



Notes to the Accounts

For the year ended 31 December 2003

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain property, plant and equipment, investment properties and investments in securities are stated at fair value.

In the current year, the Group adopted Statement of Standard Accounting Practice ("SSAP") No. 12 "Income taxes" issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2003.

The changes to this accounting policy are set out below in the accounting policy on "Deferred taxation" in note 1(d) to the accounts.

Certain comparative figures have also been restated to conform with the current year's presentation.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital, or by way of having the power to govern the financial and operating policies so that the Group obtains benefits from these activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill and the related accumulated foreign currency exchange fluctuation reserve.



1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Group accounting (Continued)

(i) Consolidation (Continued)

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

(c) Revenue recognition

- (i) Hotel revenue from rooms rental, food and beverage sales and other ancillary services is recognised when the services are rendered.
- (ii) Revenue in respect of hotel management and related services is recognised when the services are rendered.
- (iii) Rental revenue from properties is recognised on a straight-line basis over the periods of the respective leases.
- (iv) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
- (v) Dividend income from other investments is recognised when the right to receive payment is established.



Notes to the Accounts

For the year ended 31 December 2003

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Deferred taxation

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. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, 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 adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

The effects of adopting this revised policy are set out in note 25 to the accounts.

(e) Fixed assets

(i) *Investment properties*

Investment properties, which include both hotel properties and other investment properties, are interests in land and buildings in respect of which construction work and development have been completed, and which are held for their long-term investment potential, any rental income being negotiated at arm's length. Investment properties are stated at annual professional valuations at the balance sheet date. Changes in the value of investment properties are dealt with as movements in the investment properties revaluation reserve. If the total of this reserve is insufficient to cover a deficit on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Investment properties are not depreciated except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the straight-line basis over the unexpired period of the leases.

The gain or loss on disposal of an investment property, representing the difference between the net sales proceeds and the carrying amount of the relevant asset together with any revaluation reserve balance remaining attributable to the relevant asset, is recognised in the profit and loss account.



1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Fixed assets (Continued)

(i) Investment properties (Continued)

In prior years, the changes in the valuation of the hotel properties were dealt with in the revaluation reserves on an individual basis. The Financial Accounting Standards Committee of the HKSA has recently confirmed that hotel properties can be accounted for either under SSAP 13 "Investment property" or SSAP 17 "Property, plant and equipment". Accordingly, all hotel properties are reclassified under investment properties in 2003 such that all changes in valuation of the properties should be dealt with in the investment properties revaluation reserves on a portfolio basis. This reclassification does not have material impact on the financial position of the Group. Comparative figures of hotel properties revaluation reserve and investment properties revaluation reserves have also been reclassified accordingly during the year.

(ii) Properties under development

Properties under development are investments in land and buildings under construction. These properties are stated at cost, which comprises land costs, fees for land use rights and development costs including attributable interest and professional charges capitalised during the development period less any accumulated impairment losses. No depreciation is provided on properties under development.

(iii) Other tangible fixed assets

Other tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation of other tangible fixed assets is calculated to write off their cost, less accumulated impairment losses and residual value, on the straight-line basis over their expected useful lives to the Group. The principal annual rates used for this purpose are:

Other land and buildings	2.5%
Furniture, fixtures and equipment	10% to 33 ¹ / ₃ %
Motor vehicles	25%
Plant and machinery	5% to 10%

(iv) Gain or loss on disposal of fixed assets

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(v) Cost of restoring and improving other tangible fixed assets

Major costs incurred in restoring other tangible fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.



Notes to the Accounts

For the year ended 31 December 2003

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Fixed assets (Continued)

(vi) Impairment

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in properties under development, other properties and other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

(f) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payment made under operating leases net of any incentives received from the leasing company are charged to profit and loss account on a straight-line basis over the lease periods.

(g) Intangibles

(i) Goodwill/Negative goodwill

Goodwill/Negative goodwill represents the excess/deficit of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or associated company at the date of acquisition.

Goodwill on acquisitions is included in intangible assets and is amortised using the straight-line method over its estimated useful life of 15 years from date of acquisition, while the negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life, which is 15 years, of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

(ii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

**1 PRINCIPAL ACCOUNTING POLICIES (Continued)****(h) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost, being cost of purchase, is determined on a weighted average basis.

Net realisable value is the price at which inventories can be sold or realised in the normal course of business after allowing for the costs of realisation.

(i) Investments in securities*(i) Long-term investments*

Long-term investments are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities is reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account.

This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) Other investments

Trading securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(j) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.



Notes to the Accounts

For the year ended 31 December 2003

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Pre-operating expenditure

Pre-operating expenditure is charged to profit and loss account in the year in which it is incurred.

(m) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

(n) Borrowing costs

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

(o) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) *Pension obligations*

The Group operates a number of defined benefit and defined contribution plans, most of the assets of which are generally held in separate trustee administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies, taking account of the recommendations of independent qualified actuaries for defined benefit plans.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.



1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) Employee benefits

(ii) Pension obligations

For defined benefit plans, pension costs are assessed using the project unit credit method: the cost of providing pensions is charged to the profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans at least every 3 years. The pension obligation is measured as the present value of the estimated future cash outflows. Actuarial gains and losses arising from funded plans are recognised over the average remaining service lives of employees. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

The Group's contributions to defined benefits pension plans are charged to the profit and loss account in the period to which the contributions relate.

(p) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that geographical segment be presented as the primary reporting format and business segment as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash, and mainly exclude negative goodwill, investments in securities and properties under development. Segment liabilities comprise operating liabilities and exclude items such as taxation and all borrowings. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, sales are based on the country in which the asset is located. Total assets and capital expenditure are where the assets are located.

(q) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of an amount can be made.



Notes to the Accounts

For the year ended 31 December 2003

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

2 TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group owns and operates hotels and associated properties and provides hotel management and related services. Revenues recognised during the year are as follows:

	Group	
	2003	2002
	US\$'000	US\$'000
Turnover		
Hotel operation:		
Room rentals	253,614	289,119
Food and beverage sales	221,387	239,046
Rendering of ancillary services	40,987	48,245
Hotel management and related service fees	8,310	9,180
Property rentals	16,119	14,931
	540,417	600,521
Other revenues		
Interest income	2,634	3,549
Dividend income	1,427	1,757
Other income	1,283	499
Net realised and unrealised gains on other investments	18,348	1,063
	23,692	6,868
Total revenues	564,109	607,389



2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Primary reporting format – geographical segments

The Group is managed on a worldwide basis in six main geographical areas:

Hong Kong	- hotel ownership, operation and management
Mainland China	- hotel ownership, operation and management - ownership and leasing of office, commercial and serviced apartments
The Philippines	- hotel ownership, operation and management
Singapore	- hotel ownership, operation and management - ownership and leasing of office, commercial and serviced apartments
Thailand	- hotel ownership, operation and management - ownership and leasing of office and commercial
Malaysia	- hotel ownership, operation and management, golf club ownership and operation - ownership and leasing of office, commercial and serviced apartments
Other countries	- hotel ownership, operation and management

Secondary reporting format – business segments

The Group is organised on a worldwide basis 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 serviced apartments



Notes to the Accounts

For the year ended 31 December 2003

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Primary reporting format – geographical segments

	2003								
	The People's Republic of China		The						
	Hong Kong	Mainland China	Philippines	Singapore	Thailand	Malaysia	Other	Elimination	Group
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Turnover									
External sales	105,744	158,102	71,060	76,901	33,352	66,939	28,319	-	540,417
Inter-segment sales	2,870	8,030	3,597	1,729	1,709	1,784	706	(20,425)	-
Total	108,614	166,132	74,657	78,630	35,061	68,723	29,025	(20,425)	540,417
Result									
Segment results	(9,742)	53,587	14,676	11,169	11,079	11,289	4,636	-	96,694
Interest income									2,634
Dividend income									1,427
Net realised gains on other investments									676
Net unrealised gains on other investments									17,672
Provision for impairment losses on other land and buildings	-	(9,500)	-	-	-	-	-	-	(9,500)
Unallocated corporate expenses									(4,551)
Amortisation of negative goodwill									5,893
Surplus on valuation of investment properties	-	12,670	-	12,374	-	-	-	-	25,044
Operating profit before finance costs									135,989
Finance costs									(47,244)
Operating profit									88,745
Share of results of associated companies	-	36,511	-	1,074	-	1,135	948	-	39,668
Taxation									(46,403)
Minority interests									(9,343)
Profit attributable to shareholders									72,667



2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Primary reporting format – geographical segments (Continued)

	2003								
	The People's Republic of China		The						Group
	Hong Kong	Mainland China	Philippines	Singapore	Thailand	Malaysia	Other	Elimination	US\$'000
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Segment assets	749,146	1,081,050	501,481	649,204	186,301	394,142	137,583	(4,247)	3,694,660
Investments in associated companies	-	603,492	-	61,485	-	34,816	21,796	-	721,589
Unallocated assets									442,528
Negative goodwill									(116,265)
Total assets									<u>4,742,512</u>
Segment liabilities	(38,664)	(30,615)	(18,431)	(21,981)	(9,121)	(18,083)	(13,103)	4,247	(145,751)
Unallocated liabilities									<u>(1,667,245)</u>
Total liabilities									<u>(1,812,996)</u>
Capital expenditure	30,742	83,247	15,353	34,526	7,820	13,421	2,526	-	187,635
Discarding of fixed assets due to properties renovations	(1,846)	-	(1,941)	(8,822)	(276)	(610)	(1,247)	-	(14,742)
Depreciation	(6,544)	(10,950)	(3,510)	(4,847)	(3,346)	(5,182)	(2,383)	-	(36,762)
Amortisation of negative goodwill									5,893
Provision for impairment losses	-	(9,500)	-	-	-	-	-	-	(9,500)



