凱聯國際酒店有限公司
Associated International Hotels Limited

Interim Report 2003

Associated International Hotels Limited
Interim Report

(Expressed in Hong Kong dollars)

The Board of Directors is pleased to announce the unaudited consolidated results of the Group for the half year ended 30 September 2003. These results have been reviewed in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants, by KPMG, certified public accountants in Hong Kong. The review report issued by KPMG is attached.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the six months ended 30 September 2003 — unaudited

		Six months ended 30 September	
		2003	*2002*
			restated
	Note	**$'000**	$'000
Turnover	2	**126,375**	199,791
Cost of services/sales		**(51,201)**	(68,533)
		75,174	131,258
Other revenue		**2,963**	3,519
Other net (loss)/income		**(3,049)**	771
Selling expenses		**(7,639)**	(11,485)
Administrative expenses		**(41,363)**	(51,976)
Profit from operations	2	**26,086**	72,087
Finance costs	3(a)	**(149)**	(278)
Profit from ordinary activities before taxation	3	**25,937**	71,809
Taxation	4	**(4,990)**	(11,747)
Profit from ordinary activities after taxation		**20,947**	60,062
Minority interests		**—**	1
Profit attributable to shareholders		**20,947**	60,063
Dividends attributable to the interim period	5	**21,600**	28,800
Earnings per share	6	**6 cents**	17 cents

The notes on pages 5 to 10 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET
at 30 September 2003 — unaudited

		At 30 September 2003		*At 31 March 2003*	
					restated
	Note	**$'000**	**$'000**	$'000	$'000
Non-current assets					
Fixed assets	7		**3,508,144**		3,519,139
Land held for development			**26,143**		26,306
Other investments in securities			**6,397**		6,665
Deferred taxation			**4,351**		3,526
			3,545,035		3,555,636
Current assets					
Inventories		**1,967**		2,227	
Accounts receivable, deposits and prepayments	8	**18,570**		18,880	
Cash and cash equivalents	9	**350,935**		321,916	
		371,472		343,023	
Current liabilities					
Bank loans — secured		**6,400**		6,400	
Accounts payable, other payables and accruals	10	**34,509**		35,521	
Deposits received		**32,677**		33,355	
Provision for long service payments		**7,743**		8,678	
Tax payable		**22,225**		21,983	
Dividend payable		**25,200**		—	
		128,754		105,937	
Net current assets			**242,718**		237,086
Total assets less current liabilities			**3,787,753**		3,792,722
Non-current liabilities					
Bank loans — secured		**(2,400)**		(5,600)	
Government lease premiums payable		**(2,543)**		(2,543)	
Deferred taxation		**(147)**		(138)	
			(5,090)		(8,281)
Minority interests			**(1)**		—
NET ASSETS			**3,782,662**		3,784,441
CAPITAL AND RESERVES					
Share capital	11		**360,000**		360,000
Reserves	12		**3,422,662**		3,424,441
			3,782,662		3,784,441

The notes on pages 5 to 10 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 September 2003 — unaudited

		Six months ended 30 September	
		2003	*2002*
			restated
	Note	**$'000**	$'000
Shareholders' equity at 1 April			
— as previously reported		**3,779,214**	3,754,164
— prior period adjustment arising from change in accounting policy for deferred tax	1	**5,227**	5,455
— as restated		**3,784,441**	3,759,619
Premium in respect of shares issued to minority shareholders of a subsidiary	12	**1,735**	1,123
Exchange differences arising on translation of the accounts of foreign subsidiaries	12	**739**	22
Net gains not recognised in the profit and loss account		**2,474**	1,145
Net profit for the period (2002: as restated)		**20,947**	60,063
Dividends approved during the period		**(25,200)**	(72,000)
		(4,253)	(11,937)
Shareholders' equity at 30 September		**3,782,662**	3,748,827

The notes on pages 5 to 10 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 30 September 2003 — unaudited

	Six months ended 30 September	
	2003	*2002*
	$'000	$'000
Net cash from operating activities	**31,443**	77,705
Net cash from investing activities	**1,413**	1,167
Net cash used in financing activities	**(3,359)**	(3,528)
Net increase in cash and cash equivalents	**29,497**	75,344
Cash and cash equivalents at 1 April	**321,916**	278,069
Effect of foreign exchange rates changes	**(478)**	—
Cash and cash equivalents at 30 September	**350,935**	353,413

The notes on pages 5 to 10 form part of this interim financial report.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

1. Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants ("HKSA"). KPMG's independent review report to the board of directors is included on page 16.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the HKSA.

