

Notes to the Accounts

For the year ended 31 December 2004

1 Principal Accounting Policies

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

(a) Basis of preparation

- (i) 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 Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain investment properties and investments in securities are stated at fair value.
- (ii) HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group is in the process of making an assessment of the impact of these new HKFRSs and has so far concluded that the adoption of HKAS 17 "Leases" and HKAS 40 "Investment Property" would have the following significant effects:

I The Group's hotel properties will no longer be accounted for as investment properties. Accordingly, for the accounting year beginning on 1 January 2005, instead of stating the hotel properties at fair value, the Group will adopt the following accounting policies retroactively:

- (1) The underlying buildings and integral plant and machinery will be stated at cost less accumulated depreciation and impairment, if any, under HKAS 16 "Property, Plant and Equipment".
- (2) The underlying freehold land will be stated at cost less impairment, if any, under HKAS 16 "Property, Plant and Equipment"; and
- (3) The underlying leasehold land will be stated at cost and subject to annual operating lease rental charge (amortisation of land cost) as required by HKAS 17 "Leases".

Adoption of these new accounting policies will have the following consequences:

- (a) The net book value of fixed assets, the overall provision for deferred tax liabilities and the net asset value of the Group will be reduced.

1 Principal Accounting Policies (Continued)

(a) Basis of preparation (Continued)

- (b) The annual depreciation and lease rental charges will increase and this will reduce the profit after tax attributable to the shareholders ("PAT") and the Earnings Per Share ("EPS") of the Group

II For the accounting year beginning on 1 January 2005, the Group will adopt the following accounting policy retroactively for its investment properties:

- the Group's investment properties will continue to be stated at fair value. All changes in the fair value of investment properties from one balance sheet date to the next will be reported in the income statement. Previously, such changes were taken directly to the investment property revaluation reserve account on a portfolio basis to the extent that the reserve remained surplus.

Adoption of this new policy will affect the PAT and the EPS of the Group depending on the results of the annual revaluation.

The Group will be continuing with the assessment of the impact of the other new HKFRSs and other significant changes may be identified as a result.

(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.

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

Notes to the Accounts

For the year ended 31 December 2004

1 Principal Accounting Policies (Continued)

(b) Group accounting (Continued)

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.

(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.

(d) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

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

(e) Fixed assets

(i) Investment properties

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

1 Principal Accounting Policies (Continued)

(e) Fixed assets (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.

(ii) Properties under development

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

(iii) Other tangible fixed assets

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

Other land and buildings	2.5%
Furniture, fixtures and equipment	10% to 33 $\frac{1}{3}$ %
Motor vehicles	25%
Plant and machinery	5% to 10%

(iv) Gain or loss on disposal of fixed assets

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

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

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

(vi) Impairment

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

(f) Operating leases

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



Notes to the Accounts

For the year ended 31 December 2004

1 Principal Accounting Policies (Continued)

(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.

(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.

1 Principal Accounting Policies (Continued)

(j) Accounts receivable

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

(k) Cash and cash equivalents

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

(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, it will then be recognised as a provision.

(n) Borrowing costs

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

(o) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

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

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

Notes to the Accounts

For the year ended 31 December 2004

1 Principal Accounting Policies (Continued)

(o) Employee benefits (Continued)

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

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

(p) Segment reporting

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

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

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

(q) Provisions

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

(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.

(s) Convertible bonds

Convertible bonds are stated in the balance sheet at face value plus the accrued redemption premium. The redemption premium is accrued using effective interest rate method. The issuance costs incurred for the arrangement of convertible bonds are capitalised and amortised on a straight-line basis over the period of convertible bonds.