Notes to the Accounts

For the year ended 31 December 2003

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Primary reporting format – geographical segments (Continued)

2002 (As restated)

	The People's Republic of China		The	Singapore	Thailand	Malaysia	Other	Elimination	Group
	Hong Kong	Mainland China	Philippines						
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Turnover									
External sales	137,740	179,197	72,631	87,101	34,132	62,310	27,410	-	600,521
Inter-segment sales	4,059	7,835	4,119	2,226	1,945	1,886	728	(22,798)	-
Total	141,799	187,032	76,750	89,327	36,077	64,196	28,138	(22,798)	600,521
Result									
Segment results	15,999	58,654	18,450	34,107	13,211	6,271	4,955	-	151,647
Interest income									3,549
Dividend income									1,757
Net realised gains on other investments									1,063
Net unrealised losses on other investments									(6,848)
Provision for impairment losses on properties under development	-	(13,276)	-	-	-	-	-	-	(13,276)
Provision for impairment losses on long-term investments									(35)
Unallocated corporate expenses									(5,873)
Amortisation of negative goodwill									5,160
Deficit on valuation of investment properties	-	(3,417)	-	(10,183)	-	-	-	-	(13,600)
Loss on disposal of partial interest in a subsidiary									(788)
Operating profit before finance costs									122,756
Finance costs									(41,026)
Operating profit									81,730
Share of results of associated companies	-	36,365	-	2,331	-	805	1,128	-	40,629
Taxation									(49,690)
Minority interests									(9,275)
Profit attributable to shareholders									63,394



2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Primary reporting format – geographical segments (Continued)

2002 (As restated)

	The People's Republic of China		The						
	Hong Kong	Mainland	Philippines	Singapore	Thailand	Malaysia	Other	Elimination	Group
	US\$'000	China	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
		US\$'000							
Segment assets	729,306	1,042,999	544,078	607,811	163,921	384,138	128,589	(4,561)	3,596,281
Investments in associated companies	-	609,309	-	60,682	-	32,764	20,845	-	723,600
Unallocated assets									361,731
Negative goodwill									(122,085)
Total assets									4,559,527
Segment liabilities	(39,398)	(30,730)	(14,304)	(15,873)	(7,440)	(16,498)	(11,582)	4,561	(131,264)
Unallocated liabilities									(1,579,085)
Total liabilities									(1,710,349)
Capital expenditure	13,141	37,719	9,929	421	9,801	19,627	2,119	-	92,757
Discarding of fixed assets due to properties renovations	(1,066)	-	(908)	-	(1,447)	(524)	(844)	-	(4,789)
Depreciation	(6,026)	(15,749)	(3,528)	2,364	(2,677)	(4,609)	(4,223)	-	(34,448)
Amortisation of negative goodwill									5,160
Provision for impairment losses	-	(13,276)	-	-	(35)	-	-	-	(13,311)



Notes to the Accounts

For the year ended 31 December 2003

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Secondary reporting format – business segments

	Turnover 2003 US\$'000	Segment results 2003 US\$'000	Total assets 2003 US\$'000	Capital expenditure 2003 US\$'000
Hotel operation	515,988	91,042	3,372,771	124,454
Hotel management	28,735	1,243	14,363	872
Property rentals	16,119	4,409	311,773	1,267
Elimination	(20,425)	–	(4,247)	–
	540,417	96,694	3,694,660	126,593
Investments in associated companies			721,589	–
Unallocated assets			442,528	61,042
Negative goodwill			(116,265)	–
Total			4,742,512	187,635

Secondary reporting format – business segments

	Turnover 2002 US\$'000	Segment results 2002 US\$'000	As restated Total assets 2002 US\$'000	Capital expenditure 2002 US\$'000
Hotel operation	576,410	138,347	3,271,966	67,979
Hotel management	31,978	8,331	18,412	302
Property rentals	14,931	4,969	310,464	791
Elimination	(22,798)	–	(4,561)	–
	600,521	151,647	3,596,281	69,072
Investments in associated companies			723,600	–
Unallocated assets			361,731	23,685
Negative goodwill			(122,085)	–
Total			4,559,527	92,757



3 OPERATING PROFIT BEFORE FINANCE COSTS

	Group	
	2003	As restated 2002
	<i>US\$'000</i>	<i>US\$'000</i>

Operating profit before finance costs is stated after crediting and charging:

Crediting

Dividend income from other investments	1,427	1,757
Amortisation of negative goodwill	5,893	5,160
Net realised gains on other investments	676	1,063
Net unrealised gains on other investments	17,672	–
Surplus on valuation of investment properties	25,044	–

Charging

Depreciation of fixed assets (net of amount capitalised of US\$60,000 (2002: US\$45,000))	36,702	34,403
Cost of inventories sold or consumed in operation	71,131	73,655
Auditors' remuneration	618	623
Operating lease rental in respect of land and buildings	8,818	8,982
Staff costs excluding directors' emoluments (<i>note 4</i>)	162,948	168,620
Deficit on valuation of investment properties	–	13,600
Net unrealised losses on other investments	–	6,848
Provision for impairment losses on long-term investments	–	35
Provision for impairment losses on properties under development and other land and buildings	9,500	13,276
Discarding of fixed assets due to properties renovations	14,742	4,789
Loss on disposals of fixed assets	28	460
Loss on disposal of partial interest in a subsidiary	–	788

4 STAFF COSTS

	Group	
	2003	2002
	<i>US\$'000</i>	<i>US\$'000</i>
Wages and salaries (including unutilised annual leave)	125,518	130,417
Pension costs	10,013	10,141
Other welfare	27,417	28,062
	162,948	168,620



Notes to the Accounts

For the year ended 31 December 2003

5 FINANCE COSTS

	Group	
	2003 US\$'000	2002 US\$'000
Exchange differences	875	(1,088)
Interest on bank loans and overdrafts	47,127	42,902
Interest on other borrowings wholly repayable within five years	1,128	269
	48,255	43,171
Less: amounts capitalised	(2,254)	(1,667)
	46,001	41,504
Interest on loans from minority interests with no fixed repayment term	368	610
	47,244	41,026

6 TAXATION

	Group	
	2003 US\$'000	As restated 2002 US\$'000
Hong Kong profits tax		
– Provision for the year	1,100	4,817
– Deferred taxation (<i>note 28</i>)		
– relating to the origination and reversal of temporary differences	1,220	1,077
– resulting from an increase in tax rate	722	–
	1,942	1,077
Taxation outside Hong Kong		
– Provision for the year	9,616	14,512
– Deferred taxation (<i>note 28</i>)		
– relating to the origination and reversal of temporary differences	17,253	12,032
– resulting from a decrease in tax rate	–	(718)
	17,253	11,314
Share of taxation attributable to associated companies	16,492	17,970
	46,403	49,690



6 TAXATION (Continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	Group	
	2003 <i>US\$'000</i>	2002 <i>US\$'000</i>
Profit before taxation	128,413	122,359
Calculated at a taxation rate of 17.5% (2002: 16%)	22,472	19,577
Effect of different taxation rates of subsidiaries operating in other countries	15,942	21,616
Income not subject to taxation	(12,361)	(8,591)
Expenses not deductible for taxation purposes	16,490	19,597
Tax effect on unrecognised tax losses	1,283	1,028
Utilisation of previously unrecognised tax losses	(1,436)	(1,196)
Effect on opening net deferred taxation resulting from an increase/(decrease) in tax rate	722	(522)
Over provision in prior years	(478)	(317)
Withholding tax on dividends from subsidiaries	3,822	(1,536)
Others	(53)	34
Taxation charge	46,403	49,690

- (a) Hong Kong profits tax is provided at a rate of 17.5% (2002: 16%) on the estimated assessable profits of group companies operating in Hong Kong. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004.
- (b) Taxation outside Hong Kong includes withholding tax payable on dividends from subsidiaries and tax provided at the prevailing rates on the estimated assessable profits of group companies operating outside Hong Kong.
- (c) Taxation attributable to associated companies represents share of overseas tax provided at the prevailing rates on the estimated assessable profits.

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of US\$14,878,000 (2002: US\$39,367,000).



Notes to the Accounts

For the year ended 31 December 2003

8 DIVIDENDS

	Group	
	2003 US\$'000	As restated 2002 US\$'000
Interim – HK6 cents (2002: HK7 cents) per ordinary share (<i>note (a)</i>)	16,767	19,530
Proposed final – HK8 cents (2002: Nil) per ordinary share (<i>note (b)</i>)	24,258	–
	41,025	19,530

Notes:

- (a) Amounts shown in respect of the interim dividend for the year ended 31 December 2003 reflected the cash dividend of HK6 cents (2002: HK7 cents) per ordinary share. A scrip dividend alternative to the 2003 interim dividend was also offered, with the result that only US\$15,291,000 (2002: US\$16,835,000) of the 2003 interim dividend was paid in cash.
- (b) At a meeting held on 29 March 2004, the directors recommended a final dividend of HK8 cents per ordinary share. A scrip dividend alternative was also offered. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2004.

The Board of Directors of the Company at the board meeting held on 21 May 2003 resolved to change its recommendation made on 21 March 2003 to distribute a final dividend of HK5 cents per share for the year ended 31 December 2002 with scrip alternative such that no final dividend was recommended to be declared for the year 2002. As a result, the amount US\$13,972,000 previously disclosed as proposed dividend in the audited consolidated balance sheet as at 31 December 2002 included in the Company's 2002 annual report is reclassified as part of the retained profits in the restated consolidated balance sheet as at 31 December 2002.

