.

As a result of the downward adjustment to the consolidated net assets value, the Group's net borrowings to shareholders' equity ratio (the "Gearing Ratio") as at 31 December 2002 has been restated to 39.7% from 35.0%. The Gearing ratio as at 31 December 2003 was 40.6%

2. CORPORATE DEBT AND FINANCIAL CONDITIONS

Taking advantage of the liquidity in the banking system and with a view to address its capital commitment requirements, the Group executed 7 unsecured bilateral Hong Kong dollars loan agreements with individual banks in the second half of 2003 in a total amount of HK$2,600 million. These loans have a maturity of 5 years and their all-inclusive cost ranged between 50 to 55 basis points over HIBOR. With these facilities in place, the Group prepaid by October 2003, the outstanding balance under a US$400 million dual currencies loan agreement which carried a higher interest rate. These new loans have served to push out loan maturities, benefited the Group in terms of interest arbitrage and have augmented funding capacity for the Group's development efforts.

As at 31 December 2003, the operating subsidiaries in Mainland China have unsecured Renminbi loan agreements with individual banks for a total amount of RMB891 million to provide funding to meet their capital commitments. The subsidiary in Zhongshan, Mainland China also executed a 7 year bank loan agreement for RMB310 million to meet outstanding construction payments and for general working capital purposes.

The Group has satisfactorily complied with all covenants under its loan agreements.

In February 2004, the Company under an arrangement involving placement of existing shares and subscription top-up for new shares issued 183,832,000 new shares at HK$7.4 per share to certain companies within the Kuok Group. The net proceeds from such issue were approximately HK$1,360 million. Immediately after such issue, the Group's net borrowings to shareholders' equity ratio reduced from 40.6% as at 31 December 2003 to 31.6%.

In March 2004, the Group issued zero coupon guaranteed convertible bonds due March 2009, in the aggregate principal amount of US$200 million with an initial conversion price of HK$9.25 per share of the Company (subject to adjustment). Unless previously redeemed, converted or purchased and cancelled, these bonds will be redeemed at 114.633 per cent of their principal amount on the maturity date. The net proceeds from such issue were approximately US$196.4 million.

The analysis of loans outstanding as at 31 December 2003 is as follows:

Maturities of Bank Loans, Overdrafts and Other Borrowings Contracted as at 31 December 2003

			Repayment		
(US$ million)	**Within 1 year**	**In the 2nd year**	**In the 3rd to 5th year**	**After 5 years**	**Total**
Unsecured					
Corporate bank loans	–	–	941.0	–	941.0
Project bank loans and overdrafts	144.4	50.8	31.7	13.7	240.6
Floating rate notes	17.6	–	–	–	17.6
	162.0	50.8	972.7	13.7	1,199.2
Secured					
Project bank loans and overdrafts	16.0	–	–	–	16.0
Total Borrowings	178.0	50.8	972.7	13.7	1,215.2
Undrawn but Committed facilities					
Bank loans and overdrafts	104.4	9.8	228.0	-	342.2

The currency-mix of the borrowings and cash and bank balances as at 31 December 2003 is as follows:

(US$ million)	**Borrowings**	**Cash and Bank Balances**
In Hong Kong dollars	952.6	6.2
In Singapore dollars	149.6	2.8
In Malaysian Ringgit	48.6	2.4
In Renminbi	55.3	32.4
In US dollars	9.1	79.0
In Thai Baht	–	12.9
In Philippine Pesos	–	5.3
In Fiji dollars	–	9.1
In other currencies	–	0.2
	1,215.2	150.3

The borrowings in Hong Kong dollars, Singapore dollars, Malaysian Ringgit and United States dollars are at variable rates of interest at spreads over HIBOR, Swap Rate/Money Market Rate, Cost of Funds and SIBOR, respectively. The loans in Renminbi are at rates specified by The People's Bank of China from time to time.

As at 31 December 2003, of the Group's cash and bank balances, US$63.8 million (2002: US$79.9 million) were kept in Mainland China, Malaysia, Thailand, the Philippines and Myanmar. The remittance of funds out of these countries is subject to rules and regulations of foreign exchange control promulgated by the governments of the respective countries.

