



# Notes to the Accounts

For the year ended 31 December 2002

## 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 the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

These new or revised SSAPs do not have material impact to the accounting policies and financial results of the Group except that certain comparative figures have been reclassified to conform with the new disclosure requirements.

### (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 2002

## 1 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (d) Deferred taxation

Deferred taxation is 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 is expected to be payable or recoverable in the foreseeable future.

### (e) Fixed assets

#### (i) Hotel properties

Hotel properties are interests in land and buildings and their integral fixed plant, and are stated at valuations in the balance sheet except for newly opened hotels which have not completed two full years of operation and are stated at cost. Independent valuations are performed at intervals not exceeding three years on an open market for existing use basis as fully operational business units. In the intervening years the Directors review the carrying value of each property and independent valuation is performed where there are indications of a material change. Changes in the value of hotel properties are dealt with as movements in the hotel properties revaluation reserve. If the total of this reserve is insufficient to cover a deficit on an individual basis, the excess of the deficit is charged to the profit and loss account. No depreciation is provided on hotel properties held on leases (including land use rights) of more than 20 years. It is the Group's practice to maintain the properties in a continual state of sound repair and maintenance, and accordingly the Directors consider that depreciation is not necessary due to their high residual values. The related maintenance expenditure is dealt with in the profit and loss account in the year of expenditure.

Hotel properties held on leases (including land use rights) of which the unexpired term is 20 years or less are depreciated on the straight line basis over the unexpired period of the leases.

#### (ii) Investment properties

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.



## 1 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (e) Fixed assets (Continued)

#### (ii) Investment properties (Continued)

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.

#### (iii) 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.

#### (iv) 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 <sup>1</sup> / <sub>3</sub> %
Motor vehicles	25%
Plant and machinery	5% to 10%

#### (v) 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. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

#### (vi) 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 2002

## 1 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (e) Fixed assets (Continued)

#### (vii) 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 except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

### (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 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.

Held-to-maturity securities are stated in the balance sheet at cost. The discount or premium is amortised over the period to maturity and included as interest income/expense in the profit and loss account. Provision is made when there is a diminution in value other than temporary.

**(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.



# Notes to the Accounts

For the year ended 31 December 2002

## 1 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (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.

### (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 or paternity leave are not recognised until the time of leave.



## 1 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (o) Employee benefits (Continued)

#### (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.

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 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.



# Notes to the Accounts

For the year ended 31 December 2002

## 1 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (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.

### (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	
	2002 US\$'000	2001 US\$'000
Turnover		
Hotel operation:		
Room rentals	289,119	288,849
Food and beverage sales	239,046	235,886
Rendering of ancillary services	48,245	49,812
Hotel management and related service fees	9,180	8,809
Property rentals	14,931	16,205
	600,521	599,561
Other revenues		
Interest income	3,549	7,353
Dividend income	1,757	3,537
Other income	1,562	1,235
	6,868	12,125
Total revenues	607,389	611,686



## 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
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 2002

## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

### Primary reporting format – geographical segments

	The People's Republic of China							Elimination	Group
	Hong Kong	Mainland	Philippines	Singapore	Thailand	Malaysia	Other		
	2002	2002	2002	2002	2002	2002	2002	2002	2002
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Turnover</b>									
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)	-
<b>Total</b>	<b>141,799</b>	<b>187,032</b>	<b>76,750</b>	<b>89,327</b>	<b>36,077</b>	<b>64,196</b>	<b>28,138</b>	<b>(22,798)</b>	<b>600,521</b>
<b>Result</b>									
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)	-	-	-	(35)
Unallocated corporate expenses									(5,873)
Amortisation of negative goodwill									16,490
Deficit on valuation of hotel and investment properties	-	(3,417)	-	(10,183)	-	-	-	-	(13,600)
Loss on disposal of partial interest in a subsidiary									(788)
<b>Operating profit before finance costs</b>									<b>134,086</b>
Finance costs									(41,026)
<b>Operating profit</b>									<b>93,060</b>
Share of results of associated companies	-	36,365	-	2,331	-	805	1,128	-	40,629
Taxation									(30,367)
Minority interests									(10,244)
<b>Profit attributable to shareholders</b>									<b>93,078</b>



## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

## Primary reporting format – geographical segments (Continued)

	The People's Republic of China		Philippines	Singapore	Thailand	Malaysia	Other	Elimination	Group
	Hong Kong	Mainland China							
	2002	2002	2002	2002	2002	2002	2002	2002	2002
	US\$'000	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	-	733,763	-	60,682	-	32,988	24,466	-	851,899
Unallocated assets									357,112
Negative goodwill									(212,418)
Total assets									4,592,874
Segment liabilities	(39,398)	(30,730)	(14,304)	(15,873)	(7,440)	(16,498)	(11,582)	4,561	(131,264)
Unallocated liabilities									(1,251,528)
Total liabilities									(1,382,792)
Capital expenditure	13,141	37,719	9,929	421	9,801	19,627	2,119	-	92,757
Depreciation	(6,026)	(15,749)	(3,528)	2,364	(2,677)	(4,609)	(4,223)	-	(34,448)
Amortisation of negative goodwill									16,490
Provision for impairment losses	-	(13,276)	-	-	(35)	-	-	-	(13,311)



# Notes to the Accounts

For the year ended 31 December 2002

## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

### Primary reporting format – geographical segments (Continued)

	The People's Republic of China							Elimination	Group
	Hong Kong	Mainland		Singapore	Thailand	Malaysia	Other		
	2001	China	Philippines	Singapore	Thailand	Malaysia	Other	2001	2001
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Turnover</b>									
External sales	141,178	172,220	74,617	90,292	32,245	67,056	21,953	-	599,561
Inter-segment sales	4,304	8,240	3,826	2,249	1,612	1,916	505	(22,652)	-
<b>Total</b>	<b>145,482</b>	<b>180,460</b>	<b>78,443</b>	<b>92,541</b>	<b>33,857</b>	<b>68,972</b>	<b>22,458</b>	<b>(22,652)</b>	<b>599,561</b>
<b>Result</b>									
Segment results	18,456	49,610	21,478	27,582	13,741	10,413	4,363	-	145,643
Interest income									7,353
Dividend income									3,537
Net realised losses on other investments									(10,132)
Net unrealised losses on other investments									(14,439)
Provision for impairment losses on properties under development	-	(6,000)	-	-	-	-	-	-	(6,000)
Provision for impairment losses on long-term investments	-	-	-	-	(67)	-	-	-	(67)
Unallocated corporate expenses									(5,097)
Amortisation of negative goodwill									16,706
(Deficit)/surplus on valuation of hotel and investment properties	-	(8,022)	-	(2,191)	-	-	894	-	(9,319)
<b>Operating profit before finance costs</b>									<b>128,185</b>
Finance costs									(64,886)
<b>Operating profit</b>									<b>63,299</b>
Share of results of associated companies	-	40,600	-	2,094	-	472	(8,069)	-	35,097
Taxation									(27,040)
Minority interests									(12,563)
<b>Profit attributable to shareholders</b>									<b>58,793</b>



## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

### Primary reporting format – geographical segments (Continued)

	The People's Republic of China								Group 2001 US\$'000
	Hong Kong 2001 US\$'000	Mainland China 2001 US\$'000	Philippines 2001 US\$'000	Singapore 2001 US\$'000	Thailand 2001 US\$'000	Malaysia 2001 US\$'000	Other 2001 US\$'000	Elimination 2001 US\$'000	
Segment assets	752,532	1,045,279	553,659	585,524	143,165	373,066	127,514	(5,296)	3,575,443
Investments in associated companies	-	850,530	-	53,981	-	13,281	23,879	-	941,671
Unallocated assets									271,400
Negative goodwill									(223,188)
Total assets									4,565,326
Segment liabilities	(31,429)	(33,507)	(12,615)	(19,434)	(6,471)	(14,945)	(9,942)	5,296	(123,047)
Unallocated liabilities									(1,237,437)
Total liabilities									(1,360,484)
Capital expenditure	8,006	29,519	15,119	14,987	4,282	8,124	4,960	-	84,997
Depreciation	(7,279)	(21,296)	(3,150)	(8,665)	(2,768)	(4,648)	(1,965)	-	(49,771)
Amortisation of negative goodwill									16,706
Provision for impairment losses	-	(6,000)	-	-	(67)	-	-	-	(6,067)



## Notes to the Accounts

For the year ended 31 December 2002

### 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

#### Secondary reporting format – business segments

	Turnover 2002 US\$'000	Segment results 2002 US\$'000	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)	–
	<b>600,521</b>	<b>151,647</b>	<b>3,596,281</b>	<b>69,072</b>
Investments in associated companies			851,899	–
Unallocated assets			357,112	23,685
Negative goodwill			(212,418)	–
Total			<b>4,592,874</b>	<b>92,757</b>
	2001 US\$'000	2001 US\$'000	2001 US\$'000	2001 US\$'000
Hotel operation	574,548	131,802	3,251,723	61,286
Hotel management	31,460	7,668	16,929	324
Property rentals	16,205	6,173	312,087	809
Elimination	(22,652)	–	(5,296)	–
	<b>599,561</b>	<b>145,643</b>	<b>3,575,443</b>	<b>62,419</b>
Investments in associated companies			941,671	–
Unallocated assets			271,400	22,578
Negative goodwill			(223,188)	–
Total			<b>4,565,326</b>	<b>84,997</b>



### 3 OPERATING PROFIT BEFORE FINANCE COSTS

	Group	
	2002	2001
	<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	1,757	3,537
Amortisation of negative goodwill	16,490	16,706
Net realised gains on other investments	1,063	–

#### Charging

Depreciation of fixed assets (net of amount capitalised of US\$45,000 (2001: US\$34,000))	34,403	49,737
Cost of inventories sold or consumed in operation	73,655	72,038
Auditors' remuneration	623	509
Deficit on valuation of hotel and investment properties	13,600	9,319
Operating lease rental in respect of land and buildings	8,982	10,167
Staff costs excluding emoluments of directors ( <i>note 4</i> )	168,620	164,819
Net realised losses on other investments	–	10,132
Net unrealised losses on other investments	6,848	14,439
Provision for impairment losses on long-term investments	35	67
Provision for impairment losses on properties under development	13,276	6,000
Loss on disposals of fixed assets	2,280	2,748
Discarding of fixed assets due to properties renovations	2,969	1,056
Loss on disposal of partial interest in a subsidiary including the realisation of investment properties revaluation reserve and unamortised negative goodwill derecognised on disposal	788	–

### 4 STAFF COSTS

	Group	
	2002	2001
	<i>US\$'000</i>	<i>US\$'000</i>
Wages and salaries (including unutilised annual leave)	130,417	126,560
Pension costs	10,141	10,547
Other welfare	28,062	27,712
	<b>168,620</b>	<b>164,819</b>



## Notes to the Accounts

For the year ended 31 December 2002

### 5 FINANCE COSTS

	Group	
	2002 US\$'000	2001 US\$'000
Exchange differences	(1,088)	716
Interest on bank loans and overdrafts	42,902	63,418
Interest on other borrowings wholly repayable within five years	269	16
	43,171	63,434
Less: amounts capitalised	(1,667)	-
	41,504	63,434
Interest on loans from minority interests with no fixed repayment term	610	736
Total charged to the profit and loss account	41,026	64,886

### 6 SHARE OF RESULTS OF ASSOCIATED COMPANIES

	Group	
	2002 US\$'000	2001 US\$'000
Share of results of associated companies is stated after charging:		
Provision for deficit on valuation of hotel and investment properties	-	9,355



## 7 TAXATION

	Group	
	2002 US\$'000	2001 US\$'000
Hong Kong profits tax		
– Provision for the year	4,817	5,983
– Deferred ( <i>note 28(c)</i> )	650	(261)
Taxation outside Hong Kong		
– Provision for the year	14,512	11,343
– Deferred ( <i>note 28(c)</i> )	946	2,647
Share of taxation attributable to associated companies	9,442	7,328
	<b>30,367</b>	<b>27,040</b>

- (a) Hong Kong profits tax is provided at a rate of 16% (2001: 16%) on the estimated assessable profits of group companies operating in Hong Kong.
- (b) Taxation outside Hong Kong includes withholding tax paid on dividends from a subsidiary 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.