9 EARNINGS PER SHARE

- (a) Basic earnings per share of US3.33 cents (2002: US2.91 cents, as restated) is calculated based on profit attributable to shareholders of US\$72,667,000 (2002: US\$63,394,000, as restated) and the weighted average number of 2,179,857,870 shares (2002: 2,176,761,192 shares) in issue during the year.
- (b) Diluted earnings per share is same as the basic earnings per share as there is no dilution effect arising from the share options (note 22) granted by the Company.



10 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS

(a) Directors

The aggregate amounts of the Directors' emoluments pursuant to the disclosure requirements under Sections 161 and 161A of the Hong Kong Companies Ordinance are as follows:

	Group	
	2003 <i>US\$'000</i>	2002 <i>US\$'000</i>
As directors	140	147
For management		
– basic salaries, housing allowances, other allowances and other benefits in kind	1,679	2,248
Discretionary bonus	636	553
Directors' pensions	66	68
	2,521	3,016

Apart from the aforesaid, during the years ended 31 December 2003 and 2002, no other emoluments have been paid.

The number of Directors whose emoluments fell within the following bands is:

	Number of directors			
	Executive		Non-executive	
	2003	2002	2003	2002
HK\$ nil – HK\$1,000,000	2	3	7	7
HK\$1,500,000 – HK\$2,000,000	1	–	–	–
HK\$2,000,001 – HK\$2,500,000	–	2	–	–
HK\$2,500,001 – HK\$3,000,000	2	–	–	–
HK\$3,000,001 – HK\$3,500,000	1	1	–	–
HK\$4,500,001 – HK\$5,000,000	–	1	–	–
HK\$6,500,001 – HK\$7,000,000	1	1	–	–

Total emoluments payable to the independent non-executive Directors amounted to US\$55,555 (2002: US\$57,692).

No Directors have waived emoluments for the years ended 31 December 2003 and 2002.

During the year, no options were granted to the Directors and no options were exercised by the Directors. Details of the options are stated on the section headed "Share Options" in the Report of the Directors.



Notes to the Accounts

For the year ended 31 December 2003

10 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS (Continued)

(b) Highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2002: three) Directors whose emoluments have been reflected in the analysis presented above. The total emoluments payable to the five highest paid individuals during the year are as follows:

	Group	
	2003 <i>US\$'000</i>	2002 <i>US\$'000</i>
For management		
– basic salaries, housing allowances, other allowances and other benefits in kind	1,855	2,217
Discretionary bonus	552	449
Pensions	89	97
	2,496	2,763

The emoluments of the individuals who are not Directors fell within the following bands:

	Number of individuals	
	2003	2002
HK\$3,000,001 – HK\$3,500,000	1	1
HK\$3,500,001 – HK\$4,000,000	1	–
HK\$4,000,001 – HK\$4,500,000	–	1



11 PENSION SCHEME ARRANGEMENTS

The Group operates and participates in a number of pension and retirement schemes of both the defined contribution and defined benefit types. Principal schemes are as follows:

- (a) The defined contribution schemes (including the Mandatory Provident Fund (“MPF”) in Hong Kong) participated by the Group, other than those in the PRC, Singapore and Malaysia, require employers to contribute 5% to 10% of the employees’ basic salaries and some of these schemes permit employees’ contributions on a discretionary basis. The MPF requires both the employers and employees in Hong Kong to contribute 5% of their monthly gross earnings with a ceiling of HK\$1,000 (equivalent US\$128) per month. Under these schemes with the exception of MPF, the unvested benefits of employees terminating employment can be utilised by employers to reduce their future levels of contributions. The assets of these schemes are held separately from those of the Group in independently administered funds. The amounts of unvested benefits so utilised by employers during the year and available for the future reduction of employers’ contributions as at 31 December 2003 were not material.

The Group’s subsidiaries in the PRC, Singapore and Malaysia participate in defined contribution schemes managed by the respective local governments in these countries. Contributions are made based on a percentage, ranging from 7% to 26%, of the employee’s salaries and bonus, if applicable, and were charged to the profit and loss account as incurred. The maximum contributions by the subsidiaries for each employee for the Group’s subsidiaries in Singapore are fixed by Singapore government at S\$960 (equivalent US\$565) up to September 2003 and at S\$715 (equivalent to US\$421) thereafter per month for monthly salaries and bonus payment. The employees of the Group’s subsidiaries in Singapore and Malaysia are also required to contribute 20% and 11% of their gross salaries and bonus, if applicable, to such fund respectively.

The three hotels in the Philippines have adopted a funded non-contributory defined benefit pension plan covering all their regular employees. The benefits are based on years of service and the employee’s final covered compensation. The plan requires periodic contributions by the participating subsidiaries as determined by periodic actuarial reviews. An actuarial valuation was performed by Orlando J. Manalang, a qualified actuary at 22 September 2003 using the Projected Unit Credit Actuarial Cost Method. The principal assumptions used in the actuarial valuation are that scheme assets will earn a yield of 7% per annum and salary will increase by 5% per annum. According to this report, both Edsa Shangri-La Hotel & Resort, Inc. and Mactan Shangri-La Hotel & Resort, Inc. can suspend contributions until another valuation is done within the next three years as the total funded assets of these two subsidiaries exceeded the actuarial accrued liability and the 2003 normal cost by Peso 10,750,000 (equivalent to US\$194,000) and Peso 5,411,700 (equivalent to US\$98,000) respectively while Makati Shangri-La Hotel & Resort, Inc. had an unfunded actuarial liability of Peso 8,369,000 (equivalent to US\$151,000) and required normal cost contribution of Peso 5,542,000 (equivalent to US\$100,000) for the period 1 July 2003 to 30 June 2004 and an annual contribution of Peso 1,908,000 (equivalent to US\$34,000) in the next 5 years.

- (b) Total pension cost including charges for directors charged to the profit and loss account for the year under all pension schemes was US\$10,080,000 (2002: US\$10,209,000).



Notes to the Accounts

For the year ended 31 December 2003

12 FIXED ASSETS

	Group								
	Investment properties			Other land and buildings	Properties under development	Furniture, fixtures and equipment	Motor vehicles	Plant and machinery	Total
	Hotel properties	Other investment properties	Other investment properties						
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Cost or valuation									
At 1 January 2003	2,915,416	295,898	60,275	232,465	405,648	12,752	75,819	3,998,273	
Exchange differences	20,609	3,912	713	213	1,306	108	5,118	31,979	
Additions	13,719	1,267	45	130,894	37,887	815	3,008	187,635	
Transfer	17,782	-	43,157	(87,164)	15,684	-	10,541	-	
Surplus/(deficit) on revaluation	5,991	(1,457)	-	-	-	-	-	4,534	
Disposals	(13,382)	-	(498)	(11)	(22,598)	(2,426)	(10,112)	(49,027)	
At 31 December 2003	2,960,135	299,620	103,692	276,397	437,927	11,249	84,374	4,173,394	
At cost	-	-	103,692	276,397	437,927	11,249	84,374	913,639	
At valuation	2,960,135	299,620	-	-	-	-	-	3,259,755	
	2,960,135	299,620	103,692	276,397	437,927	11,249	84,374	4,173,394	
Accumulated depreciation									
At 1 January 2003	-	-	6,564	-	310,595	8,633	48,139	373,931	
Exchange difference	-	-	5	-	962	95	3,528	4,590	
Charge for the year	-	-	1,078	-	27,758	1,145	6,781	36,762	
Disposals	-	-	(112)	-	(20,533)	(1,895)	(9,731)	(32,271)	
At 31 December 2003	-	-	7,535	-	318,782	7,978	48,717	383,012	
Accumulated impairment losses									
At 1 January 2003	-	-	-	19,276	-	-	-	19,276	
Provision for the year	-	-	9,500	-	-	-	-	9,500	
Transfer	-	-	6,000	(6,000)	-	-	-	-	
At 31 December 2003	-	-	15,500	13,276	-	-	-	28,776	
Net book value									
At 31 December 2003	2,960,135	299,620	80,657	263,121	119,145	3,271	35,657	3,761,606	
At 31 December 2002	2,915,416	295,898	53,711	213,189	95,053	4,119	27,680	3,605,066	

- (a) Investment properties of the Group are stated at professional valuations, valued on the basis of their market value as a fully operational entity for existing use.



12 FIXED ASSETS (Continued)

- (b) The net book values of investment properties, other land and buildings and properties under development of the Group comprised:

	Group							Total US\$'000
	Investment properties			Other land and buildings	Properties under development			
	Hotel properties		Other investment properties		Outside			
	Hong Kong US\$'000	Outside Hong Kong US\$'000	Outside Hong Kong US\$'000	Hong Kong US\$'000	Outside Hong Kong US\$'000	Hong Kong US\$'000	Outside Hong Kong US\$'000	
Freehold								
At cost	-	-	-	-	20,614	32,589	53,203	
At valuation	-	694,167	251,564	-	-	-	945,731	
Long lease (not less than 50 years)								
At cost	-	-	-	-	13,647	94,300	107,947	
At valuation	-	350,255	-	-	-	-	350,255	
Medium lease (less than 50 years but more than 10 years)								
At cost less provision for impairment losses	-	-	-	4,897	39,472	136,232	180,601	
At valuation	663,268	1,252,445	48,056	-	-	-	1,963,769	
Short lease (less than 10 years)								
At cost	-	-	-	-	2,027	-	2,027	
At valuation	-	-	-	-	-	-	-	
Total	663,268	2,296,867	299,620	4,897	75,760	263,121	3,603,533	

The carrying amount of investment properties that would have been included in the accounts had these assets been carried at cost is US\$2,635,144,000 (2002: US\$2,591,237,000). No depreciation is provided for the above investment properties which are all held on leases of more than 20 years under the Company's accounting policies.