The financial information relating to the financial year ended 31 March 2003 included in the interim financial report does not constitute the Group's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 March 2003 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 10 July 2003.

The same accounting policies adopted in the 2003 annual accounts have been applied to the interim financial report, except that the Group has adopted Statement of Standard Accounting Practice ("SSAP") 12 (revised) "Income taxes" which became effective for the current accounting period.

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Future deferred tax benefits were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 April 2003, in order to comply with SSAP 12 (revised) issued by the HKSA, the Group adopted a new policy for deferred tax as set out below.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. The limited exceptions are temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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

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

As a result of the adoption of this accounting policy, the Group's profit for the period has been increased by $816,000 (6 months ended 30 September 2002: decreased by $210,000) and the net assets at 30 September 2003 have been increased by $6,043,000 (at 31 March 2003: $5,227,000).

The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and reserves and the comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity.

2. **Segment reporting**

An analysis of the Group's revenue and results for the six months ended 30 September 2003 and 2002 by business segments is as follows:

	Segment revenue Six months ended 30 September		***Segment profit/(loss) Six months ended 30 September***	
	2003	*2002*	***2003***	*2002*
	$'000	$'000	**$'000**	$'000
Hotel operation	**72,273**	137,875	**110**	37,204
Property investment	**42,205**	49,898	**38,819**	45,929
Golf and recreational club operation	**11,897**	12,018	**(5,768)**	(5,068)
	126,375	199,791	**33,161**	78,065
Unallocated other revenue			**2,962**	3,519
Unallocated operating income and expenses			**(10,037)**	(9,497)
Profit from operations			**26,086**	72,087

Segment information is presented only in respect of the Group's business segments as it is chosen as the Group's primary basis of segment reporting.

3. **Profit from ordinary activities before taxation**

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

	Six months ended 30 September	
	2003	*2002*
	$'000	$'000
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within 5 years	**149**	278
(b) Other items:		
Depreciation	**10,398**	12,011
Dividend income from listed securities	**(366)**	(354)
Net loss/(profit) on disposal of fixed assets	**32**	(16)
Net unrealised loss/(gain) on other securities	**268**	(750)

4. Taxation

	Six months ended 30 September	
	2003	*2002*
		restated
	$'000	$'000
Hong Kong profits tax	**5,731**	11,841
Overseas taxation	**75**	2
Deferred taxation	**(816)**	(96)
	4,990	11,747

The provision for Hong Kong profits tax is calculated at 17.5% (2002: 16%) of the estimated assessable profits for the six months ended 30 September 2003. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

5. Dividends attributable to the interim period

	Six months ended 30 September	
	2003	*2002*
	$'000	$'000
Interim dividend declared after the interim period end of 6 cents (2002: 8 cents) per share	**21,600**	28,800

The interim dividend declared after the interim period end has not been recognised as a liability at the interim period end date.

6. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of $20,947,000 (2002 restated: $60,063,000) and 360,000,000 (2002: 360,000,000) ordinary shares in issue during the period. There were no potential dilutive ordinary shares in existence during the six months ended 30 September 2002 and 2003.

7. Fixed assets

The hotel and investment properties were revalued at 30 September 2003 by the Directors, who are not qualified valuers, using relevant market indices to update the professional valuations that were carried out at 31 March 2003.

No significant changes in the value of the hotel and investment properties since 31 March 2003 was identified and therefore, no adjustments are considered necessary in this respect.

On 30 September 2003, the Directors announced that they have decided to explore market opportunities for the possible sale of the Hyatt Regency Hotel and/or all or part of the Hyatt Regency shopping arcade. Subsequent to the balance sheet date, DTZ Debenham Tie Leung Limited has been appointed sole agent for the possible sale of these properties by tender.

8. Accounts receivable, deposits and prepayments

Included in accounts receivable, deposits and prepayments are accounts receivable (net of specific provisions for bad and doubtful debts) with the following ageing analysis:

	30 September 2003	*31 March 2003*
	$'000	$'000
Current	**8,999**	7,985
1 to 3 months overdue	**1,734**	1,730
More than 3 months overdue but less than 12 months overdue	**1,786**	1,371
	12,519	11,086

Debts are generally due within 45 days in respect of hotel operation and 14 days in respect of the operation of investment properties from the date of billing. Debtors of the hotel operation with balances that are 60 days overdue are requested to settle all outstanding balances before any further credit is granted. For debtors of the operation of investment properties, legal action will be taken against overdue debtors whenever the situation is appropriate.