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	
	2004 US\$'000	2003 US\$'000
Turnover		
Hotel operation:		
Room rentals	364,219	253,614
Food and beverage sales	280,022	221,387
Rendering of ancillary services	50,855	40,987
Hotel management and related service fees	12,351	8,310
Property rentals	18,076	16,119
	725,523	540,417
Other revenues		
Interest income	4,662	2,634
Dividend income	1,446	1,427
Other income	1,335	1,283
Net realised and unrealised gains on other investments	20,902	18,348
	28,345	23,692
Total revenues	753,868	564,109

Primary reporting format – geographical segments

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

Hong Kong	–	hotel ownership, operation and management
Mainland China	–	hotel ownership, operation and management
	–	ownership and leasing of office, commercial and serviced apartments
The Philippines	–	hotel ownership, operation and management
Singapore	–	hotel ownership, operation and management
	–	ownership and leasing of office, commercial and serviced apartments
Thailand	–	hotel ownership, operation and management
	–	ownership and leasing of office, commercial and serviced apartments
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 2004

2 Turnover, Revenue and Segment Information (Continued)

Primary reporting format – geographical segments

	2004								
	The People's Republic of China		The	Singapore	Thailand	Malaysia	Other	Elimination	Group
	Hong Kong	Mainland China	Philippines	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Turnover									
External sales	155,176	219,208	88,431	102,144	46,856	82,651	31,057	–	725,523
Inter-segment sales	5,361	10,415	4,744	2,514	2,103	2,411	784	(28,332)	–
Total	160,537	229,623	93,175	104,658	48,959	85,062	31,841	(28,332)	725,523
Result									
Segment results	8,763	78,156	25,314	30,314	18,869	5,178	7,209	–	173,803
Interest income									4,662
Dividend income									1,446
Net realised gains on other investments									8,870
Net unrealised gains on other investments									12,032
Unallocated corporate expenses									(9,764)
Amortisation of negative goodwill									5,506
Loss on disposal of partial interest in a subsidiary									(1,170)
Operating profit before finance costs									195,385
Finance costs									(45,831)
Operating profit									149,554
Share of results of associated companies	–	41,746	–	2,230	–	2,623	925	–	47,524
Taxation									(44,527)
Minority interests									(11,065)
Profit attributable to shareholders									141,486

2 Turnover, Revenue and Segment Information (Continued)

Primary reporting format – geographical segments (Continued)

2004

	The People's Republic of China		The Philippines US\$'000	Singapore US\$'000	Thailand US\$'000	Malaysia US\$'000	Other US\$'000	Elimination US\$'000	Group US\$'000
	Hong Kong US\$'000	Mainland China US\$'000							
Segment assets	849,613	1,697,935	514,593	685,391	212,267	387,885	133,884	(10,038)	4,471,530
Investments in associated companies	–	622,163	–	69,792	–	37,535	33,934	–	763,424
Unallocated assets									82,031
Negative goodwill									(109,047)
Total assets									5,207,938
Segment liabilities	(55,541)	(66,851)	(20,162)	(22,949)	(9,910)	(18,630)	(18,482)	10,038	(202,487)
Unallocated liabilities									(1,572,468)
Total liabilities									(1,774,955)
Capital expenditures	20,056	169,288	14,181	5,687	5,966	4,364	11,063	–	230,605
Discarding of fixed assets due to properties renovations and redevelopment of a resort	(2,331)	(2,290)	(625)	(1,756)	(42)	(10,352)	(2,657)	–	(20,053)
Depreciation	(8,346)	(9,889)	(3,106)	(6,450)	(5,180)	(5,004)	(1,134)	–	(39,109)
Amortisation of negative goodwill									5,506

Notes to the Accounts

For the year ended 31 December 2004

2 Turnover, Revenue and Segment Information (Continued)

Primary reporting format – geographical segments (Continued)

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

2 Turnover, Revenue and Segment Information (Continued)

Primary reporting format – geographical segments (Continued)