- (c) Details of investment properties of the Company's subsidiaries are summarised in note 34.



Notes to the Accounts

For the year ended 31 December 2003

12 FIXED ASSETS (Continued)

(d) Details of movements in fixed assets of the Company are as follows:

	Furniture, fixtures and equipment <i>US\$'000</i>	Motor vehicles <i>US\$'000</i>	Total <i>US\$'000</i>
Cost			
At 1 January 2003	761	251	1,012
Additions	46	75	121
Disposals	(13)	(105)	(118)
At 31 December 2003	794	221	1,015
Accumulated depreciation			
At 1 January 2003	745	251	996
Charge for the year	16	11	27
Disposals	(13)	(105)	(118)
At 31 December 2003	748	157	905
Net book value			
At 31 December 2003	46	64	110
At 31 December 2002	16	–	16



13 NEGATIVE GOODWILL

	Group		
	Goodwill US\$'000	(Negative Goodwill) US\$'000	Total US\$'000
Cost			
At 1 January 2003			
– as previously reported	161,624	(431,262)	(269,638)
– effect of change in an accounting policy	–	169,950	169,950
– as restated	161,624	(261,312)	(99,688)
Exchange difference	–	(82)	(82)
At 31 December 2003	161,624	(261,394)	(99,770)
Accumulated amortisation			
At 1 January 2003			
– as previously reported	(64,650)	121,870	57,220
– effect of change in an accounting policy	–	(79,617)	(79,617)
– as restated	(64,650)	42,253	(22,397)
Amortised during the year	(10,775)	16,668	5,893
Exchange difference	–	9	9
At 31 December 2003	(75,425)	58,930	(16,495)
Net book value at 31 December 2003	86,199	(202,464)	(116,265)
Net book value at 31 December 2002	96,974	(219,059)	(122,085)



Notes to the Accounts

For the year ended 31 December 2003

14 SUBSIDIARIES

	Company	
	2003 <i>US\$'000</i>	2002 <i>US\$'000</i>
Unlisted shares, at cost	1,698,356	1,698,366
Amounts due from subsidiaries	662,730	675,395
Amounts due to subsidiaries	(153,222)	(155,474)
	2,207,864	2,218,287

- (a) Details of principal subsidiaries are set out in note 33(a).
- (b) Amounts due from subsidiaries are unsecured, interest-free and with no fixed repayment terms except for an amount of US\$15,600,000 (2002: US\$15,600,000) due from a subsidiary which was interest bearing at HIBOR plus 1% per annum and an amount of US\$640,000 (2002: nil) due from a wholly owned subsidiary which was interest bearing at a fixed rate of 4.4% per annum.
- (c) Amounts due to subsidiaries as at 31 December 2003 and 2002 are unsecured, interest-free and with no fixed repayment terms.

15 ASSOCIATED COMPANIES

	Group	
	2003 <i>US\$'000</i>	2002 <i>US\$'000</i>
Share of net assets		
– balance for the year/as previously reported	604,265	731,023
– effect of change in an accounting policy	–	(128,299)
– balance for the year/as restated	604,265	602,724
Amounts due from associated companies	117,324	120,876
	721,589	723,600

Amounts due from associated companies are unsecured, interest-free and with no fixed repayment terms except for the total amount of US\$76,274,000 (2002: US\$80,510,000) due from two associated companies which is interest bearing at LIBOR plus 2% per annum and US\$31,316,000 (2002: US\$30,631,000) due from an associated company which is interest bearing at 1.25% per annum. Details of principal associated companies are set out in note 33(b).

Notes to the Accounts



For the year ended 31 December 2003

16 LONG-TERM INVESTMENTS

	Group	
	2003 <i>US\$'000</i>	2002 <i>US\$'000</i>
Overseas unlisted shares, at cost	1,916	1,916
– Exchange differences	(120)	(242)
– Provision for impairment losses	(332)	(332)
	1,464	1,342
Loans to an investee company	380	550
	1,844	1,892

The loans are unsecured, interest-free and with no fixed repayment terms.

17 ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS

At 31 December 2003, the ageing analysis of the trade debtors was as follows:

	Group	
	2003 <i>US\$'000</i>	2002 <i>US\$'000</i>
0 – 3 months	31,723	28,634
4 – 6 months	985	1,239
over 6 months	1,109	531
	33,817	30,404

The Group has a defined credit policy. The general credit term is 30 days.



Notes to the Accounts

For the year ended 31 December 2003

18 OTHER INVESTMENTS

	Group	
	2003 <i>US\$'000</i>	2002 <i>US\$'000</i>
Equity securities, at market value		
Shares listed in Hong Kong	39,159	23,547
Shares listed outside Hong Kong	8,319	12,687
	47,478	36,234
Unlisted securities, at market value		
Outside Hong Kong	1,316	1,257
	48,794	37,491

Equity securities listed in Hong Kong included shares in the Company ("such SA shares") with a carrying value of US\$12,349,000 (2002: US\$8,628,000) held by Shangri-La Hotel Public Company Limited, Thailand ("SHPCL"). Such SA shares, representing approximately 0.6% (2002: 0.6%) of the issued share capital of the Company as at 31 December 2003, were held by SHPCL before the Company acquired the controlling interests in SHPCL in late 1999. The Company has undertaken, subject to market conditions, to use its reasonable endeavours to procure SHPCL to dispose of all such SA shares to parties independent of the Kuok Group. In view of the temporary nature of this holding in such SA shares, they have been classified as other investments in these accounts.

19 ACCOUNTS PAYABLE AND ACCRUALS

At 31 December 2003, the ageing analysis of the trade creditors was as follows:

	Group	
	2003 <i>US\$'000</i>	2002 <i>US\$'000</i>
Accounts payable in the next:		
0 – 3 months	28,105	22,765
4 – 6 months	549	429
over 6 months	1,731	1,614
	30,385	24,808



20 BANK LOANS AND OVERDRAFTS AND OTHER BORROWINGS

	Group	
	2003 US\$'000	2002 US\$'000
Overdrafts – unsecured	513	538
Bank loans – secured (<i>note 32(b)</i>)	15,966	17,446
Bank loans – unsecured	1,181,085	1,105,723
Other borrowings – unsecured	17,647	17,261
	1,215,211	1,140,968

The above bank loans and overdrafts are repayable as follows:

	Bank loans and overdrafts		Other borrowings	
	2003 US\$'000	2002 US\$'000	2003 US\$'000	2002 US\$'000
Within one year	160,346	130,099	17,647	–
In the second year	50,820	21,096	–	17,261
In the third to fifth years inclusive	972,693	933,487	–	–
After five years	13,705	39,025	–	–
	1,037,218	993,608	–	17,261
	1,197,564	1,123,707	17,647	17,261

Other borrowings represented S\$30,000,000 unsecured Floating Rate Notes (the “Notes”) due in December 2004 issued by Shangri-La Hotel Limited, Singapore (“SHL”) on 13 December 2002. As at 31 December 2003, the interest rate is 1.15% per annum (2002: 1.45%). The interest rate will be re-fixed at every 6 monthly interval, based on an agreed formula set out in the issuing documents. Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at the face value of S\$30,000,000 on the maturity date.



Notes to the Accounts

For the year ended 31 December 2003

21 SHARE CAPITAL

	2003		2002	
	No. of shares ('000)	US\$'000	No. of shares ('000)	US\$'000
Authorised – Ordinary shares of HK\$1 each				
At 1 January and 31 December	5,000,000	646,496	5,000,000	646,496
Issued and fully paid – Ordinary shares of HK\$1 each				
At 1 January	2,179,656	281,788	2,176,660	281,406
Issue of scrip dividend shares (note (a))	1,673	215	4,738	607
Repurchase of shares	–	–	(1,742)	(225)
At 31 December	2,181,329	282,003	2,179,656	281,788

(a)(i) On 22 August 2003, the Company declared an interim dividend on its ordinary shares for the year ended 31 December 2003. The Company offered to its shareholders a scrip dividend alternative under which the shareholders could elect to receive ordinary shares in lieu of a cash dividend. 1,673,089 ordinary shares of HK\$1 each were issued on 18 November 2003 under this scheme.

(ii) On 23 August 2002, the Company declared an interim dividend on its ordinary shares for the year ended 31 December 2002. The Company offered to its shareholders a scrip dividend alternative under which the shareholders could elect to receive ordinary shares in lieu of a cash dividend. 4,738,270 ordinary shares of HK\$1 each were issued on 19 November 2002 under this scheme.

22 SHARE OPTIONS

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). Pursuant to both the Executive Option Scheme and the New Option Scheme, the Directors of the Company may, at their discretion, grant to executive Directors and key employees of the Group options to subscribe for shares in the Company subject to terms and conditions stipulated therein.