## 8 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of US\$39,367,000 (2001: US\$73,305,000).

## 9 DIVIDENDS

	Group	
	2002 US\$'000	2001 US\$'000
Interim - HK7 cents (2001: HK7 cents) per ordinary share ( <i>note (a)</i> )	19,530	20,140
Proposed final - HK5 cents (2001: HK8 cents) per ordinary share ( <i>note (b)</i> )	13,972	22,325
	<b>33,502</b>	<b>42,465</b>



## Notes to the Accounts

For the year ended 31 December 2002

### 9 DIVIDENDS (Continued)

Notes:

- (a) Amounts shown in respect of the interim dividend for the year ended 31 December 2002 reflected the cash dividend of HK7 cents (2001: HK7 cents) per ordinary share. A scrip dividend alternative to the 2002 interim dividend was also offered, with the result that only US\$16,835,000 (2001: US\$20,140,000) of the 2002 interim dividend was paid in cash.
- (b) At a meeting held on 21 March 2003, the directors recommended a final dividend of HK5 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 2003.

### 10 EARNINGS PER SHARE

- (a) Basic earnings per share of US4.28 cents (2001: US2.63 cents) is calculated based on profit attributable to shareholders of US\$93,078,000 (2001: US\$58,793,000) and the weighted average number of 2,176,761,192 shares (2001: 2,236,166,337 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 23*) granted by the Company.

### 11 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	
	2002	2001
	US\$'000	US\$'000
As directors	147	179
For management		
– basic salaries, housing allowances, other allowances and other benefits in kind	2,248	3,497
Discretionary bonus	553	518
Directors' pensions	68	124
	<b>3,016</b>	<b>4,318</b>

Apart from the aforesaid, during the years ended 31 December 2002 and 2001, no other emoluments have been paid.



## 11 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS (Continued)

### (a) Directors (Continued)

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

	Number of directors			
	Executive		Non-executive	
	2002	2001	2002	2001
HK\$ nil – HK\$1,000,000	3	–	7	6
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	–	1	–	–
HK\$3,000,001 – HK\$3,500,000	1	2	–	–
HK\$4,000,001 – HK\$4,500,000	–	1	–	–
HK\$4,500,001 – HK\$5,000,000	1	1	–	–
HK\$5,000,001 – HK\$5,500,000	–	1	–	–
HK\$6,500,001 – HK\$7,000,000	1	–	–	–
HK\$7,000,001 – HK\$7,500,000	–	1	–	–

Total emoluments payable to the independent non-executive Directors amounted to US\$57,692 (2001: US\$69,752).

No Directors have waived emoluments for the years ended 31 December 2002 and 2001.

During the year, 4,550,000 options were granted to the Directors under a new share option scheme (the “New Option Scheme”) approved by the shareholders at the Special General Meeting on 24 May 2002. Details of the options granted and exercised during the year are stated on the section headed “Share Options” in the Report of the Directors.



## Notes to the Accounts

For the year ended 31 December 2002

### 11 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 (2001: four) 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	
	2002 US\$'000	2001 US\$'000
For management		
– basic salaries, housing allowances, other allowances and other benefits in kind	2,217	2,804
Discretionary bonus	449	348
Pensions	97	113
	<b>2,763</b>	<b>3,265</b>

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

	Number of individuals	
	2002	2001
HK\$3,000,001 – HK\$3,500,000	1	–
HK\$3,500,001 – HK\$4,000,000	–	1
HK\$4,000,001 – HK\$4,500,000	1	–

### 12 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 2002 were not material.

**12 PENSION SCHEME ARRANGEMENTS (Continued)**

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 are charged to the profit and loss account as incurred. The maximum contributions for each employee for the Group's subsidiaries in Singapore are fixed at S\$960 (equivalent US\$552) per month for monthly salaries and bonus payment by Singapore government. 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 1 September 2001 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 10% per annum and salaries will increase by 6% per annum. According to this report, the market value of the plan assets and actuarial accrued liabilities on the valuation date amounted to Peso 123,608,000 (equivalent US\$2,310,000) and Peso 81,138,000 (equivalent US\$1,517,000). The report recommended that the three hotels temporarily suspend making contributions to the plan until such time that another actuarial valuation is done which must be undertaken within the next three 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\$10,209,000 (2001: US\$10,661,000).



# Notes to the Accounts

For the year ended 31 December 2002

## 13 FIXED ASSETS

	Group							Total US\$'000
	Hotel properties US\$'000	Investment properties US\$'000	Other land and buildings US\$'000	Properties under development US\$'000	Furniture, fixtures and equipment US\$'000	Motor vehicles US\$'000	Plant and machinery US\$'000	
<b>Cost or valuation</b>								
At 1 January 2002	2,880,431	295,826	61,700	211,024	406,200	13,368	71,457	3,940,006
Exchange differences	20,203	10,976	322	(1,094)	3,619	97	2,462	36,585
Additions	5,392	791	664	64,801	17,305	1,965	1,839	92,757
Transfer	56,846	(12,302)	(1,944)	(41,039)	(7,258)	359	5,338	-
(Deficit)/surplus on revaluation	(45,319)	618	-	-	-	-	-	(44,701)
Disposals	(2,137)	(11)	(467)	(1,227)	(14,218)	(3,037)	(5,277)	(26,374)
<b>At 31 December 2002</b>	<b>2,915,416</b>	<b>295,898</b>	<b>60,275</b>	<b>232,465</b>	<b>405,648</b>	<b>12,752</b>	<b>75,819</b>	<b>3,998,273</b>
At cost	-	-	60,275	232,465	405,648	12,752	75,819	786,959
At valuation	2,915,416	295,898	-	-	-	-	-	3,211,314
	2,915,416	295,898	60,275	232,465	405,648	12,752	75,819	3,998,273
<b>Accumulated depreciation</b>								
At 1 January 2002	-	-	6,094	-	291,420	9,513	49,110	356,137
Exchange differences	-	-	25	-	1,984	70	1,667	3,746
Charge for the year	-	-	952	-	29,136	1,858	2,502	34,448
Transfer	-	-	(504)	-	873	142	(511)	-
Disposals	-	-	(3)	-	(12,818)	(2,950)	(4,629)	(20,400)
<b>At 31 December 2002</b>	<b>-</b>	<b>-</b>	<b>6,564</b>	<b>-</b>	<b>310,595</b>	<b>8,633</b>	<b>48,139</b>	<b>373,931</b>
<b>Accumulated impairment losses</b>								
At 1 January 2002	-	-	-	6,000	-	-	-	6,000
Provision for the year	-	-	-	13,276	-	-	-	13,276
<b>At 31 December 2002</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,276</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,276</b>
<b>Net book value</b>								
<b>At 31 December 2002</b>	<b>2,915,416</b>	<b>295,898</b>	<b>53,711</b>	<b>213,189</b>	<b>95,053</b>	<b>4,119</b>	<b>27,680</b>	<b>3,605,066</b>
At 31 December 2001	2,880,431	295,826	55,606	205,024	114,780	3,855	22,347	3,577,869

- (a) Hotel and 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.