2003

	The People's Republic of China		The Philippines US\$'000	Singapore US\$'000	Thailand US\$'000	Malaysia US\$'000	Other US\$'000	Elimination US\$'000	Group US\$'000
	Hong Kong US\$'000	Mainland China US\$'000							
Segment assets	749,146	1,414,876	501,481	649,204	186,301	394,142	140,489	(4,247)	4,031,392
Investments in associated companies	–	603,492	–	61,485	–	34,816	21,796	–	721,589
Unallocated assets									105,796
Negative goodwill									(116,265)
Total assets									4,742,512
Segment liabilities	(38,664)	(33,829)	(18,431)	(21,981)	(9,121)	(18,083)	(14,575)	4,247	(150,437)
Unallocated liabilities									(1,662,559)
Total liabilities									(1,812,996)
Capital expenditures	30,742	83,247	15,353	34,526	7,820	13,421	2,526	–	187,635
Discarding of fixed assets due to properties renovations	(1,846)	–	(1,941)	(8,822)	(276)	(610)	(1,247)	–	(14,742)
Depreciation	(6,544)	(10,950)	(3,510)	(4,847)	(3,346)	(5,182)	(2,383)	–	(36,762)
Amortisation of negative goodwill									5,893
Provision for impairment losses	–	(9,500)	–	–	–	–	–	–	(9,500)

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For the year ended 31 December 2004

2 Turnover, Revenue and Segment Information (Continued)

Secondary reporting format – business segments

	Turnover 2004 US\$'000	Segment results 2004 US\$'000	Total assets 2004 US\$'000	Capital expenditures 2004 US\$'000
Hotel operation	695,096	163,510	4,085,902	228,188
Hotel management	40,683	3,440	28,120	2,252
Property rentals	18,076	6,853	367,546	165
Elimination	(28,332)	–	(10,038)	–
	725,523	173,803	4,471,530	230,605
Investments in associated companies			763,424	–
Unallocated assets			82,031	–
Negative goodwill			(109,047)	–
Total			5,207,938	230,605

	Turnover 2003 US\$'000	Segment results 2003 US\$'000	Total assets 2003 US\$'000	Capital expenditures 2003 US\$'000
Hotel operation	515,988	91,042	3,664,503	185,496
Hotel management	28,735	1,243	14,363	872
Property rentals	16,119	4,409	356,773	1,267
Elimination	(20,425)	–	(4,247)	–
	540,417	96,694	4,031,392	187,635
Investments in associated companies			721,589	–
Unallocated assets			105,796	–
Negative goodwill			(116,265)	–
Total			4,742,512	187,635

3 Operating Profit before Finance Costs

	Group	
	2004 US\$'000	2003 US\$'000
Operating profit before finance costs is stated after crediting and charging:		
Crediting		
Dividend income from other investments	1,446	1,427
Amortisation of negative goodwill	5,506	5,893
Net realised gains on other investments	8,870	676
Net unrealised gains on other investments	12,032	17,672
Surplus on valuation of investment properties	–	25,044
Charging		
Depreciation of fixed assets (net of amount capitalised of US\$71,000 (2003: US\$60,000))	39,038	36,702
Cost of inventories sold or consumed in operation	92,923	71,131
Auditors' remuneration	663	618
Operating lease rental in respect of land and buildings	10,379	8,818
Staff costs excluding directors' emoluments (note 4)	202,205	162,948
Provision for impairment losses on other land	–	9,500
Discarding of fixed assets due to properties renovations	9,828	14,742
Discarding of fixed assets due to redevelopment of a resort	10,225	–
Loss on disposals of fixed assets	928	28
Loss on disposal of partial interest in a subsidiary	1,170	–

4 Staff Costs

	Group	
	2004 US\$'000	2003 US\$'000
Wages and salaries (including unutilised annual leave)	154,583	125,518
Pension costs	11,797	10,013
Other welfare (including retrenchment pay out)	35,825	27,417
	202,205	162,948

5 Finance Costs

	Group	
	2004 US\$'000	2003 US\$'000
Exchange differences	1,189	875
Interest on bank loans and overdrafts	42,603	47,127
Interest on other borrowings wholly repayable within five years	1,148	1,128
	43,751	48,255
Less: amounts capitalised	(4,297)	(2,254)
	39,454	46,001
Convertible bonds		
Interest and finance costs	4,943	–
Less: amount capitalised	(101)	–
	4,842	–
Interest on loans from minority interests with no fixed repayment term	346	368
	45,831	47,244