22 SHARE OPTIONS (Continued)

The movements in share options granted pursuant to the Executive Option Scheme during the year were as follows:

	Number of option shares granted on		
	1 May 1998 (Note (a))	15 January 2000 (Note (b))	15 January 2001 (Note (c))
Balance at 1 January 2003	12,540,113	7,936,991	4,657,442
Lapsed during the year	(261,252)	(77,528)	(67,921)
Balance at 31 December 2003	12,278,861	7,859,463	4,589,521
Exercise price per option share (HK\$)	8.26	8.82	8.18

The movements in share options granted pursuant to the New Option Scheme during the year were as follows:

	Number of option shares granted on 29 May 2002 (Note(d))
Balance at 1 January 2003	16,870,000
Lapsed during the year	(470,000)
Balance at 31 December 2003	16,400,000
Exercise price per option share (HK\$)	6.81

Notes:

- The share options are exercisable based on an approved vesting scale from 1 May 1999 to 30 April 2008.
- The share options are exercisable based on an approved vesting scale from 15 January 2001 to 14 January 2010.
- The share options are exercisable based on an approved vesting scale from 15 January 2002 to 14 January 2011.
- The share options are exercisable based on an approved vesting scale from 29 May 2003 to 28 May 2012.

No option shares were cancelled under the Executive Option Scheme and the New Option Scheme during the year (2002: Nil).

According to the terms of the Executive Option Scheme, no option shares have lapsed subsequent to the year end and up to the date of this report. Options on 80,000 shares under the New Option Scheme have lapsed subsequent to the year end and up to the date of this report.



Notes to the Accounts

For the year ended 31 December 2003

23 RESERVES

Group	Share premium US\$'000	Capital redemption reserve US\$'000	Investment properties revaluation reserve US\$'000	Share of investment properties revaluation reserves in associated companies US\$'000	Exchange fluctuation reserve US\$'000	Capital reserve US\$'000	Other reserve US\$'000	Contributed surplus US\$'000	Total US\$'000
At 1 January 2003, as previously reported	531,976	10,666	536,682	242,684	(161,136)	601,490	1,057	389,741	2,153,160
Effects of change in an accounting policy (note 25(b))	-	-	(62,448)	(54,455)	-	-	-	-	(116,903)
At 1 January 2003, as restated	531,976	10,666	474,234	188,229	(161,136)	601,490	1,057	389,741	2,036,257
(Deficit)/surplus on valuation									
- gross	-	-	(20,671)	8,091	-	-	-	-	(12,580)
- deferred taxation	-	-	2,805	(2,242)	-	-	-	-	563
	-	-	(17,866)	5,849	-	-	-	-	(12,017)
Arising from issue of scrip dividend (note 21(a))	1,261	-	-	-	-	-	-	-	1,261
Exchange differences	-	-	-	-	23,550	-	-	-	23,550
Other movements	-	-	-	-	-	-	283	-	283
At 31 December 2003	533,237	10,666	456,368	194,078	(137,586)	601,490	1,340	389,741	2,049,334
Company									
At 1 January 2003	531,976	10,666	-	-	-	-	-	1,524,231	2,066,873
Arising from issue of scrip dividend (note 21(a))	1,261	-	-	-	-	-	-	-	1,261
At 31 December 2003	533,237	10,666	-	-	-	-	-	1,524,231	2,068,134
Group									
At 1 January 2002, as previously reported	530,725	10,441	563,947	277,994	(182,119)	601,490	557	389,741	2,192,776
Effects of change in an accounting policy (note 25(b))	-	-	(64,465)	(68,026)	-	-	-	-	(132,491)
At 1 January 2002, as restated	530,725	10,441	499,482	209,968	(182,119)	601,490	557	389,741	2,060,285
Deficit on valuation									
- gross	-	-	(27,060)	(35,283)	-	-	-	-	(62,343)
- deferred taxation (note 25(b))	-	-	2,017	13,571	-	-	-	-	15,588
	-	-	(25,043)	(21,712)	-	-	-	-	(46,755)
Arising from issue of scrip dividend (note 21(a))	2,087	-	-	-	-	-	-	-	2,087
Arising from repurchase of shares	(836)	225	-	-	-	-	-	-	(611)
Transfer to retained profits on disposal of partial interest in a subsidiary	-	-	(205)	-	-	-	-	-	(205)
Realised on disposal of partial interest in a subsidiary	-	-	-	(27)	-	-	-	-	(27)
Exchange differences	-	-	-	-	20,983	-	-	-	20,983
Other movements	-	-	-	-	-	-	500	-	500
At 31 December 2002	531,976	10,666	474,234	188,229	(161,136)	601,490	1,057	389,741	2,036,257
Company									
At 1 January 2002	530,725	10,441	-	-	-	-	-	1,524,231	2,065,397
Arising from issue of scrip dividend (note 21(a))	2,087	-	-	-	-	-	-	-	2,087
Arising from repurchase of shares	(836)	225	-	-	-	-	-	-	(611)
At 31 December 2002	531,976	10,666	-	-	-	-	-	1,524,231	2,066,873



23 RESERVES (Continued)

- (a) The revaluation reserves of investment properties are not available for distribution other than in a dissolution.
- (b) A subsidiary is required by local law to appropriate a certain percentage of its annual net profits as other reserve. This reserve is not available for dividend distribution.
- (c) The contributed surplus of the Company arises when the Company issues shares in exchange for the shares of companies being acquired, and represents the difference between the nominal value of the Company's share issued and the value of net assets of the companies acquired. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to the shareholders. At Group level, the contributed surplus is reclassified into its components of reserves of the underlying subsidiaries, wherever appropriate.



Notes to the Accounts

For the year ended 31 December 2003

24 RETAINED PROFITS

	Group		Company	
	2003 US\$'000	2002 US\$'000	2003 US\$'000	2002 US\$'000
At 1 January				
– as previously reported	457,258	406,555	31,277	33,990
– effect of change in an accounting policy (note 25(a))	(220,211)	(190,527)	–	–
– as restated	237,047	216,028	31,277	33,990
Profit attributable to shareholders for the year				
– balance for the year/as previously reported	72,667	93,078	14,878	39,367
– effect of change in an accounting policy (note 25(a))	–	(29,684)	–	–
– balance for the year/as restated	72,667	63,394	14,878	39,367
2001 Final dividend paid	–	(22,325)	–	(22,325)
2003/2002 Interim dividend paid (note 8)	(16,767)	(19,530)	(16,767)	(19,530)
Transfer to capital redemption reserve	–	(225)	–	(225)
Transfer to other reserve	(283)	(500)	–	–
Transfer from revaluation reserve	–	205	–	–
At 31 December	292,664	237,047	29,388	31,277
Representing:				
2003/2002 Final dividend proposed (note 8)	24,258	–	24,258	–
Retained profits	268,406	237,047	5,130	31,277
At 31 December	292,664	237,047	29,388	31,277
Company and subsidiaries				
– balance for the year/as previously reported	132,630	217,828	29,388	31,277
– effect of change in an accounting policy	–	(147,032)	–	–
– balance for the year/as restated	132,630	70,796	29,388	31,277
Associated companies				
– balance for the year/as previously reported	160,034	239,430	–	–
– effect of change in an accounting policy	–	(73,179)	–	–
– balance for the year/as restated	160,034	166,251	–	–
	292,664	237,047	29,388	31,277



24 RETAINED PROFITS (Continued)

Included in the retained profits of subsidiaries and associated companies are statutory funds of approximately US\$225,000 and US\$16,785,000 respectively (2002: US\$197,000 and US\$15,947,000). These funds are set up by way of appropriation from the profit after taxation of the respective companies, established and operating in the PRC, in accordance with the relevant laws and regulations.

25 CHANGE IN ACCOUNTING POLICY

The effects of the change in an accounting policy on adoption of revised SSAP 12 as explained in notes 1(d) to the accounts are as follows:

	Group <i>US\$'000</i>
(a) Effects on retained profits as at 31 December 2002	
(i) Decrease in retained profits as at 1 January 2002	
– additional provision for net deferred tax liabilities	122,240
– reversal of amortisation of negative goodwill	68,287
	190,527
(ii) Decrease in profit retained for the year ended 31 December 2002	
– additional provision for net deferred tax liabilities	18,354
– reversal of amortisation of negative goodwill	11,330
	29,684
	29,684
Net decrease in retained profits as at 31 December 2002	220,211



Notes to the Accounts

For the year ended 31 December 2003

25 CHANGE IN ACCOUNTING POLICEY (Continued)

		Group	
		Investment properties revaluation reserve <i>US\$'000</i>	Share of investment properties revaluation reserves in associated companies <i>US\$'000</i>
(b) Effects on investment properties revaluation reserves as at 31 December 2002			
(i)	Decrease in balances as at 1 January 2002 – additional provision for net deferred tax liabilities	64,465	68,026
(ii)	Increase in balances for the year ended 31 December 2002 – reversal of provision for deferred tax liabilities for the year	(2,017)	(13,571)
Net decrease in balances as at 31 December 2002		62,448	54,455

26 DISTRIBUTABLE RESERVES

As at 31 December 2003, the Group's distributable reserves comprised:

	2003 <i>US\$'000</i>	Restated 2002 <i>US\$'000</i>
The Company		
Distributable retained profits	29,388	31,277
Contributed surplus	1,524,231	1,524,231
	1,553,619	1,555,508
Subsidiaries (<i>notes (a) and (b)</i>)		
Distributable retained profits	493,695	424,673
Associated companies (<i>notes (a) and (b)</i>)		
Distributable retained profits	231,952	231,410

(a) The distributable profits of subsidiaries and associated companies are the corresponding share of profits which are distributable as shown in the statutory accounts of those companies.

(b) There are differences between the profits included in the Group accounts of certain subsidiaries and associated companies, and those in their statutory accounts, as the former have been adjusted for the purpose of complying with the Group's accounting policies.