## 13 FIXED ASSETS (Continued)

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

	Group						Total US\$'000
	Hotel properties		Investment properties	Other land and buildings		Properties under development	
	Hong Kong	Outside	Outside	Hong Kong	Outside	Outside	
	Hong Kong	Hong Kong	Hong Kong	Hong Kong	Hong Kong	Hong Kong	
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Freehold							
At cost	-	-	-	-	19,895	20,421	40,316
At valuation	-	659,714	245,398	-	-	-	905,112
Long lease (not less than 50 years)							
At cost	-	-	-	2,446	14,155	44,029	60,630
At valuation	297,657	342,783	-	-	-	-	640,440
Medium lease (less than 50 years but more than 10 years)							
At cost	-	-	-	2,609	12,616	148,739	163,964
At valuation	362,794	1,252,468	50,500	-	-	-	1,665,762
Short lease (less than 10 years)							
At cost	-	-	-	-	1,990	-	1,990
At valuation	-	-	-	-	-	-	-
<b>Total</b>	<b>660,451</b>	<b>2,254,965</b>	<b>295,898</b>	<b>5,055</b>	<b>48,656</b>	<b>213,189</b>	<b>3,478,214</b>

The carrying amount of hotel properties and investment properties that would have been included in the accounts had these assets been carried at cost is US\$2,591,237,000 (2001: US\$2,524,541,000). No depreciation is provided for the above hotel properties and investment properties which are all held on leases of more than 20 years under the Company's accounting policies.

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



## Notes to the Accounts

For the year ended 31 December 2002

### 13 FIXED ASSETS (Continued)

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

	<b>Furniture, fixtures and equipment US\$'000</b>	<b>Motor vehicles US\$'000</b>	<b>Total US\$'000</b>
<b>Cost</b>			
At 1 January 2002	765	293	1,058
Additions	4	–	4
Disposals	(8)	(42)	(50)
<b>At 31 December 2002</b>	<b>761</b>	<b>251</b>	<b>1,012</b>
<b>Accumulated depreciation</b>			
At 1 January 2002	736	293	1,029
Charge for the year	15	–	15
Disposals	(6)	(42)	(48)
<b>At 31 December 2002</b>	<b>745</b>	<b>251</b>	<b>996</b>
<b>Net book value</b>			
<b>At 31 December 2002</b>	<b>16</b>	<b>–</b>	<b>16</b>
At 31 December 2001	29	–	29



## 14 NEGATIVE GOODWILL

	Group	
	2002 US\$'000	2001 US\$'000
<b>Cost</b>		
At 1 January	(264,101)	(234,632)
Acquisition of additional interests in subsidiaries and a new associated company	(6,454)	(29,469)
Released upon disposal of partial interest in a subsidiary	917	-
<b>At 31 December</b>	<b>(269,638)</b>	<b>(264,101)</b>
<b>Accumulated amortisation</b>		
At 1 January	40,913	24,207
Amortised during the year	16,490	16,706
Released during the year upon disposal of partial interest in a subsidiary	(183)	-
<b>At 31 December</b>	<b>57,220</b>	<b>40,913</b>
<b>Net book value at 31 December</b>	<b>(212,418)</b>	<b>(223,188)</b>

## 15 SUBSIDIARIES

	Company	
	2002 US\$'000	2001 US\$'000
Unlisted shares, at cost	1,698,366	1,698,366
Amounts due from subsidiaries	675,395	659,771
Amounts due to subsidiaries	(155,474)	(125,971)
	<b>2,218,287</b>	<b>2,232,166</b>

- (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 (2001: US\$15,600,000) due from a subsidiary which was interest bearing at HIBOR plus 1% per annum.
- (c) Amounts due to subsidiaries as at 31 December 2002 and 2001 are unsecured, interest-free and with no fixed repayment terms.



## Notes to the Accounts

For the year ended 31 December 2002

### 16 ASSOCIATED COMPANIES

	Group	
	2002 <i>US\$'000</i>	2001 <i>US\$'000</i>
Share of net assets	731,023	734,623
Amounts due from associated companies	120,876	207,048
	<b>851,899</b>	<b>941,671</b>

Amounts due from associated companies are unsecured, interest-free and with no fixed repayment terms except for the total amount of US\$80,510,000 (2001: US\$86,991,000) due from two associated companies which is interest bearing at LIBOR plus 2% per annum and US\$30,631,000 (2001: US\$28,832,000) 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).

### 17 LONG-TERM INVESTMENTS

	Group	
	2002 <i>US\$'000</i>	2001 <i>US\$'000</i>
Overseas unlisted shares, at cost	1,916	1,916
Exchange differences	(242)	(31)
Provision for impairment losses	(332)	(297)
	<b>1,342</b>	<b>1,588</b>
Loans	550	1,174
	<b>1,892</b>	<b>2,762</b>

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



## 18 ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS

At 31 December 2002, the ageing analysis of the trade debtors was as follows:

	Group	
	2002 <i>US\$'000</i>	2001 <i>US\$'000</i>
0 – 3 months	28,634	25,043
4 – 6 months	1,239	750
over 6 months	531	381
	<b>30,404</b>	26,174

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

## 19 OTHER INVESTMENTS

	Group	
	2002 <i>US\$'000</i>	2001 <i>US\$'000</i>
Equity securities, at market value		
Shares listed in Hong Kong	23,547	33,641
Shares listed outside Hong Kong	12,687	19,493
	<b>36,234</b>	53,134
Unlisted securities, at market value		
Outside Hong Kong	1,257	1,242
Held-to-maturity securities, at cost		
Unquoted outside Hong Kong	–	2,004
	<b>37,491</b>	56,380

Equity securities listed in Hong Kong included shares in the Company (“such SA shares”) with a carrying value of US\$8,628,000 (2001: US\$10,319,000) held by Shangri-La Hotel Public Company Limited, Thailand (“SHPCL”). Such SA shares, representing approximately 0.6% (2001: 0.6%) of the issued share capital of the Company as at 31 December 2002, were held by SHPCL before the Company acquired the controlling interests in it in late 1999. The Company has undertaken, subject to market conditions, to use its reasonable endeavours to procure SHPCL to dispose 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.