Notes to the Accounts

For the year ended 31 December 2004

6 Taxation

	Group	
	2004 US\$'000	2003 US\$'000
Hong Kong profits tax		
– Provision for the year	4,962	1,100
– Deferred taxation (note 28)		
– relating to the origination and reversal of temporary differences	2,428	1,220
– resulting from an increase in tax rate	–	722
	2,428	1,942
Taxation outside Hong Kong		
– Provision for the year	20,617	9,616
– Deferred taxation (note 28)		
– relating to the origination and reversal of temporary differences	452	17,253
– resulting from a decrease in tax rate	(1,487)	–
	(1,035)	17,253
Share of taxation attributable to associated companies	17,555	16,492
	44,527	46,403

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

	2004 US\$'000	2003 US\$'000
Profit before taxation	197,078	128,413
Calculated at a taxation rate of 17.5%	34,489	22,472
Effect of different taxation rates of subsidiaries operating in other countries	18,610	15,942
Income not subject to taxation	(15,166)	(12,361)
Expenses not deductible for taxation purposes	17,816	16,490
Tax effect on unrecognised tax losses	2,372	1,283
Utilisation of previously unrecognised tax losses	(2,688)	(1,436)
Effect on opening net deferred taxation resulting from an (decrease)/increase in tax rate	(1,301)	722
Over provision in prior years	(1,996)	(478)
Withholding tax	(3,750)	3,822
Reversal of deferred taxation by a subsidiary upon satisfying certain local tax laws	(4,140)	–
Others	281	(53)
Taxation charge	44,527	46,403

- (a) Hong Kong profits tax is provided at a rate of 17.5% (2003: 17.5%) on the estimated assessable profits of group companies operating in Hong Kong.
- (b) Taxation outside Hong Kong includes withholding tax paid and payable on dividends from subsidiaries and tax provided at the prevailing rates on the estimated assessable profits of group companies operating outside Hong Kong.
- (c) Taxation attributable to associated companies represents share of overseas tax provided at the prevailing rates on the estimated assessable profits.

7 Profit Attributable to Shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of US\$113,733,000 (2003: US\$14,878,000).

8 Dividends

	Group	
	2004 US\$'000	2003 US\$'000
Interim – HK9 cents (2003: HK6 cents) per ordinary share <i>(note (a))</i>	27,298	16,767
Proposed final – HK10 cents (2003: HK8 cents) per ordinary share <i>(note (b))</i>	30,861	24,258
	58,159	41,025

Notes:

- (a) Amounts shown in respect of the interim dividend for the year ended 31 December 2004 reflected the cash dividend of HK9 cents (2003: HK6 cents) per ordinary share. A scrip dividend alternative to the 2004 and 2003 interim dividend was also offered, with the result that only US\$9,806,000 (2003: US\$15,291,000) of the 2004 interim dividend was paid in cash.
- (b) At a meeting held on 31 March 2005, the directors recommended a final cash dividend of HK10 cents per ordinary share. 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 2005.

Amount shown in respect of the final dividend for the year ended 31 December 2003 reflected the cash dividend of HK8 cents per ordinary share. A scrip dividend alternative to the 2003 final dividend was also offered, with the result that only US\$23,696,000 of the 2003 final dividend was paid in cash.

9 Earnings per Share

- (a) Basic earnings per share of US6.04 cents (2003: US3.33 cents) is calculated based on profit attributable to shareholders of US\$141,486,000 (2003: US\$72,667,000) and the weighted average number of 2,342,637,343 shares (2003: 2,179,857,870 shares) in issue during the year.
- (b) Diluted earnings per share for the year of US5.90 cents is calculated based on the adjusted profit attributable to shareholders of US\$146,328,000 (arrived at after adding back the finance costs of the convertible bonds of US\$4,842,000) divided by the deemed weighted average number of 2,479,118,529 issued and issuable shares. The deemed weighted average number of shares outstanding during the year is based on the weighted average number of shares in issue during the year after adjusting for the potential weighted average dilutive effects of the exercise of all the outstanding share options under the New Option Scheme (2,391,687 shares) and the conversion of all the convertible bonds (134,089,499 shares). The effects of anti-dilutive potential shares under the Executive Option Scheme have not been taken into account in calculating the diluted earnings per share.