For the year ended 31 December 2003

27 MINORITY INTERESTS AND LOANS

	Group	
	2003 US\$'000	2002 US\$'000
Share of equity		
– balance for the year/as previously reported	305,515	317,876
– effect of change in an accounting policy	–	(23,790)
– balance for the year/as restated	305,515	294,086
Loans from minority shareholders	86,024	88,334
	391,539	382,420

The loans from minority shareholders are unsecured and interest-free except for a total amount of US\$25,853,000 (2002: US\$27,203,000) which is interest bearing at various interest rates ranging from HIBOR plus 1% per annum to 2.5% per annum.

28 DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a taxation rate of 17.5% (2002: 16%) for subsidiaries operating in Hong Kong. Deferred taxation of oversea subsidiaries are calculated at the rates of taxation prevailing in the countries in which the respective subsidiaries operate.

The movement on the deferred tax liabilities/(assets) account is as follows:

	Group	
	2003 US\$'000	2002 US\$'000
At 1 January, as previously reported	12,219	10,010
Effect of change in an accounting policy	322,938	313,953
At 1 January, as restated	335,157	323,963
Exchange differences	3	613
Deferred taxation charge to profit and loss account		
– as previously reported	19,195	1,596
– effect of change in an accounting policy	–	10,795
– as restated (<i>note 6</i>)	19,195	12,391
Deferred taxation credit to equity in relation to the revaluation reserves of investment properties	(2,132)	(1,810)
At 31 December	352,223	335,157



Notes to the Accounts

For the year ended 31 December 2003

28 DEFERRED TAXATION (Continued)

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2003, the Group has the following unrecognised tax losses to carry forward against future taxable income:

	Group	
	2003 US\$'000	2002 US\$'000
With no expiry date	7,934	7,934
Lapsed within the next five years	56,598	69,730
	64,532	77,664

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax liabilities	Accelerated tax depreciation		Properties valuation surplus/deficit		Dividend withholding tax		Total	
	2003 US\$'000	2002 US\$'000	2003 US\$'000	2002 US\$'000	2003 US\$'000	2002 US\$'000	2003 US\$'000	2002 US\$'000
At 1 January	104,189	87,550	219,916	221,805	18,358	22,040	342,463	331,395
Charged/(credited) to profit and loss	18,463	16,009	(1,198)	(75)	3,010	(3,682)	20,275	12,252
Credited to equity	-	-	(2,132)	(1,814)	-	-	(2,132)	(1,814)
Exchange differences	24	630	45	-	-	-	69	630
At 31 December	122,676	104,189	216,631	219,916	21,368	18,358	360,675	342,463
Deferred tax assets	Tax losses		Others		Total			
	2003 US\$'000	2002 US\$'000	2003 US\$'000	2002 US\$'000	2003 US\$'000	2002 US\$'000		
At 1 January			(1,064)	(1,064)	(6,242)	(6,368)	(7,306)	(7,432)
Charged/(credited) to profit and loss			(875)	-	(205)	139	(1,080)	139
Charged to equity			-	-	-	4	-	4
Exchange differences			-	-	(66)	(17)	(66)	(17)
At 31 December			(1,939)	(1,064)	(6,513)	(6,242)	(8,452)	(7,306)



28 DEFERRED TAXATION (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet

	2003 US\$'000	2002 US\$'000
Deferred tax assets	(4,342)	(4,619)
Deferred tax liabilities	356,565	339,776
	352,223	335,157

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash generated from operations

	2003 US\$'000	As restated 2002 US\$'000
Profit before taxation	128,413	122,359
Share of results of associated companies	(39,668)	(40,629)
(Surplus)/deficit on valuation of investment properties	(25,044)	13,600
Provision for impairment losses on properties under development and other land and buildings	9,500	13,276
Depreciation	36,762	34,403
Amortisation of negative goodwill	(5,893)	(5,160)
Interest on bank loans and overdrafts and other borrowings	46,369	42,114
Interest income	(2,634)	(3,549)
Dividend received from other investments	(1,427)	(1,757)
Loss on disposal of fixed assets and discarding of fixed assets due to properties renovations	14,770	5,249
Net realised and unrealised (gains)/losses on other investments	(18,348)	5,785
Provision for impairment losses on long-term investments	-	35
Loss on disposal of partial interest in a subsidiary	-	788
Operating profit before working capital changes	142,800	186,514
Increase in inventories	(1,665)	(623)
Decrease/(increase) in accounts receivable, prepayments and deposits	1,982	(8,543)
Increase in accounts payable and accruals	19,980	15,001
Decrease in amounts due to minority shareholders	-	(107)
Decrease/(increase) in amounts due from associated companies	1,377	(2,333)
Decrease in amounts due from minority shareholders	554	-
Net cash generated from operations	165,028	189,909



Notes to the Accounts

For the year ended 31 December 2003

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

		2003	
	<i>Note</i>	Share capital (including premium) <i>US\$'000</i>	Bank loans and other borrowings (including loans from minority shareholders) <i>US\$'000</i>
At 1 January 2003		813,764	1,228,764
Issue of shares for scrip dividend	21(a)	1,476	–
Net cash inflow from financing		–	70,395
Reclassification to amounts due to minority interest under current assets		–	(1,548)
Exchange differences		–	3,111
At 31 December 2003		815,240	1,300,722
		2002	
	<i>Note</i>	Share capital (including premium) <i>US\$'000</i>	Bank loans and other borrowings (including loans from minority shareholders) <i>US\$'000</i>
At 1 January 2002		812,131	1,214,529
Issue of shares for scrip dividend	21(a)	2,694	–
Net cash (outflow)/inflow from financing		(1,052)	6,669
Exchange differences		(9)	7,566
At 31 December 2002		813,764	1,228,764



29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Analysis of the balances of cash and cash equivalents

	2003 <i>US\$'000</i>	2002 <i>US\$'000</i>
Cash and bank balances	150,343	127,261
Bank overdrafts	(513)	(538)
	149,830	126,723

At 31 December 2003, the Group's cash and bank balances of US\$63,807,000 (2002: US\$79,853,000) were kept in the PRC, 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.

30 RELATED PARTY TRANSACTIONS

In addition to those connected transactions disclosed in the Report of the Directors, during the year and in the normal course of business, the Group had received hotel management and related services and royalty fees totalling US\$2,950,000 (2002: US\$4,750,000) from associated companies of the Group. The fees are charged by the Group at either a fixed amount or a certain percentage of the gross operating revenue/profit of the relevant companies.



Notes to the Accounts

For the year ended 31 December 2003

31 COMMITMENTS

As at 31 December 2003, the Group and the Company had the following commitments:

- (a) The Group's capital commitments include amount in respect of ongoing capital expenditure at existing properties and its commitment to development projects amount to approximately:

	2003 <i>US\$'000</i>	2002 <i>US\$'000</i>
Contracted but not provided for	142,757	86,958
Authorised by Directors but not contracted for	749,693	354,612
	892,450	441,570

- (b) The Group's commitments under operating leases to make future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	2003 <i>US\$'000</i>	2002 <i>US\$'000</i>
Not later than one year	7,123	6,895
Later than one year and not later than five years	19,340	19,009
Later than five years	140,713	134,621
	167,176	160,525

- (d) At 31 December 2003, the Group had future aggregate minimum lease rental receivable under non-cancellable operating leases in respect of land and buildings as follows:

	2003 <i>US\$'000</i>	2002 <i>US\$'000</i>
Not later than one year	6,425	5,859
Later than one year and not later than five years	1,251	1,747
	7,676	7,606

- (e) The Company had entered into HIBOR interest rate swap contracts for an aggregate principal amount of HK\$5,416,000,000 at fixed interest rates between 3.735% to 5.74% per annum to reduce its interest rate exposure. These contracts will be maturing in November 2004 through December 2006.

**32 CONTINGENT LIABILITIES AND CHARGES OVER ASSETS****(a) Contingent liabilities**

As at 31 December 2003, contingent liabilities of the Group and the Company were as follows:

- (i) The Company executed proportionate guarantees in favour of banks for securing banking facilities granted to certain subsidiaries and an associated company. The utilised amount of such facilities covered by the Company's guarantees and which also represented the financial exposure of the Company at the balance sheet date amounts to US\$990,960,000 (2002: US\$943,729,000) for the subsidiaries and nil balance (2002: US\$29,759,000) for the associated company.
- (ii) The Group executed guarantees in favour of banks for securing banking facilities granted to an associated company. The utilised amount of such facilities covered by the Group's guarantees for an associated company at the balance sheet date amounts to US\$9,986,000 (2002: US\$44,764,000 for four associated companies).
- (iii) The Group executed a performance guarantee in favour of the owner of a hotel in Sydney for the financial performance of the hotel under a management contract entered during the year. The maximum cumulative amount of liability under such guarantee is A\$10,000,000 (equivalent to US\$7,500,000).

(b) Charges over assets

As at 31 December 2003, bank loan and banking facility of a subsidiary amounting to US\$11,765,000 (2002: US\$12,371,000) were secured by charges over the investment property and other fixed assets of the subsidiary with net book values totalling US\$64,706,000 (2002: US\$57,537,000) and other assets totalling US\$3,381,000 (2002: US\$2,917,000). Bank loan of a subsidiary amounting to US\$4,201,000 (2002: US\$5,075,000) was secured by charges over other investments of this subsidiary with net book value totalling US\$12,349,000 (2002: US\$8,628,000).

Apart from the aforesaid, neither the Group nor the Company had any material contingent liabilities or charges over assets as at 31 December 2003.