## Notes to the Accounts

For the year ended 31 December 2002

### 20 ACCOUNTS PAYABLE AND ACCRUALS

At 31 December 2002, the ageing analysis of the trade creditors was as follows:

	Group	
	2002 US\$'000	2001 US\$'000
Accounts payable in the next:		
0 – 3 months	22,765	18,448
4 – 6 months	429	488
over 6 months	1,614	1,190
	<b>24,808</b>	20,126

### 21 BANK LOANS AND OVERDRAFTS AND OTHER BORROWINGS

	Group	
	2002 US\$'000	2001 US\$'000
Overdrafts – unsecured	538	305
Bank loans – secured ( <i>note 32(b)</i> )	17,446	35,747
Bank loans – unsecured	1,105,723	1,073,773
Other borrowings – unsecured	17,261	16,247
	<b>1,140,968</b>	1,126,072

The above bank loans and overdrafts are repayable as follows:

	Bank loans and overdrafts		Other borrowings	
	2002 US\$'000	2001 US\$'000	2002 US\$'000	2001 US\$'000
Within one year	130,099	619,796	–	–
In the second year	21,096	5,137	17,261	–
In the third to fifth years inclusive	933,487	483,090	–	16,247
After five years	39,025	1,802	–	–
	<b>993,608</b>	490,029	<b>17,261</b>	16,247
	<b>1,123,707</b>	1,109,825	<b>17,261</b>	16,247

Other borrowings represented S\$30,000,000 unsecured Floating Rate Notes (the “Notes”) due in 2004 issued at face value by Shangri-La Hotel Limited, Singapore (“SHL”) on 13 December 2001. As at 31 December 2002, the interest rate is 1.45% (2001: 1.7886%). 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.



## 22 SHARE CAPITAL

	2002		2001	
	No. of shares ('000)	US\$'000	No. of shares ('000)	US\$'000
<b>Authorised – Ordinary shares of HK\$1 each</b>				
<b>At 1 January and 31 December</b>	<b>5,000,000</b>	<b>646,496</b>	5,000,000	646,496
<b>Issued and fully paid – Ordinary shares of HK\$1 each</b>				
At 1 January	2,176,660	281,406	2,214,014	286,270
Issue of scrip dividend shares (note (a))	4,738	607	–	–
Issue of shares for acquisition of additional interests in SHL (note (b))	–	–	32,350	4,148
Repurchase of shares (note (c))	(1,742)	(225)	(69,704)	(9,012)
<b>At 31 December</b>	<b>2,179,656</b>	<b>281,788</b>	2,176,660	281,406

- (a) 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.
- (b) As at the close of the delisting exit offer to the remaining shareholders of SHL on 22 February 2001, the Company acquired a further 9.61% of the share capital of SHL from unrelated shareholders and thus increased its interest in SHL to 99.11%. The total consideration was US\$34,674,000 including the issuance of 32,349,764 new ordinary shares of par value of HK\$1 each at HK\$8.31 per share on 27 February 2001 by the Company and cash payment of associated acquisition costs of US\$209,000. The issued new shares rank pari passu with the existing shares.



## Notes to the Accounts

For the year ended 31 December 2002

### 22 SHARE CAPITAL (Continued)

- (c) During the year, the Company repurchased a total of 1,742,000 (2001: 2,758,000) fully paid shares on The Stock Exchange of Hong Kong Limited (the "HKSE"), all of which have been duly cancelled, as follows:

Month of purchase	No. of shares repurchased	Total consideration	Purchase price per share	
			Highest	Lowest
		US\$	HK\$	HK\$
August	196,000	128,084	5.20	4.975
September	570,000	361,614	5.15	4.60
October	976,000	562,648	4.60	4.30
	1,742,000	1,052,346		

In last year, the Company also repurchased 66,945,522 fully paid shares which were previously held indirectly by SHL. These shares were repurchased from SHL through private arrangement at a price of HK\$6.85 per share on 11 December 2001 and all these shares have been duly cancelled on the same date.

### 23 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).

During the year, the Company granted a total of 17,140,000 option shares under the New Option Scheme at an exercise price of HK\$6.81 per share.

Pursuant to the terms of the Executive Option Scheme, the Company adjusted the respective exercise prices per option share of the unexercised options and the respective number of option shares on 30 December 2002 following the change in the Company's issued share capital arising from the various repurchases of the Company's own shares and the issue of the scrip dividend shares on 19 November 2002.

## Notes to the Accounts



For the year ended 31 December 2002

## 23 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 2002	13,110,000	8,360,000	4,900,000
Granted during the year	-	-	-
Lapsed during the year	(150,000)	(170,000)	(100,000)
Adjustment made on the number of option shares on 30 December 2002	(419,887)	(253,009)	(142,558)
<b>Balance as at 31 December 2002</b>	<b>12,540,113</b>	<b>7,936,991</b>	<b>4,657,442</b>
Exercise price per option share before the adjustment on 30 December 2002 (HK\$)	8.00	8.55	7.94
Exercise price per option share immediately after the adjustment on 30 December 2002 (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 2002	-
Granted during the year	17,140,000
Lapsed during the year	(270,000)
<b>Balance as at 31 December 2002</b>	<b>16,870,000</b>
Exercise price per option share (HK\$)	6.81



## Notes to the Accounts

For the year ended 31 December 2002

### 23 SHARE OPTIONS (Continued)

*Notes:*

- (a) The share options are exercisable based on an approved three-year vesting scale from 1 May 1999 to 30 April 2008.
- (b) The share options are exercisable based on an approved two-year vesting scale from 15 January 2001 to 14 January 2010.
- (c) The share options are exercisable based on an approved two-year vesting scale from 15 January 2002 to 14 January 2011.
- (d) The share options are exercisable based on an approved two-year vesting scale from 29 May 2003 to 28 May 2012.