9. Cash and cash equivalents

	30 September 2003	*31 March 2003*
	$'000	$'000
Deposits with bank	**343,431**	314,870
Cash at bank and in hand	**7,504**	7,046
	350,935	321,916

10. Accounts payable, other payables and accruals

Included in accounts payable, other payables and accruals are accounts payable with the following ageing analysis:

	30 September 2003	*31 March 2003*
	$'000	$'000
Due within 1 month or on demand	**5,254**	5,455
Due after 1 month but within 3 months	**551**	382
Due after 3 months but within 6 months	**2**	30
Due after 6 months but within 12 months	**11**	1
Retention monies payable after 12 months	**2,916**	2,965
	8,734	8,833

11. Share capital

	No. of shares	***Amount***
	'000	**$'000**
Issued and fully paid:		
At 1 April 2003 and 30 September 2003	360,000	360,000

12. Reserves

	Investment properties revaluation reserve $'000	*Hotel properties revaluation reserve* $'000	*Exchange reserve* $'000	*Capital reserve* $'000	*Retained earnings* $'000	*Total* $'000
At 1 April 2003						
— as previously reported	809,948	1,618,161	(5,199)	119,900	876,404	3,419,214
— prior period adjustment in respect of deferred tax *(note 1)*	—	—	—	—	5,227	5,227
— as restated	809,948	1,618,161	(5,199)	119,900	881,631	3,424,441
Dividends approved in respect of the previous year	—	—	—	—	(25,200)	(25,200)
Premium in respect of shares issued to minority shareholders of a subsidiary	—	—	—	1,735	—	1,735
Exchange differences	—	—	1,481	(742)	—	739
Profit for the period	—	—	—	—	20,947	20,947
At 30 September 2003	809,948	1,618,161	(3,718)	120,893	877,378	3,422,662

13. Capital commitments outstanding not provided for in the interim financial report

	30 September 2003 **$'000**	*31 March 2003* $'000
Contracted for	**945**	1,285
Authorised but not contracted for	**5,984**	6,202
	6,929	7,487

14. Contingent liabilities

At 30 September 2003, one of the Company's subsidiaries has received a claim from a former contractor in relation to the alleged non-payments for construction work done totalling approximately $8.2 million (at 31 March 2003: $8.2 million) as a result of the delay of the project and interest cost of 8% per annum on the outstanding balance. The construction work done is related to the Group's golf and recreational club's building structure in Malaysia.

The subsidiary has made a counterclaim to this contractor for rectification cost as a result of non-satisfactory completion of the project together with liquidated damages of substantially the same amount as the above alleged claim. This matter is currently under arbitration.

The Directors are of the opinion that the subsidiary has a strong defence and counterclaim to the above alleged claim and it would not result in any material cost to the Group. Accordingly, no provision is considered necessary by the Directors at the balance sheet date.

15. Approval of interim financial report

The interim financial report was approved and authorised for issue by the Board of Directors on 5 December 2003.

INTERIM DIVIDEND

The Directors have resolved that an interim dividend of 6 cents (2002: 8 cents) per share be payable on or about 8 January 2004 to shareholders whose names appear on the register of members of the Company on 30 December 2003. The register of members of the Company will be closed from 23 December 2003 to 30 December 2003, both dates inclusive. Accordingly, transfers must be lodged with the Company's registrars by not later than 4:00 p.m. on Monday, 22 December 2003.

BUSINESS REVIEW

- As announced on 22 May 2003, the operations of Hyatt Regency Hotel (the "Hotel") owned by the Company were severely affected by the outbreak of Severe Acute Respiratory Syndrome ("SARS") earlier this financial year for a few months. The Group's profit from operations for the half year ended 30 September 2003 was approximately $26.1 million representing a decrease of approximately 63.8% compared with the corresponding period in 2002.

- The average room rate obtained at the Hotel during the half year ended 30 September 2003 was approximately $624, representing a decrease of approximately 14.9% in comparison with the corresponding period in 2002.

- The average room occupancy of the Hotel during the half year ended 30 September 2003 was approximately 47.2% as compared to approximately 88.6% for the half year ended 30 September 2002. During the worst affected periods of SARS, the occupancy of the Hotel fell substantially so that the percentage of average occupancy for April and May was in single digits whilst for the corresponding period in 2002 it was about 88%.