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The Group executed guarantees in favour of banks for securing banking facilities to an associated company. The utilised amount of such facilities covered by the Group's guarantees for the associated company as at 31 December 2003 amounted to US$10.0 million (2002: US$44.8 million for four associated companies).

3. TREASURY POLICIES

The treasury policies followed by the Group aim to:

(a) Minimise Interest Risk

This is accomplished in the loan re-financing and loan negotiation process, and in ensuring that surplus funds from operations are made available to the corporate treasury to reduce the debt exposure. During the year, the Group executed an aggregate of HK$2,600 million five-year unsecured bilateral Hong Kong dollars loan agreements with individual banks. Part of the funds available under these new facilities have been used to prepay the outstanding loan under a US$400 million loan agreement which carried a higher interest rate. In February 2004, the Group raised approximately HK$1,360 million additional funds by issuing new shares. In March 2004, the Group raised approximately US$196.4 million by issuing zero coupon guaranteed convertible bonds maturing in 2009 with a yield to maturity of 2.75% per annum. Pending use of these proceeds to finance development of new hotels of the Group, primarily in Mainland China, such proceeds have been temporarily used principally to reduce the borrowings or placed in short term bank deposits to minimise interest costs. The Group has also sought to hedge its medium term interest rate risk by entering into HIBOR interest rate swap contracts. As at 31 December 2003, the Group had executed three-year contracts for an aggregate principal amount of HK$4,916 million and four-year contracts for an aggregate principal amount of HK$500 million at fixed interest rates ranging between 3.735% to 5.74% per annum. The interest cover continues through December 2006.

Shangri-La's Tanjung Aru Resort, Kota Kinabalu – Exterior

(b) Minimise Currency Risk

The Group has an economic hedge in terms of currency risk to the extent that most of the properties in Hong Kong, Mainland China, Singapore and Malaysia derive their revenue (and the expenses associated therewith) in local currencies. In addition, a substantial portion of the hotels' room revenues in the Philippines, Thailand and Indonesia are priced in United States Dollars. Revenues in Indonesia are also immediately converted into United States dollars upon realisation, to the maximum extent possible.

The Group attempts to align the currencies of its loan portfolio with the currency mix of the Group's investments and revenues in various countries. During the year, subsidiaries in Mainland China have obtained new bank loan facilities in an aggregate amount of RMB991 million to finance project development and working capital requirements. Together with facilities contracted earlier, the total bank loans contracted aggregate RMB1,201 million. A subsidiary in Malaysia has also obtained a new bank loan facility of Malaysian Ringgit 35 million to finance its renovation project.

The Group has not felt it appropriate to substantially hedge against currency risks through forward exchange contracts on a consideration of the currency risks involved and the cost of obtaining such cover.

4. FIXED ASSET VALUATIONS

(a) Fixed Assets values* – by Geographical Area

	2003		2002	
	US$ million	%	*US$ million*	%
The People's Republic of China				
Hong Kong	**715**	15%	694	15%
Mainland China	**2,123**	44%	1,961	43%
Singapore	**721**	15%	680	15%
The Philippines	**478**	10%	522	11%
Malaysia	**425**	9%	412	9%
Thailand	**168**	4%	147	3%
Fiji	**73**	1%	64	2%
Indonesia	**33**	1%	31	1%
Myanmar	**37**	1%	37	1%
Total	**4,773**	100%	4,548	100%

* Including total fixed assets value owned by subsidiaries and the effective interest share of fixed assets value owned by associated companies.