No options were cancelled under the Executive Option Scheme and the New Option Scheme during the year (2001: Nil).

According to the terms of the Executive Option Scheme and the New Option Scheme, no options have lapsed subsequent to the year end and up to the date of this report.



For the year ended 31 December 2002

## 24 RESERVES

	Share premium US\$'000	Capital redemption reserve US\$'000	Hotel properties revaluation reserve US\$'000	Share of revaluation reserves in associated companies		Exchange fluctuation reserve US\$'000	Capital reserve US\$'000	Other reserve US\$'000	Contributed surplus US\$'000	Total US\$'000
				Hotel properties US\$'000	Investment properties US\$'000					
<b>Group</b>										
At 1 January 2002	530,725	10,441	563,947	95,797	182,197	(182,119)	601,490	557	389,741	2,192,776
Deficit on valuation	-	-	(27,060)	(28,846)	(6,437)	-	-	-	-	(62,343)
Arising from issue of scrip dividend (note 22(a))	2,087	-	-	-	-	-	-	-	-	2,087
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)
Arising from repurchase of shares (note 22(c))	(836)	225	-	-	-	-	-	-	-	(611)
Exchange differences	-	-	-	-	-	20,983	-	-	-	20,983
Other movements	-	-	-	-	-	-	-	500	-	500
<b>At 31 December 2002</b>	<b>531,976</b>	<b>10,666</b>	<b>536,682</b>	<b>66,951</b>	<b>175,733</b>	<b>(161,136)</b>	<b>601,490</b>	<b>1,057</b>	<b>389,741</b>	<b>2,153,160</b>
<b>Company</b>										
At 1 January 2002	530,725	10,441	-	-	-	-	-	-	1,524,231	2,065,397
Arising from issue of scrip dividend (note 22(a))	2,087	-	-	-	-	-	-	-	-	2,087
Arising from repurchase of shares (note 22(c))	(836)	225	-	-	-	-	-	-	-	(611)
<b>At 31 December 2002</b>	<b>531,976</b>	<b>10,666</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,524,231</b>	<b>2,066,873</b>
<b>Group</b>										
At 1 January 2001	583,181	1,429	613,556	98,158	175,646	(153,654)	601,490	459	359,424	2,279,689
(Deficit)/surplus on valuation	-	-	(49,609)	(2,361)	6,551	-	-	-	-	(45,419)
Arising from issue of shares (note 22(b))	-	-	-	-	-	-	-	-	30,317	30,317
Arising from repurchase of shares (note 22(c))	(52,456)	9,012	-	-	-	-	-	-	-	(43,444)
Exchange differences	-	-	-	-	-	(28,465)	-	-	-	(28,465)
Other movements	-	-	-	-	-	-	-	98	-	98
<b>At 31 December 2001</b>	<b>530,725</b>	<b>10,441</b>	<b>563,947</b>	<b>95,797</b>	<b>182,197</b>	<b>(182,119)</b>	<b>601,490</b>	<b>557</b>	<b>389,741</b>	<b>2,192,776</b>
<b>Company</b>										
At 1 January 2001	583,181	1,429	-	-	-	-	-	-	1,493,914	2,078,524
Arising from issue of shares (note 22(b))	-	-	-	-	-	-	-	-	30,317	30,317
Arising from repurchase of shares (note 22(c))	(52,456)	9,012	-	-	-	-	-	-	-	(43,444)
<b>At 31 December 2001</b>	<b>530,725</b>	<b>10,441</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,524,231</b>	<b>2,065,397</b>



## Notes to the Accounts

For the year ended 31 December 2002

### 24 RESERVES (Continued)

- (a) The revaluation reserves of hotel and 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.

### 25 RETAINED PROFITS

	Group		Company	
	2002 US\$'000	2001 US\$'000	2002 US\$'000	2001 US\$'000
At 1 January	406,555	400,050	33,990	12,875
Profit attributable to shareholders for the year	93,078	58,793	39,367	73,305
2001/2000 Final dividend paid ( <i>note 9</i> )	(22,325)	(23,038)	(22,325)	(23,038)
2002/2001 Interim dividend paid ( <i>note 9</i> )	(19,530)	(20,140)	(19,530)	(20,140)
Transfer to capital redemption reserve	(225)	(9,012)	(225)	(9,012)
Transfer to other reserve	(500)	(98)	-	-
Transfer from revaluation reserve	205	-	-	-
<b>At 31 December</b>	<b>457,258</b>	<b>406,555</b>	<b>31,277</b>	<b>33,990</b>
Representing:				
2002/2001 Final dividend proposed ( <i>note 9</i> )	13,972	22,325	13,972	22,325
Retained profits	443,286	384,230	17,305	11,665
At 31 December	457,258	406,555	31,277	33,990
Company and subsidiaries	217,828	187,789	31,277	33,990
Associated companies	239,430	218,766	-	-
	457,258	406,555	31,277	33,990



## 25 RETAINED PROFITS (Continued)

- (a) Included in the retained profits of subsidiaries and associated companies are statutory funds of approximately US\$197,000 and US\$15,947,000, respectively (2001: US\$147,000 and US\$15,561,000). 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.
- (b) The repatriation of retained earnings of subsidiaries operating in the Philippines and Thailand is subject to withholding tax of 15% and 10% respectively. The amount of retained earnings attributable to the Group was US\$60,309,000 (2001: US\$56,559,000) and US\$7,202,000 (2001: US\$2,401,000), respectively for subsidiaries operating in the Philippines and Thailand as at 31 December 2002.

The repatriation of retained earnings of a subsidiary owned by a Group's wholly owned subsidiary operating in Singapore is subject to Singapore Income Tax at 22%. The amount of retained earnings attributable to the Group was US\$31,405,000 (2001: US\$39,409,000).