Diluted earnings per share in 2003 was the same as the basic earnings per share as there was no dilution effect arising from the share options granted by the Company.

Notes to the Accounts

For the year ended 31 December 2004

10 Emoluments of Directors and Highest Paid Individuals

(a) Directors

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

	Group	
	2004 US\$'000	2003 US\$'000
As directors	364	140
For management		
– basic salaries, housing allowances, other allowances and other benefits in kind	1,684	1,679
Discretionary bonus	2,183	636
Directors' pensions	77	66
	4,308	2,521

Apart from the aforesaid, during the years ended 31 December 2004 and 2003, no other emoluments have been paid.

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

	Number of directors			
	Executive		Non-executive	
	2004	2003	2004	2003
HK\$ nil – HK\$1,000,000	1	2	7	7
HK\$1,500,000 – HK\$2,000,000	–	1	–	–
HK\$2,000,001 – HK\$2,500,000	1	–	1	–
HK\$2,500,001 – HK\$3,000,000	1	2	–	–
HK\$3,000,001 – HK\$3,500,000	1	1	–	–
HK\$6,500,001 – HK\$7,000,000	–	1	–	–
HK\$10,500,001 – HK\$11,000,000	1	–	–	–
HK\$12,500,001 – HK\$13,000,000	1	–	–	–

Total emoluments payable to the independent non-executive Directors amounted to US\$88,115 (2003: US\$55,555).

No Directors have waived emoluments for the years ended 31 December 2004 and 2003.

During the year, no options were granted to the Directors and 3,226,511 options were exercised by certain Directors. Details of the options are stated on the section headed "Share Options" in the Report of the Directors.

(b) Highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2003: three) Directors whose emoluments have been reflected in the analysis presented above. The emoluments payable to the remaining one (2003: two) highest paid individuals during the year are as follows:

	Group	
	2004 US\$'000	2003 US\$'000
For management		
– basic salaries, housing allowances, other allowances and other benefits in kind	460	736
Discretionary bonus	197	97
Pensions	21	33
	678	866

The emoluments of the individuals fell within the following bands:

	Number of individuals	
	2004	2003
HK\$3,000,001 – HK\$3,500,000	–	1
HK\$3,500,001 – HK\$4,000,000	–	1
HK\$5,000,001 – HK\$5,500,000	1	–

11 Pension Scheme Arrangements

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

- (a) The defined contribution schemes (including the Mandatory Provident Fund ("MPF") in Hong Kong) participated by the Group, other than those in the PRC, Singapore and Malaysia, require employers to contribute 5% to 10% of the employees' basic salaries and some of these schemes permit employees' contributions on a discretionary basis. The MPF requires both the employers and employees in Hong Kong to contribute 5% of their monthly gross earnings with a ceiling of HK\$1,000 (equivalent US\$128) per month. Under these schemes with the exception of MPF, the unvested benefits of employees terminating employment can be utilised by employers to reduce their future levels of contributions. The assets of these schemes are held separately from those of the Group in independently administered funds. The amounts of unvested benefits so utilised by employers during the year and available for the future reduction of employers' contributions as at 31 December 2004 were not material.

The Group's subsidiaries in the PRC, Singapore and Malaysia participate in defined contribution schemes managed by the respective local governments in these countries. Contributions are made based on a percentage, ranging from 7% to 26%, of the employee's salaries and bonus, if applicable, and were charged to the profit and loss account as incurred. The maximum contributions by the subsidiaries for each employee for the Group's subsidiaries in Singapore are fixed by the Singapore government at S\$715 (equivalent to US\$438) per month for monthly salaries and bonus payment. The employees of the Group's

subsidiaries in Singapore and Malaysia are also required to contribute 20% and 11% of their gross salaries and bonus, if applicable, to such fund respectively.