(b) Independent Valuation of Properties

With the exception of properties held on leases of which the unexpired term is 20 years or less, all investment properties including hotels are stated at professional valuations carried out by the following independent firms of professional valuers as at 31 December 2003:

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Shangri-La Hotel, Singapore – Guestroom of the Valley Wing

CB Richard Ellis Limited, DTZ Debenham Tie Leung Limited and Chesterton Petty Limited	:	For properties in Mainland China
CB Richard Ellis Limited	:	For properties in Hong Kong, the Philippines, Thailand, Fiji, Indonesia and Myanmar
CB Richard Ellis (Pte) Ltd., Colliers International Consultancy & Valuation (Singapore) Pte Ltd and DTZ Debenham Tie Leung (SEA) Pte Limited	:	For properties in Singapore
W.M. Malik & Kamaruzaman and CH Williams Talhar & Wong Sdn Bhd	:	For properties in Malaysia

The Financial Accounting Standards Committee of the HKSA has recently confirmed that hotel properties can be accounted for under SSAP 13 "Investment Property". As such, the Group's hotel properties are reclassified under investment properties and are independently revalued at 31 December 2003. Changes in the value of these properties are dealt with on a portfolio basis. The valuations of all the investment properties (including hotel properties) made in the current year end resulted in a surplus of US$25.0 million before adjustment of minority interests (US$22.6 million after minority interests) being credited to the 2003 profit and loss account. In addition, the Group has made a provision of US$9.5 million for impairment losses on other land in 2003.

5. OTHER INVESTMENTS

The Group continued to gradually dispose its investment portfolio in marketable securities. In 2003, this disposal for US$8.9 million recorded realised gains of US$0.7 million (both before and after adjustment of minority interests). Dividend income from these marketable securities of US$1.4 million (both before and after adjustment of minority interests) was recorded in 2003.

As at 31 December 2003, the market value of the Group's investment portfolio was US$48.8 million which included unrealised gains of US$17.7 million before adjustment of minority interests (US$16.4 million after minority interests). The investment portfolio included 13,195,055 ordinary shares in the Company ("such SA shares") with a market value of US$12.3 million held by a wholly owned subsidiary of Shangri-La Hotel Public Company Limited, Thailand ("SHPCL"), one of the principal subsidiaries of the Group which is listed on the Stock Exchange of Thailand. Such SA shares were held by that wholly owned subsidiary of SHPCL before the Company acquired the controlling interests in it in late 1999. The Company has undertaken, subject to market conditions, to use its reasonable endeavours to procure SHPCL to dispose all such SA shares to parties independent of the Kuok Group. The investment portfolio also included 20,602,589 ordinary shares in Kerry Properties Limited with a market value of US$26.8 million as at 31 December 2003.

Subsequent to the year end and up to the date of this report, the Group disposed part of its investment portfolio for US$8.0 million and recorded realised gains of US$1.6 million (both before and after adjustment of minority interests).

6. MANAGEMENT STRATEGIES

General

Asia and in particular Mainland China has been the primary focus of the Group's business. However, the Group believes the presence in key markets which serve its hotels in Asia will reinforce its competitive position and improve the overall global awareness of its brands. To this end, it has actively pursued and successfully concluded management contract opportunities in Australia, South Asia (Maldives and India) and the Middle East. It also continues to prospect for suitable opportunities in key gateway cities in Europe and North America. The Group views these opportunities with strategic interest in not only underpinning the brand but also improving return on investments for shareholders.

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Nevertheless, Mainland China will continue to be the primary choice for the Group's investments in hotels given the strong fundamentals of high annual GDP growth rates, growing disposable incomes, a very high year on year growth in domestic travel (by 10%) and international travel (by 8%). The Group is supplementing its investment plans by also seeking management contract opportunities which do not involve any equity commitment. The Group expects that this approach will help it to rapidly extend its network of hotels and maintain its brand dominance in a very important market. Further, as increasing numbers of Mainland Chinese travel overseas, the Group's hotels elsewhere in the region will also stand to benefit.

Renovation Programmes

The Group has embarked on an extensive renovation programme for its major hotels to ensure that they are in excellent condition thus retaining their competitive advantage and preserving the integrity of the Group's brands.

Major renovations at the following hotels have been completed in 2003:

- Kowloon Shangri-La, Hong Kong
- China World Hotel, Beijing
- Shangri-La Golden Flower Hotel, Xian
- Shangri-La Hotel, Singapore (Valley Wing)
- Shangri-La's Mactan Island Resort, Cebu
- Shangri-La Hotel, Kuala Lumpur
- Shangri-La Hotel, Penang
- Shangri-La's Rasa Sayang Resort, Penang
- Shangri-La's Tanjung Aru Resort, Kota Kinabalu
- Shangri-La Hotel, Bangkok

The fit-out of an additional 80 guestrooms at the Shangri-La Hotel, Qingdao has also been completed in the year.