The Group provides for withholding/income tax only upon repatriation of dividends from these subsidiaries as it is its policy to use a significant portion of the earnings in the respective countries to finance the local business needs of the respective subsidiaries for refurbishment, expansion, working capital and repayment of loans and because the tax is only due upon eventual remittances.

## 26 DISTRIBUTABLE RESERVES

As at 31 December 2002, the Group's distributable reserves comprised:

	2002 US\$'000	2001 US\$'000
The Company		
Distributable retained profits	31,277	33,990
Contributed surplus	1,524,231	1,524,231
	<b>1,555,508</b>	1,558,221
Subsidiaries ( <i>notes (a) and (b)</i> )		
Distributable retained profits	390,198	323,640
Associated companies ( <i>notes (a) and (b)</i> )		
Distributable retained profits	231,410	236,063

- (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.



## Notes to the Accounts

For the year ended 31 December 2002

### 27 MINORITY INTERESTS AND LOANS

	Group	
	2002 <i>US\$'000</i>	2001 <i>US\$'000</i>
Share of equity	317,876	324,105
Loans from minority shareholders	88,334	88,762
	<b>406,210</b>	412,867

The loans from minority shareholders are unsecured and interest-free except for a total amount of US\$27,203,000 (2001: US\$22,473,000) which is interest bearing at various interest rates ranging from HIBOR plus 1% per annum to 2.5% per annum.

### 28 DEFERRED TAXATION

- (a) An analysis of the full potential deferred taxation liabilities and the provision made in the accounts is as follows:

	Group			
	2002		2001	
	Full potential liabilities <i>US\$'000</i>	Provision made <i>US\$'000</i>	Full potential liabilities <i>US\$'000</i>	Provision made <i>US\$'000</i>
Timing differences in respect of				
– Accelerated depreciation allowances	29,841	13,091	19,806	11,108
– Others	(10,085)	(872)	(1,037)	(1,098)
	<b>19,756</b>	<b>12,219</b>	18,769	10,010

Others are mainly due to unrealised exchange differences on long-term loans and available tax losses.

- (b) No provision has been made for deferred taxation liability in respect of the timing differences not expected to reverse in the foreseeable future and the timing differences relating to the surplus arising from the revaluation of properties of subsidiaries and associated companies. The revaluation does not constitute a timing difference for taxation purposes because the management of the Group intends to operate these properties on a long-term basis. In addition, certain countries in which the Group operates do not levy a capital gains tax.



## 28 DEFERRED TAXATION (Continued)

(c) Movements of the provision for deferred tax liabilities of the Group are as follows:

	Group	
	2002 US\$'000	2001 US\$'000
At 1 January	10,010	8,013
Transferred from profit and loss account (note 7)	1,596	2,386
Exchange differences	613	(389)
<b>At 31 December</b>	<b>12,219</b>	<b>10,010</b>

## 29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002 US\$'000	2001 US\$'000
Profit before taxation	133,689	98,396
Share of results of associated companies	(40,629)	(35,097)
Deficit on valuation of hotel and investment properties	13,600	9,319
Provision for impairment losses on properties under development	13,276	6,000
Depreciation	34,403	49,737
Amortisation of negative goodwill	(16,490)	(16,706)
Interest on bank loans and overdrafts and other borrowings	42,114	64,170
Interest income	(3,549)	(7,353)
Dividend received from other investments	(1,757)	(3,537)
Loss on disposal of fixed assets and discarding of fixed assets due to properties renovations	5,249	3,804
Net realised and unrealised losses on other investments	5,785	24,571
Provision for impairment losses on long-term investments	35	67
Loss on disposal of partial interest in a subsidiary	788	-
Operating profit before working capital changes	186,514	193,371
(Increase)/decrease in inventories	(623)	3,037
(Increase)/decrease in accounts receivable, prepayments and deposits	(8,543)	10,499
Increase/(decrease) in accounts payable and accruals	15,001	(19,645)
(Decrease)/increase in amounts due to minority shareholders	(107)	101
Increase in amounts due from associated companies	(2,333)	(1,074)
Increase in amounts due from minority shareholders	-	(363)
<b>Net cash generated from operations</b>	<b>189,909</b>	<b>185,926</b>



## Notes to the Accounts

For the year ended 31 December 2002

### 29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

#### (b) Analysis of changes in financing during the year

	Note	Share capital (including premium)	Bank loans and other borrowings (including loans from minority shareholders)
		2002 US\$'000	2002 US\$'000
At 1 January 2002		812,131	1,214,529
Issue of shares for scrip dividend	22(a)	2,694	–
Net cash (outflow)/inflow from financing		(1,052)	6,669
Exchange differences		(9)	7,566
<b>At 31 December 2002</b>		<b>813,764</b>	<b>1,228,764</b>
			2001
		US\$'000	US\$'000
At 1 January 2001		869,451	1,275,674
Issue of shares for acquisition of additional interest in a subsidiary		4,148	–
Net cash outflow from financing		(2,163)	(51,847)
Cancellation of own shares repurchased from a subsidiary		(58,792)	–
Exchange differences		(513)	(9,298)
At 31 December 2001		812,131	1,214,529

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

	2002 US\$'000	2001 US\$'000
Cash and bank balances	127,261	103,697
Bank overdrafts	(538)	(305)
	<b>126,723</b>	<b>103,392</b>

At 31 December 2002, the Group's cash and bank balances of US\$79,853,000 (2001: US\$55,550,000) 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\$4,750,000 (2001: US\$4,148,000) 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.

### 31 COMMITMENTS

As at 31 December 2002, the Group and the Company had the following commitments:

- (a) The Group's commitments for hotel and associated property development and renovation projects amount to approximately:

	2002 US\$'000	2001 US\$'000
Contracted but not provided for	86,958	21,390
Authorised by Directors but not contracted for	354,612	436,610
	<b>441,570</b>	458,000

- (b) As at 31 December 2002, the Group has no commitments in associated companies in respect of property development projects (2001: US\$12,229,000).