- Rental income for the Hotel's shopping arcade for the half year ended 30 September 2003 was approximately $42.1 million, representing a decrease of approximately 15.5% against the corresponding period in 2002. The decrease was due to a decline in the retailing market which was mostly caused by the outbreak of SARS and which necessitated the Company to reduce rental of shops in the shopping arcade for certain months during the half year ended 30 September 2003.

- As at 30 September 2003, the total number of employees of the Group (excluding the employees of the Hotel but including the Executive Directors and employees of the Group's resort operation) was 158 and the related costs incurred during the period amounted to $12.1 million.

- The shareholders' funds for the Group as at 30 September 2003 were approximately $3,782.7 million and total borrowings of the Group were approximately $8.8 million. The Group's gearing ratio as at 30 September 2003 was approximately 0.2%.

- As announced on 30 September 2003, the Directors have decided to explore market opportunities for the possible sale of the Hotel and/or all or part of the shopping arcade. Subsequently the Company has appointed DTZ Debenham Tie Leung Limited as sole agent for the possible sale of these properties by tender. This matter is still at a preliminary stage.

  There has been no material change to the information disclosed in the Company's annual report for the year ended 31 March 2003 which necessitates additional disclosure to that made herein.

OUTLOOK

The impact of SARS was the most severe adverse event experienced by the Group in recent years. The Group tried its best to tackle negative factors by implementing cost saving and strengthening the Hotel's marketing activities. The hotel industry in Hong Kong has since experienced a significant recovery.

The Directors believe that the outlook for the hotel industry in Hong Kong is improving, particularly with the emergence of a new traveling class from Mainland China. With new individual travel arrangements allowed from several key cities and regions in China, the number of arrivals into Hong Kong from China is anticipated to grow dramatically thereby boosting hotel occupancy, especially for 2–3 star hotels. The Hotel should benefit from an overflow of customers from such hotels and from those mainland Chinese tourists who seek better lodging and are ready to pay higher room rates.

Though the Hong Kong economy remains weak as it continues to restructure and recover from the impact of SARS, rental income from the Hotel's shopping arcade for the second half of the current financial year is expected to be maintained.

As stated above, the Directors are proceeding with the marketing of the Hotel and/or all or part of the shopping arcade for possible sale by tender.

CONTINGENT LIABILITIES

Details of the Group's contingent liabilities are set out in note 14 on the interim financial report.

DIRECTORS' INTERESTS

As at 30 September 2003, the interests of the Directors and chief executives in the shares of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), and the short positions (within the meaning of the SFO) of such persons in the shares of the Company and its associated corporations, which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they are taken or deemed to have under the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, or were required pursuant to section 352 of the SFO to be entered in the register referred to therein (all of the aforesaid being "Disclosable Interests and Short Positions"), were as follows (all interests shown below being holdings of actual shares rather than short positions and/or interests in underlying shares):

(i) The Company

	Number of ordinary shares of HK$1 each				
Name	***Personal interests***	***Family interests***	***Corporate interests***	***Total beneficial interests***	***% of total issued shares***
Cheong Hooi Hong *(Chairman)*	2,073,992	—	—	2,073,992	0.58%
Cheong Kheng Lim *(Deputy Chairman & Managing Director)*	26,089,715	34,000	—	26,123,715	7.26%
Cheong Keng Hooi	15,325,839	275,280	—	15,601,119	4.33%
Cheong Sim Lam	1,969,155	24,000	—	1,993,155	0.55%
Cheong Been Kheng	3,931,198	—	—	3,931,198	1.09%
Sin Cho Chiu, Charles	242,000	—	120,000	362,000	0.10%
Lau Wah Sum	—	—	—	—	—

Note: The corporate interest of 120,000 shares represents 120,000 shares held by Chason Limited where Mr. Sin Cho Chiu, Charles is taken to be interested in such shares under the SFO.

(ii) Austin Hills Country Resort Bhd.