Major renovations are on-going at the following hotels and are expected to be progressively completed in 2004:

- Edsa Shangri-La, Manila
- Shangri-La's Fijian Resort, Yanuca
- Shangri-La Hotel, Jakarta

Shangri-La Hotel, Beijing and Island Shangri-La, Hong Kong will complete renovation of its guestrooms in early 2005.

The Group will constantly assess the need to renovate or upgrade the hotels' facilities and introduce new concepts. The Group has initiated the construction of state-of-the-art spa facilities in some of its hotels and resorts.

All renovations are being scheduled to minimise inconvenience to hotel guests and restrict loss of revenue. The availability of renovated and upgraded facilities has been timed to coincide with the turn-around in business conditions in the region.

The other renovations to be completed in 2004 include:

- Shangri-La Hotel, Singapore (renovation of coffee garden and ballroom)
- Shangri-La's Rasa Sentosa Resort, Singapore (installation of spa and renovation of food and beverage facilities)
- Shangri-La Hotel, Penang (renovation of coffee garden and other facilities)
- Shangri-La's Rasa Ria Resort, Sabah (guestrooms renovation)
- Shangri-La Hotel, Bangkok (installation of spa)
- Makati Shangri-La, Manila (renovation of some food and beverage facilities)

Estimated expenditure of all subsidiaries amounting to US$71.9 million for renovation and other projects currently on-going and to be commissioned in 2004 will be mainly financed from operating cash flows of the individual hotels, supplemented by locally contracted short term bank loans where appropriate.

New Projects

In Mainland China, the Shangri-La Hotel, Zhongshan opened for business on 9 January 2004. The Group currently has under advanced implementation of a new hotel viz. the Shangri-La Hotel, Fuzhou (expected to open in late 2004) and an extension to the Pudong Shangri-La, Shanghai ("SLPU") (expected to open in early 2005). As at 31 December 2003, the Group has already invested US$62.2 million in these two projects. The future incremental costs to complete these two projects are estimated at US$115.8 million and will be mainly financed by project loans and the operating surplus of SLPU (in respect of its extension).

The Group has also initiated planning and/or development work for new hotels to be built in Mainland China viz. Chengdu, Futian in Shenzhen, Ningbo, Xian and Guangzhou. Planning submissions for the hotel at Jingan Nanli, Shanghai are on-going. Land has also been acquired for a new hotel development in Guilin. The Group through its subsidiary in Thailand, SHPCL, has commenced development work for a new hotel project on it's vacant land in Chiang Mai, Thailand. These new hotels are expected to progressively open for business from mid 2006 through end of 2007. As at 31 December 2003, the Group has invested US$116.7 million in these projects. The Group's commitments to complete these projects are estimated at US$684.6 million. These will be mainly financed by the funds recently raised from issue of new shares of the Company and convertible bonds, operating surpluses, the available undrawn borrowing facilities and locally contracted project loans, where appropriate.

By the end of 2007, it is envisaged that the number of operating hotels in which the Group has an equity interest will increase from 36 (including Portman Ritz-Carlton Hotel, Shanghai) as at 31 December 2003 to 46 and the corresponding room inventory will increase from 18,852 to approximately 24,498 rooms.

China World Trade Center Ltd, an associated company of the Group, has initiated development work of Phase III of the CWTC complex in Beijing. The cost of the proposed development which is estimated at US$800 million will be financed by a subsidiary of this associated company, through internally and externally sourced funds. It is expected that there will be no demand on the Group's cash resources arising from this project.