Notes to the Accounts

For the year ended 31 December 2003

33 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES

(a) At 31 December 2003, the Company held interests in the following principal subsidiaries:

Name	Place of establishment/ operation	Paid up/ issued capital	Percentage holding in the voting shares		Nature of business	Notes
			Direct	Indirect		
Seanoble Assets Limited	The British Virgin Islands	Ordinary HK\$578,083,745	100	-	Investment holding	1
Shangri-La Asia Treasury Limited	The British Virgin Islands	Ordinary HK\$780	100	-	Group financing	1
Kerry Industrial Company Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred HK\$10,000,000	-	100	Investment holding	1
Shangri-La Hotel (Kowloon) Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred HK\$10,000,000	-	100	Hotel ownership and operation	1
Shangri-La International Hotels (Pacific Place) Limited	Hong Kong	Ordinary HK\$5,000 Non-voting deferred HK\$10,000,000	-	80	Hotel ownership and operation	1
Shenzhen Shangri-La Hotel Limited	The People's Republic of China	Registered capital US\$32,000,000	-	51.30	Hotel ownership and operation	2, 5
Beihai Shangri-La Hotel Ltd.	The People's Republic of China	Registered capital US\$16,000,000	-	97	Hotel ownership and operation	5
Shanghai Pu Dong New Area Shangri-La Hotel Co., Ltd.	The People's Republic of China	Registered capital US\$47,000,000	-	100	Hotel ownership and operation	2, 4
Shenyang Traders Hotel Ltd.	The People's Republic of China	Registered capital US\$28,334,000	-	97	Hotel ownership and operation	5
Changchun Shangri-La Hotel Co., Ltd.	The People's Republic of China	Registered capital RMB167,000,000	-	90	Hotel ownership and operation and real estate operation	5
Jilin Province Kerry Real Estate Development Ltd	The People's Republic of China	Registered capital RMB25,000,000	-	90	Real estate development and operation	5



33 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (Continued)

(a) At 31 December 2003, the Company held interests in the following principal subsidiaries: (Continued)

Name	Place of establishment/ operation	Paid up/ issued capital	Percentage holding in the voting shares		Nature of business	Notes
			Direct	Indirect		
Qingdao Shangri-La Hotel Co., Ltd.	The People's Republic of China	Registered capital US\$18,334,000	-	100	Hotel ownership and operation	6
Dalian Shangri-La Hotel Co., Ltd.	The People's Republic of China	Registered capital US\$36,666,670	-	90	Hotel ownership and operation	5
Dalian Kerry Real Estate Development Co., Ltd.	The People's Republic of China	Registered capital US\$18,666,670	-	100	Real estate development and operation	6
Xian Shangri-La Golden Flower Hotel Co., Ltd.	The People's Republic of China	Registered capital US\$12,000,000	-	100	Hotel ownership and operation	4
Harbin Shangri-La Hotel Co., Ltd.	The People's Republic of China	Registered capital US\$21,860,000	-	95	Hotel ownership and operation	5
Wuhan Kerry Real Estate Development Co., Ltd.	The People's Republic of China	Registered capital US\$6,000,000	-	92	Real estate development and operation	5
Wuhan Shangri-La Hotel Co., Ltd.	The People's Republic of China	Registered capital US\$26,667,000	-	92	Hotel ownership and operation	5
Fujian Kerry World Trade Centre Co., Ltd.	The People's Republic of China	Registered capital HK\$180,000,000	-	100	Real estate development	3, 6
Fuzhou Shangri-La Hotel Co., Ltd.	The People's Republic of China	Registered capital US\$12,600,000	-	100	Hotel ownership and operation	3, 4
Zhongshan Shangri-La Hotel Co., Ltd.	The People's Republic of China	Registered capital US\$16,310,000	-	51	Hotel ownership and operation	3, 5



Notes to the Accounts

For the year ended 31 December 2003

33 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (Continued)

(a) At 31 December 2003, the Company held interests in the following principal subsidiaries: (Continued)

Name	Place of establishment/ operation	Paid up/ issued capital	Percentage holding in the voting shares		Nature of business	Notes
			Direct	Indirect		
Shanghai Ji Xiang Properties Co., Ltd.	The People's Republic of China	Registered capital US\$76,000,000	-	99	Real estate development and operation	2, 3, 5
Tianjin Kerry Real Estate Development Co., Ltd.	The People's Republic of China	Registered capital US\$11,707,000	-	90	Real estate development and operation	3, 5
Shenyang Kerry Real Estate Development Co., Ltd.	The People's Republic of China	Registered capital US\$6,844,017	-	100	Real estate development and operation	3, 6
Makati Shangri-La Hotel & Resort, Inc.	Philippines	Common Peso 921,948,400	-	100	Hotel ownership and operation	
Edsa Shangri-La Hotel & Resort, Inc.	Philippines	Common Peso 792,128,700	-	100	Hotel ownership and operation	
Mactan Shangri-La Hotel & Resort, Inc.	Philippines	Common Peso 272,630,000 Preferred Peso 170,741,500	-	100	Hotel ownership and operation	
Fiji Mocombo Limited	Fiji	Ordinary F\$751,459	-	71.64	Hotel ownership and operation	2
Yanuca Island Limited	Fiji	Ordinary F\$1,262,196	-	71.64	Hotel ownership and operation	2
Shangri-La Hotel Limited	Singapore	Ordinary S\$164,663,560	-	100	Investment holding, hotel ownership and operation and leasing of residential and serviced apartments	
Sentosa Beach Resort Pte Ltd	Singapore	Ordinary S\$30,000,000	-	100	Hotel ownership and operation	



33 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (Continued)

(a) At 31 December 2003, the Company held interests in the following principal subsidiaries: (Continued)

Name	Place of establishment/ operation	Paid up/ issued capital	Percentage holding in the voting shares		Nature of business	Notes
			Direct	Indirect		
Shangri-La Hotels (Malaysia) Berhad	Malaysia	Ordinary RM440,000,000	-	54.37	Investment holding and hotel ownership and operation	
Shangri-La Hotel (KL) Sdn Bhd	Malaysia	Ordinary RM150,000,000	-	54.37	Hotel ownership and operation	
Golden Sands Beach Resort Sdn Bhd	Malaysia	Ordinary RM6,000,000	-	54.37	Hotel ownership and operation	
Komtar Hotel Sdn Bhd	Malaysia	Ordinary RM6,000,000	-	32.62	Hotel ownership and operation	
Pantai Dalit Beach Resort Sdn Bhd	Malaysia	Ordinary RM135,000,000	-	65.78	Hotel and golf club ownership and operation	
UBN Tower Sdn Bhd	Malaysia	Ordinary RM500,000	-	54.37	Property investment and office management	
UBN Holdings Sdn Bhd	Malaysia	Ordinary RM45,000,000	-	54.37	Investment holding and property investment	
Traders Yangon Company Limited	Myanmar	Ordinary Kyat 21,600,000	-	56.22	Hotel ownership and operation	
Shangri-La Hotel Public Company Limited	Thailand	Common Baht 1,300,000,000	-	73.61	Hotel and office ownership and operation	
SLIM International Limited	Cook Islands	Ordinary US\$1,000	100	-	Investment holding	1
Shangri-La International Hotel Management Limited	Hong Kong	Ordinary HK\$10,000,000	-	100	Hotel management, marketing, consultancy and reservation services	1



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33 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (Continued)

(a) At 31 December 2003, the Company held interests in the following principal subsidiaries: (Continued)

Name	Place of establishment/ operation	Paid up/ issued capital	Percentage holding in the voting shares		Nature of business	Notes
			Direct	Indirect		
Shangri-La International Hotel Management B.V.	The Netherlands	Ordinary EUR18,151	-	100	Licensing use of intellectual property rights	1
Shangri-La Hotel (Chengdu) Co., Ltd.	The People's Republic of China	Registered capital US\$27,340,000	-	80	Hotel ownership and operation	3, 6
Shangri-La Hotel (Guangzhou Pazhou) Co., Ltd.	The People's Republic of China	Registered capital US\$28,340,000	-	100	Hotel ownership and operation	3, 6
Shangri-La Hotel (Shenzhen Futian) Co., Ltd.	The People's Republic of China	Registered capital US\$20,000,000	-	100	Hotel ownership and operation	3, 6

Notes:

- 1 Subsidiaries audited by PricewaterhouseCoopers, Hong Kong.
- 2 Subsidiaries audited by other member firms of PricewaterhouseCoopers, Hong Kong.
- 3 Subsidiaries which are under various stages of real estate and hotel development and have not yet commenced business operations as at the balance sheet date.
- 4 Co-operative Joint Venture.
- 5 Equity Joint Venture.
- 6 Wholly Foreign Owned Enterprise.



33 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (Continued)

(b) At 31 December 2003, the Group held interests in the following principal associated companies:

Name	Place of establishment/ operation	Percentage holding in the registered capital by the Group	Nature of business	Notes
China World Trade Center Ltd.	The People's Republic of China	50	Hotel ownership and operation and property investment	2
Beijing Shangri-La Hotel Ltd.	The People's Republic of China	49	Hotel ownership and operation	
Hangzhou Shangri-La Hotel Ltd.	The People's Republic of China	45	Hotel ownership and operation	
Seacliff Limited	The People's Republic of China	30	Hotel ownership and operation and property investment	1
Beijing Jia Ao Real Estate Development Co., Ltd.	The People's Republic of China	23.75	Real estate development and operation	2
Beijing Kerry Centre Hotel Co., Ltd.	The People's Republic of China	23.75	Hotel ownership and operation	2
Shanghai Xin Ci Hou Properties Co., Ltd.	The People's Republic of China	24.75	Real estate development and operation	2
Cuscaden Properties Pte Ltd	Singapore	40.75	Hotel ownership and operation and property investment	
Johdaya Karya Sdn Bhd	Malaysia	36.31	Property investment	
Tanjong Aru Hotel Sdn. Bhd.	Malaysia	40	Hotel ownership and operation	
PT Swadharma Kerry Satya	Indonesia	25	Hotel ownership and operation	

Notes:

1 Associated company audited by PricewaterhouseCoopers, Hong Kong.

2 Associated companies audited by other member firms of PricewaterhouseCoopers, Hong Kong.



Notes to the Accounts

For the year ended 31 December 2003

33 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES (Continued)

(c) The above tables list out the subsidiaries and associated companies of the Company as at 31 December 2003 which, in the opinion of the Directors, principally affected the results for the year or form a substantial portion of the net assets of the Group. To give details of other subsidiaries and associated companies would, in the opinion of the Directors, result in particulars of excessive length.