- (c) 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:

	2002 US\$'000	2001 US\$'000
Not later than one year	6,895	5,629
Later than one year and not later than five years	19,009	15,504
Later than five years	134,621	86,490
	<b>160,525</b>	107,623

- (d) At 31 December 2002, the Group had future aggregate minimum lease rental receivable under non-cancellable operating leases in respect of land and buildings as follows:

	2002 US\$'000	2001 US\$'000
Not later than one year	5,859	4,771
Later than one year and not later than five years	1,747	1,297
	<b>7,606</b>	6,068



## Notes to the Accounts

For the year ended 31 December 2002

### 31 COMMITMENTS (Continued)

- (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 2002, 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 associated companies. The utilised amount of such facilities covered by the Company's guarantees for the subsidiaries and associated companies, and which also represented the financial exposure of the Company at the balance sheet date, amounts to US\$943,729,000 (2001: US\$979,826,000) and US\$29,759,000 (2001: US\$29,759,000), respectively.
- (ii) The Group executed guarantees in favour of banks for securing banking facilities granted to certain associated companies. The utilised amount of such facilities covered by the Group's guarantees for these associated companies at the balance sheet date amounts to US\$44,764,000 (2001: US\$47,382,000).

#### (b) Charges over assets

As at 31 December 2002, bank loan and banking facility of a subsidiary amounting to US\$12,371,000 (2001: US\$35,047,000 for two subsidiaries) were secured by charges over certain hotel properties and other fixed assets of that subsidiary with net book values totalling US\$57,537,000 (2001: US\$87,346,000 for two subsidiaries) and other assets totalling US\$2,917,000 (2001: US\$7,166,000 for two subsidiaries). Bank loan of a subsidiary amounting to US\$5,075,000 (2001: US\$700,000) was secured by charges over other investment of this subsidiary with net book values totalling US\$8,628,000 (2001: US\$6,948,000).

Apart from the aforesaid, neither the Group nor the Company had any material contingent liabilities or charges as at 31 December 2002.



### 33 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES AND ASSOCIATED COMPANIES

(a) At 31 December 2002, 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	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



## Notes to the Accounts

For the year ended 31 December 2002

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

(a) At 31 December 2002, 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		
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
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



For the year ended 31 December 2002

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

- (a) At 31 December 2002, 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		
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
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	-	90	Real estate development and operation	3, 5
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



## Notes to the Accounts

For the year ended 31 December 2002

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

- (a) At 31 December 2002, 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 Hotel Limited	Singapore	Ordinary S\$164,663,560	–	100	Investment holding, hotel ownership and operation and leasing of residential and serviced apartments	2
Sentosa Beach Resort Pte Ltd	Singapore	Ordinary S\$30,000,000	–	100	Hotel ownership and operation	2
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	



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

- (a) At 31 December 2002, 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		
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
Shangri-La International Hotel Management B.V.	The Netherlands	Ordinary EUR18,151	-	100	Licensing use of intellectual property rights	1

*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.



## Notes to the Accounts

For the year ended 31 December 2002

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

- (b) At 31 December 2002, 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
PT Swadharma Kerry Satya	Indonesia	25	Hotel ownership and operation	
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	



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

- (b) At 31 December 2002, the Group held interests in the following principal associated companies: (continued)

*Notes:*

- 1 Associated company audited by PricewaterhouseCoopers, Hong Kong.
  - 2 Associated companies audited by other member firms of PricewaterhouseCoopers, Hong Kong.
- (c) The above tables list out the subsidiaries and associated companies of the Company as at 31 December 2002 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 2002 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*

	Year ended 31 December	
	2002 US\$'000	2001 US\$'000
Turnover	139,630	147,449
Profit before taxation	51,861	72,733
Taxation	(12,683)	(11,658)
Profit after taxation	39,178	61,075
Minority interests	(6,888)	(6,788)
Profit attributable to shareholders	32,290	54,287
Depreciation and amortisation	2,676	1,850
Profit after taxation attributable to the Group	16,145	27,144



## Notes to the Accounts

For the year ended 31 December 2002

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

(d) (ii) *Summarised assets and liabilities*

	<b>As at 31 December</b>	
	<b>2002</b>	2001
	<b>US\$'000</b>	US\$'000
Fixed assets	<b>1,257,115</b>	1,305,009
Deferred tax assets	<b>5,133</b>	6,472
Current assets	<b>108,653</b>	116,261
Current liabilities	<b>(260,894)</b>	(265,278)
Net current liabilities	<b>(152,241)</b>	(149,017)
Long-term liabilities	<b>(1,232)</b>	-
Net assets and minority interests	<b>1,108,775</b>	1,162,464

### 34 HOTEL AND INVESTMENT PROPERTIES OF SUBSIDIARIES AND ASSOCIATED COMPANIES

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

<b>Address</b>	<b>Existing use</b>	<b>Lease term</b>
Kowloon Shangri-La, Hong Kong 64 Mody Road, Tsimshatsui East, Kowloon, Hong Kong	Hotel operation	Long 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


**34 HOTEL AND INVESTMENT PROPERTIES OF SUBSIDIARIES AND ASSOCIATED COMPANIES (Continued)**

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

<b>Address</b>	<b>Existing use</b>	<b>Lease term</b>
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
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



## Notes to the Accounts

For the year ended 31 December 2002

### 34 HOTEL AND INVESTMENT PROPERTIES OF SUBSIDIARIES AND ASSOCIATED COMPANIES (Continued)

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

Address	Existing use	Lease term
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 Island 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
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


**34 HOTEL AND INVESTMENT PROPERTIES OF SUBSIDIARIES AND ASSOCIATED COMPANIES (Continued)**

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

<b>Address</b>	<b>Existing use</b>	<b>Lease term</b>
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
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



## Notes to the Accounts

For the year ended 31 December 2002

### 34 HOTEL AND INVESTMENT PROPERTIES OF SUBSIDIARIES AND ASSOCIATED COMPANIES (Continued)

- (b) Details of hotel and 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 Guanghua 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
Traders Hotel, Singapore 1A Cuscaden Road, Singapore 249716	Hotel operation	Long lease



### 34 HOTEL AND INVESTMENT PROPERTIES OF SUBSIDIARIES AND ASSOCIATED COMPANIES (Continued)

- (b) Details of hotel and investment properties of the operating associated companies are as follows: (continued)

Address	Existing use	Lease term
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 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 21 March 2003.