Name	Personal interests	Family interests	Corporate interests	Total beneficial interests	% of total issued shares
	Number of ordinary shares of Malaysian Ringgit 1 each				
Cheong Hooi Hong	—	—	—	—	—
Cheong Kheng Lim	1	—	—	1	0.00001%
Cheong Keng Hooi	—	—	—	—	—
Cheong Sim Lam	—	3	—	3	0.00003%
Cheong Been Kheng	—	—	—	—	—
Sin Cho Chiu, Charles	—	—	—	—	—
Lau Wah Sum	—	—	—	—	—

(iii) Tian Teck Land Limited

Name	Personal interests	Family interests	Corporate interests	Total beneficial interests	% of total issued shares
	Number of shares of HK$0.25 each				
Cheong Hooi Hong	4,625,792	—	—	4,625,792	0.97%
Cheong Kheng Lim	46,023,872	115,292	—	46,139,164	9.72%
Cheong Keng Hooi	26,962,036	1,002,384	—	27,964,420	5.89%
Cheong Sim Lam	1,329,504	—	—	1,329,504	0.28%
Cheong Been Kheng	300,100	—	—	300,100	0.06%
Sin Cho Chiu, Charles	2,000	—	115,200	117,200	0.02%
Lau Wah Sum	—	—	—	—	—

Note: The corporate interest of 115,200 shares represents 115,200 shares held by Chason Limited where Mr. Sin Cho Chiu, Charles is taken to be interested in such shares under the SFO.

(iv) Tian Teck Investment Holding Co., Limited

Name	Personal interests	Family interests	Corporate interests	Total beneficial interests	% of total issued shares
	Number of ordinary shares of HK$1 each				
Cheong Hooi Hong	25	—	—	25	25%
Cheong Kheng Lim	25	—	—	25	25%
Cheong Keng Hooi	25	—	—	25	25%
Cheong Sim Lam	25	—	—	25	25%
Cheong Been Kheng	—	—	—	—	—
Sin Cho Chiu, Charles	—	—	—	—	—
Lau Wah Sum	—	—	—	—	—

(v) Yik Fok Investment Holding Company, Limited

	Number of ordinary shares of HK$1 each				
Name	***Personal interests***	***Family interests***	***Corporate interests***	***Total beneficial interests***	***% of total issued shares***
Cheong Hooi Hong	10	—	—	10	0.00005%
Cheong Kheng Lim	10	—	—	10	0.00005%
Cheong Keng Hooi	10	—	—	10	0.00005%
Cheong Sim Lam	10	—	—	10	0.00005%
Cheong Been Kheng	1,350	—	—	1,350	0.00675%
Sin Cho Chiu, Charles	—	—	—	—	—
Lau Wah Sum	—	—	—	—	—

Other than as disclosed, none of the directors was interested or had any short position in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at 30 September 2003.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 September 2003, so far as the Directors are aware, the following persons had notifiable interests (for the purposes of the SFO) in the shares of the Company, being interests in issued and unissued shares of the Company equal to or more than 5 per cent of the shares of the Company then in issue:

Name of person	***Number of ordinary shares of HK$1 each***	***% of total issued shares***
Tian Teck Investment Holding Co., Limited *(note 1)*	180,030,681	50.01%
Tian Teck Land Limited *(note 1)*	180,030,681	50.01%
Cheong Kheng Lim	26,123,715 *(note 2)*	7.26%
Lim Yoke Soon	26,123,715 *(note 3)*	7.26%

Notes:

1. The registered holders shown on the relevant disclosure notice for Tian Teck Investment Holding Co., Limited were the same as those shown on the disclosure notice for Tian Teck Land Limited.

2. Out of the 26,123,715 shares in which Mr. Cheong Kheng Lim is interested, 26,089,715 shares were held by Mr. Cheong Kheng Lim himself, and 34,000 shares were held by his spouse Ms. Lim Yoke Soon.

3. Out of the 26,123,715 shares in which Ms. Lim Yoke Soon is interested, 34,000 shares were held by Ms. Lim Yoke Soon herself, and 26,089,715 shares were held by her spouse Mr. Cheong Kheng Lim.

Save as stated above, no person was interested in or had a short position in the shares or underlying shares which would fall to be disclosed to the Company under Part XV of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

PLEDGE OF ASSETS

As at 30 September 2003, certain land and buildings of the Company with an aggregate carrying value of approximately $3,212.2 million were mortgaged or charged to a bank for credit facilities of $100.0 million granted to the Company. Such banking facilities were utilised to the extent of $8.8 million as at 30 September 2003.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the period.

By Order of the Board
Sin Cho Chiu, Charles
Secretary

Hong Kong, 5 December 2003

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF ASSOCIATED INTERNATIONAL HOTELS LIMITED

Introduction

We have been instructed by the company to review the interim financial report set out on pages 1 to 10.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 September 2003.

KPMG
Certified Public Accountants

Hong Kong, 5 December 2003