The three hotels in the Philippines have adopted a funded non-contributory defined benefit pension plan covering all their regular employees. The benefits are based on years of service and the employee's final covered compensation. The plan requires periodic contributions by the participating subsidiaries as determined by periodic actuarial reviews. An actuarial valuation was performed by Orlando J. Manalang, a qualified actuary at 22 September 2003 using the Projected Unit Credit Actuarial Cost Method. The principal assumptions used in the actuarial valuation are that scheme assets will earn a yield of 7% per annum and salary will increase by 5% per annum. According to this report, both Edsa Shangri-La Hotel & Resort, Inc. and Mactan Shangri-La Hotel & Resort, Inc. can suspend contributions until another valuation is done within the next three years as the total funded assets of these two subsidiaries exceeded the actuarial accrued liability and the 2003 normal cost by Peso 10,750,000 (equivalent to US\$191,000) and Peso 5,411,700 (equivalent to US\$96,000) respectively while Makati Shangri-La Hotel & Resort, Inc. had an unfunded actuarial liability of Peso 8,369,000 (equivalent to US\$149,000) and required normal cost contribution of Peso 5,542,000 (equivalent to US\$99,000) for the period 1 July 2003 to 30 June 2004 and an annual contribution of Peso 1,908,000 (equivalent to US\$34,000) in the next 5 years.

- (b) Total pension cost including charges for directors charged to the profit and loss account for the year under all pension schemes was US\$11,874,000 (2003: US\$10,080,000).

Notes to the Accounts

For the year ended 31 December 2004

12 Fixed Assets

	Group							Total US\$'000
	Investment properties		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	
	Hotel properties US\$'000	Other investment properties US\$'000						
Cost or valuation								
At 1 January 2004	2,960,135	299,620	103,692	276,397	437,927	11,249	84,374	4,173,394
Exchange differences	16,701	8,209	229	1,276	2,041	61	1,422	29,939
Additions	19,090	165	696	170,347	34,328	2,169	3,810	230,605
Transfer	77,709	–	87	(100,566)	16,926	–	5,844	–
Surplus/(deficit) on revaluation	174,508	(1,629)	–	–	–	–	–	172,879
Disposals	(17,763)	(53)	(9,035)	(856)	(33,474)	(1,180)	(3,507)	(65,868)
At 31 December 2004	3,230,380	306,312	95,669	346,598	457,748	12,299	91,943	4,540,949
At cost	–	–	95,669	346,598	457,748	12,299	91,943	1,004,257
At valuation	3,230,380	306,312	–	–	–	–	–	3,536,692
	3,230,380	306,312	95,669	346,598	457,748	12,299	91,943	4,540,949
Accumulated depreciation								
At 1 January 2004	–	–	7,535	–	318,782	7,978	48,717	383,012
Exchange difference	–	–	44	–	1,762	53	1,236	3,095
Charge for the year	–	–	772	–	27,393	1,245	9,699	39,109
Transfer	–	–	–	–	284	–	(284)	–
Disposals	–	–	(112)	–	(29,729)	(952)	(3,052)	(33,845)
At 31 December 2004	–	–	8,239	–	318,492	8,324	56,316	391,371
Accumulated impairment losses								
At 1 January 2004	–	–	15,500	13,276	–	–	–	28,776
Disposal	–	–	(3,000)	–	–	–	–	(3,000)
At 31 December 2004	–	–	12,500	13,276	–	–	–	25,776
Net book value								
At 31 December 2004	3,230,380	306,312	74,930	333,322	139,256	3,975	35,627	4,123,802
At 31 December 2003	2,960,135	299,620	80,657	263,121	119,145	3,271	35,657	3,761,606

12 Fixed Assets (Continued)

- (a) Investment properties of the Group are stated at professional valuations, valued on the basis of their market value as a fully operational entity for existing use.
- (b) The net book values of investment properties, other land and buildings and properties under development of the Group comprised:

	Group							Total US\$'000
	Investment properties			Other land and buildings	Properties under development		Total	
	Hotel properties		Other investment properties		Hong Kong US\$'000	Outside Hong Kong US\$'000		
	Hong Kong US\$'000	Outside Hong Kong US\$'000	Outside Hong Kong US\$'000					
Freehold								
At cost	–	–	–	–	20,745	–	4,832	25,577
At valuation	–	739,806	258,797	–	–	–	–	998,603
Long lease (not less than 50 years)								
At cost	–	–	–	–	12,918	–	117,441	130,359
At valuation	–	354,858	–	–	–	–	–	354,858
Medium lease (less than 50 years but more than 10 years)								
At cost less provision for impairment losses	–	–	–	4,739	34,549	36	211,013	250,337
At valuation	726,236	1,409,480	47,515	–	–	–	–	2,183,231
Short lease (less than 10 years)								
At cost	–	–	–	–	1,979	–	–	1,979
Total	726,236	2,504,144	306,312	4,739	70,191	36	333,286	3,944,944

The carrying amount of investment properties that would have been included in the accounts had these assets been carried at cost is US\$2,771,160,000 (2003: US\$2,635,144,000). No depreciation is provided for the above investment properties which are all held on leases of more than 20 years under the Group's accounting policies.

Notes to the Accounts

For the year ended 31 December 2004

12 Fixed Assets (Continued)

- (c) Details of investment properties of the Company's subsidiaries are summarised in note 34.
- (d) Properties under development included construction work in progress in respect of the renovation of certain investment properties.
- (e) Details of movements in fixed assets of the Company are as follows:

	Furniture, fixtures and equipment <i>US\$'000</i>	Motor vehicles <i>US\$'000</i>	Total <i>US\$'000</i>
Cost			
At 1 January 2004	794	221	1,015
Additions	14	–	14
At 31 December 2004	808	221	1,029
Accumulated depreciation			
At 1 January 2004	748	157	905
Charge for the year	22	27	49
At 31 December 2004	770	184	954
Net book value			
At 31 December 2004	38	37	75
At 31 December 2003	46	64	110

13 Negative Goodwill

	Goodwill <i>US\$'000</i>	Group (Negative Goodwill) <i>US\$'000</i>	Total <i>US\$'000</i>
Cost			
At 1 January 2004	161,624	(261,394)	(99,770)
Additions	–	522	522
Release upon disposal of partial interest in a subsidiary	–	1,941	1,941
Exchange difference	–	(152)	(152)
At 31 December 2004	161,624	(259,083)	(97,459)
Accumulated amortisation			
At 1 January 2004	(75,425)	58,930	(16,495)
Amortised during the year	(10,775)	16,281	5,506
Release during the year upon disposal of partial interest in a subsidiary	–	(646)	(646)
Exchange difference	–	47	47
At 31 December 2004	(86,200)	74,612	(11,588)
Net book value at 31 December 2004	75,424	(184,471)	(109,047)
31 December 2003	86,199	(202,464)	(116,265)

14 Subsidiaries

	Company	
	2004 US\$'000	2003 US\$'000
Unlisted shares, at cost	1,698,358	1,698,356
Amounts due from subsidiaries	769,504	662,730
Amounts due to subsidiaries	(18,414)	(153,222)
	2,449,448	2,207,864

- (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\$9,360,000 (2003: US\$15,600,000) due from a subsidiary which was interest bearing at HIBOR plus 1% per annum. In addition, as at 31 December 2003 there was an amount of US\$640,000 due from a wholly owned subsidiary which was interest bearing at a fixed rate of 4.4% per annum.
- (c) Amounts due to subsidiaries as at 31 December 2004 and 2003 are unsecured, interest-free and with no fixed repayment terms.

15 Associated Companies

	Group	
	2004 US\$'000	2003 US\$'000
Share of net assets	654,938	604,265
Amounts due from associated companies	108,486	117,324
	763,424	721,589

Amounts due from associated companies are unsecured, interest-free and with no fixed repayment terms except for the following amounts which are interest bearing:

	2004 US\$'000	2003 US\$'000
LIBOR plus 2% per annum	11,123	33,210
SIBOR plus 0.55% per annum	11,983	–
1.25% per annum	32,581	31,316
	55,687	64,526

Details of principal associated companies are set out in note 33(b).