(d) Details of a material associated company, China World Trade Center Ltd., as at 31 December 2003 pursuant to SSAP 10 “Accounting for investments in associates”, after making appropriate adjustments to conform with the Group’s accounting policies, are as follows:

(i) *Summarised profit and loss account*

	For the year ended 31 December	
	2003 US\$'000	2002 US\$'000
Turnover	147,337	139,630
Profit before taxation	63,151	51,861
Taxation	(14,306)	(12,683)
Profit after taxation	48,845	39,178
Minority interests	(7,980)	(6,888)
Profit attributable to shareholders	40,865	32,290
Depreciation and amortisation	3,912	2,676
Profit after taxation attributable to the Group	20,433	16,145

(ii) *Summarised assets and liabilities*

	As at 31 December	
	2003 US\$'000	2002 US\$'000
Fixed assets	1,414,168	1,257,115
Deferred tax assets	3,794	5,133
Current assets	95,587	108,653
Current liabilities	(312,688)	(260,894)
Net current liabilities	(217,101)	(152,241)
Long-term liabilities	60,043	1,232
Net assets and minority interests	1,140,818	1,108,775



34 INVESTMENT PROPERTIES OF SUBSIDIARIES AND ASSOCIATED COMPANIES

(a) Details of investment properties of the Company's subsidiaries are as follows:

Address	Existing use	Lease term
Kowloon Shangri-La, Hong Kong 64 Mody Road, Tsimshatsui East, Kowloon, Hong Kong	Hotel operation	Medium lease
Island Shangri-La, Hong Kong Pacific Place, 88 Queensway, Central, Hong Kong	Hotel operation	Medium lease
Shangri-La Hotel, Shenzhen Shenzhen East Side, Railway Station, Jianshe Road, Shenzhen 518001, The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Beihai 33 Chating Road, Beihai, Guangxi 536007, The People's Republic of China	Hotel operation	Medium lease
Pudong Shangri-La, Shanghai 33 Fu Cheng Lu, Pudong New Area, Shanghai 200120, The People's Republic of China	Hotel operation	Medium lease
Traders Hotel, Shenyang 68 Zhong Hua Road, He Ping District, Shenyang 110001, The People's Republic of China	Hotel operation	Long lease
Shangri-La Hotel, Changchun 9 Xian Road, Changchun 130061, The People's Republic of China	Hotel operation and commercial and residential rental	Long lease
Shangri-La Hotel, Qingdao 9 Xiang Gang Zhong Lu, Qingdao 266071, The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Dalian 66 Renmin Road, Dalian 116001, The People's Republic of China	Hotel operation	Medium lease
Dalian Century Tower Apartments 66 Renmin Road, Dalian 116001, The People's Republic of China	Residential rental	Medium lease



Notes to the Accounts

For the year ended 31 December 2003

34 INVESTMENT PROPERTIES OF SUBSIDIARIES AND ASSOCIATED COMPANIES (Continued)

(a) Details of investment properties of the Company's subsidiaries are as follows: (Continued)

Address	Existing use	Lease term
Shangri-La Golden Flower Hotel, Xian 8 Chang Le Road West, Xian 710032, Shaanxi, The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Harbin 555 You Yi Road, Dao Li District, Harbin 150018, The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Wuhan No. 700, Jianshe Avenue, Hankou, Wuhan 430015, The People's Republic of China	Hotel operation	Medium lease
Makati Shangri-La, Manila Ayala Avenue, corner Makati Avenue, Makati City, Metro Manila 1200, The Philippines	Hotel operation	Medium lease
Edsa Shangri-La, Manila 1 Garden Way, Ortigas Center, Mandaluyong City 1650, Metro Manila, The Philippines	Hotel operation	Medium lease
Shangri-La's Mactan Island Resort, Cebu Punta Engano Road, Mactan Island, Cebu, The Philippines	Hotel operation	Medium lease
Shangri-La's Fijian Resort, Yanuca Yanuca Island, Sigatoka, Nadroga, Fiji	Hotel operation	Long lease
Fiji Mocambo, Nadi Namaka Hill, Nadi, Fiji	Hotel operation	Long lease
Shangri-La Hotel, Singapore 22 & 28 Orange Grove Road, Singapore 258350	Hotel operation	Freehold
Shangri-La Apartments, Singapore 1 Anderson Road, Singapore 259983	Residential rental	Freehold



34 INVESTMENT PROPERTIES OF SUBSIDIARIES AND ASSOCIATED COMPANIES (Continued)

(a) Details of investment properties of the Company's subsidiaries are as follows: (Continued)

Address	Existing use	Lease term
Shangri-La Residences, Singapore No.1A Lady Hill Road, Singapore 258685	Residential rental	Freehold
Shangri-La's Rasa Sentosa Resort, Singapore 101 Siloso Road, Sentosa, Singapore 098970	Hotel operation	Long lease
Shangri-La Hotel, Kuala Lumpur UBN Complex, 11 Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia	Hotel operation	Freehold
Shangri-La Hotel, Penang Magazine Road, 10300 Penang, Malaysia	Hotel operation	Long lease
Shangri-La's Golden Sands Resort, Penang Batu Feringgi Beach, 11100 Penang, Malaysia	Hotel operation	Freehold
Shangri-La's Rasa Sayang Resort, Penang Batu Feringgi Beach, 11100 Penang, Malaysia	Hotel operation	Freehold
Shangri-La's Rasa Ria Resort, Dalit Bay Golf & Country Club, Sabah Pantai Dalit, 89208 Tuaran, Sabah, Malaysia	Hotel and golf club operation	Long lease
UBN Tower, Kuala Lumpur UBN Complex, 10 Jalan P Ramlee, 50250 Kuala Lumpur, Malaysia	Office and commercial rental	Freehold
UBN Apartments, Kuala Lumpur UBN Complex, 10 Jalan P Ramlee, 50250 Kuala Lumpur, Malaysia	Residential rental	Freehold



Notes to the Accounts

For the year ended 31 December 2003

34 INVESTMENT PROPERTIES OF SUBSIDIARIES AND ASSOCIATED COMPANIES (Continued)

(a) Details of investment properties of the Company's subsidiaries are as follows: (Continued)

Address	Existing use	Lease term
Traders Hotel, Yangon 223 Sule Pagoda Road, Yangon, Myanmar	Hotel operation	Medium lease
Shangri-La Hotel, Bangkok 89 Soi Wat Suan Plu, New Road, Bangrak, Bangkok 10500, Thailand	Hotel operation and office rental	Freehold

(b) Details of investment properties of the operating associated companies are as follows:

Address	Existing use	Lease term
China World Trade Center 1 Jian Guo Men Wai Avenue, Beijing 100004, The People's Republic of China	Hotel operation and office, commercial, residential and exhibition hall space rental	Medium lease
Shangri-La Hotel, Beijing 29 Zizhuyuan Road, Beijing 100089, The People's Republic of China	Hotel operation	Short lease
Shangri-La Hotel, Hangzhou 78 Beishan Road, Hangzhou 310007, The People's Republic of China	Hotel operation	Medium lease
Shanghai Centre 1376 Nanjing Xi Lu, Shanghai 200040, The People's Republic of China	Hotel operation and office, commercial, residential and exhibition hall space rental	Medium lease
Beijing Kerry Centre 1 Guanghai Road, Chaoyang District, Beijing 100020, The People's Republic of China	Hotel operation and office, commercial and residential rental	Medium lease
Shanghai Kerry Centre No. 1515 Nanjing Road West, Jingan District, Shanghai 200040, The People's Republic of China	Office, commercial and residential rental	Medium lease



34 INVESTMENT PROPERTIES OF SUBSIDIARIES AND ASSOCIATED COMPANIES (Continued)

(b) Details of investment properties of the operating associated companies are as follows:
(Continued)

Address	Existing use	Lease term
Traders Hotel, Singapore 1A Cuscaden Road, Singapore 249716	Hotel operation	Long lease
Tanglin Mall, Singapore 163 Tanglin Road, Singapore 247933	Commercial rental	Long lease
Tanglin Place, Singapore 91 Tanglin Road, Singapore 247918	Commercial rental	Freehold
Part of City Square Johor Bahru, Johor, Malaysia	Commercial rental	Long lease
Shangri-La's Tanjung Aru Resort, Kota Kinabalu 88995 Kota Kinabalu, Sabah, Malaysia	Hotel operation	Long lease
Shangri-La Hotel, Jakarta Kota BNI, Jalan Jend Sudirman Kav. 1, Jakarta 10220, Indonesia	Hotel operation	Medium lease

35 SUBSEQUENT EVENTS

- (a) 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.
- (b) 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.

36 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 29 March 2004.