Management Discussion & Analysis

Management Contracts

In 2003, the Group signed 6 new hotel management contracts for hotels owned by third parties which included the successful rebranding of the Shangri-La Hotel, Sydney on 1 July 2003. The other contracts concern the following developments:

- Shangri-La Hotel, the Marina in Cairns (to be rebranded around August 2004)
- Shangri-La Hotel, New Delhi (to be opened by end of 2004)
- Shangri-La Hotel & Spa, Haikou (to be opened in mid 2005)
- Traders Hotel, Kuala Lumpur (to be opened in mid 2005)
- Shangri-La Hotel, Doha (to be opened in mid 2006)

The Group terminated the following management contracts for hotels under development in Mainland China:

- In August 2003 for a Traders hotel in Shijiazhuang
- In late March 2004 for a Shangri-La hotel in Zhengzhou

The termination was caused by a change in the ownership structure of the developer in one case and inordinate delays in project implementation in another.

The Putrajaya Shangri-La, Malaysia in Kuala Lumpur and the Shangri-La Hotel, Dubai commenced operations on 4 February 2003 and 8 July 2003, respectively.

As at 31 December 2003, the Group has hotel management and technical services contracts with 6 operating hotels and 12 hotel projects owned by third parties. The technical services contracts cover the pre-opening phase of the hotels and are structured to provide the owner with recommendations on the design of the hotels and its facilities so as to conform to the Group's design guidelines and quality standards.

In February 2004, the Group signed a management contract to operate the Traders Hotel, Suzhou in Mainland China which is expected to open in mid 2005.

Upon completion of all the above hotel projects, the number of operating hotels under management and owned by third parties will increase from 6 as at 31 December 2003 to 18 by mid 2006 and the corresponding room inventory will increase from 1,940 to approximately 6,565 rooms.

Technology

The Group is in the process of a major upgrade of its information technology infrastructure. A state-of-the-art Central Reservations System will be on-line by the end of March 2004. Interface with Global Distribution Systems and the shangri-la.com website for reservations will also be implemented in the year 2004. With these, the Group will have the most technologically advanced and integrated reservations system ensuring consistency and rate integrity across all booking channels. The Group will also begin upgrade of the Property Management System at its hotels to the latest technology that will integrate seamlessly with the Central Reservations System. A group-wide Sales & Catering, and Sales Force Automation System will also be rolled out beginning in 2004. It will enable the hotels and Regional Sales Offices to share sales leads, consolidate and track revenues from the customers, and streamline the sales processes. Other major technology initiatives currently under process include wired and wireless broadband internet access in public areas and rooms, a new Materials Management System, an integrated Human Resources System, and upgrade of the Point-of-Sale system. There is a comprehensive three-year plan to upgrade the technology infrastructure in the Group to enable it to maximise its revenue potential, improve staff productivity and enhance customer relations.

Personnel

As at 31 December 2003, the Company and its subsidiaries had approximately 16,300 employees. Salaries are maintained at competitive levels under which bonuses are based on an evaluation of efforts and the financial performance of the business units with reference to goals set. Other benefits include provident fund, insurance and medical cover, housing and share option schemes. The Group has extensive training programmes to ensure its employees have the skills and knowledge to be the best in their fields. Its in-house training programmes emphasise service attitudes, organisational values and job enrichment and instill in its employees the philosophy of "Shangri-La Hospitality from Caring People". In-house training is supplemented by retaining outside professional training agencies. The Remuneration Committee of the Board of Directors reviewed matters relating to the compensation and the incentives proposed for senior management and executive Directors of the Company.

Share Option Scheme

At the Special General Meeting of the Company held on 24 May 2002, the shareholders of the Company approved the adoption of a new share option scheme (the "New Option Scheme") and the termination of the operation of the executive share option scheme adopted by the shareholders of the Company on 16 December 1997 (the "Executive Option Scheme") (such that no further options shall thereafter be offered under the Executive Option Scheme but in all other respects the provisions of the Executive Option Scheme shall remain in full force and effect).

No new option has been granted during the year and up to the date of this report. No option has been exercised so far.

As of this date, options outstanding under the two option schemes are as follows:

	Executive Option Scheme			**New Option Scheme**
Grant Date	**1 May 1998**	**15 January 2000**	**15 January 2001**	**29 May 2002**
Balance	12,278,861	7,859,463	4,589,521	16,320,000
Exercise price per option share	HK$8.26	HK$8.82	HK$8.18	HK$6.81

Shangri-La Hotel, Bangkok – Krungthep Deluxe Suite