16 Long-term Investments and Receivable

	Group	
	2004 US\$'000	2003 US\$'000
Overseas unlisted shares, at cost	1,916	1,916
– Exchange differences	(101)	(120)
– Provision for impairment losses	(245)	(332)
	1,570	1,464
Loan to an investee company (note (a))	140	380
Long-term receivable (note (b))	4,678	–
	6,388	1,844



Notes to the Accounts

For the year ended 31 December 2004

16 Long-term Investments and Receivable (Continued)

Notes:

- (a) Loan to an investee company is unsecured, interest-free and with no fixed repayment terms.
- (b) The long-term receivable represented loans granted to a managed hotel in Australia owned by an independent third party under the provision of the hotel management agreement. The loans are secured by a second mortgage over that hotel property and wholly repayable by 2012 according to a fixed repayment schedule. These loans are interest-free except for a fixed amount of A\$2,000,000 (equivalent US\$1,560,000) which is interest bearing at LIBOR plus 1% per annum.

17 Accounts Receivable, Prepayments and Deposits

At 31 December 2004, the ageing analysis of the trade debtors was as follows:

	Group	
	2004 US\$'000	2003 US\$'000
0 – 3 months	35,013	31,723
4 – 6 months	1,418	985
over 6 months	1,301	1,109
	37,732	33,817

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

18 Other Investments

	Group	
	2004 US\$'000	2003 US\$'000
Equity securities, at market value		
Shares listed in Hong Kong	33,143	39,159
Shares listed outside Hong Kong	3,923	8,319
	37,066	47,478
Unlisted securities, at fair value		
Outside Hong Kong	–	1,316
	37,066	48,794

Equity securities listed in Hong Kong included 11,805,055 (2003:13,195,055) shares in the Company ("such SA shares") with a carrying value of US\$16,875,000 (2003: US\$12,349,000) held by Shangri-La Hotel Public Company Limited, Thailand ("SHPCL"). Such SA shares, representing approximately 0.5% (2003: 0.6%) of the issued share capital of the Company as at 31 December 2004, were held by SHPCL before the Company acquired the controlling interests in SHPCL in late 1999. SHPCL disposed 1,390,000 such SA shares during the year. The Company has undertaken, subject to market conditions, to use its reasonable endeavours to procure SHPCL to dispose of all such SA shares to parties independent of the Kuok Group. In view of the temporary nature of this holding in such SA shares, they have been classified as other investments in these accounts.

19 Accounts Payable and Accruals

At 31 December 2004, the ageing analysis of the trade creditors was as follows:

	Group	
	2004 US\$'000	2003 US\$'000
Accounts payable in the next:		
0 – 3 months	33,213	28,105
4 – 6 months	708	549
Over 6 months	1,105	1,731
	35,026	30,385

20 Bank Loans and Overdrafts and Other Borrowings

	Group	
	2004 US\$'000	2003 US\$'000
Overdrafts – unsecured	147	513
Bank loans – secured (<i>note 32(b)</i>)	68	15,966
Bank loans – unsecured	872,239	1,181,085
Other borrowings – unsecured	–	17,647
	872,454	1,215,211

The above borrowings are repayable as follows:

	Bank loans and overdrafts		Other borrowings	
	2004 US\$'000	2003 US\$'000	2004 US\$'000	2003 US\$'000
Within one year	103,945	160,346	–	17,647
In the second year	221,994	50,820	–	–
In the third to fifth years inclusive	507,844	972,693	–	–
After five years	38,671	13,705	–	–
	768,509	1,037,218	–	–
	872,454	1,197,564	–	17,647

Other borrowings in 2003 represented S\$30,000,000 unsecured Floating Rate Notes (the "Notes") issued by Shangri-La Hotel Limited, Singapore on 13 December 2003. The Notes were fully redeemed during the year.

Notes to the Accounts

For the year ended 31 December 2004

21 Share Capital

	2004		2003	
	No. of shares ('000)	US\$'000	No. of shares ('000)	US\$'000
Authorised – Ordinary shares of HK\$1 each				
At 1 January and 31 December	5,000,000	646,496	5,000,000	646,496
Issued and fully paid – Ordinary shares of HK\$1 each				
At 1 January	2,181,329	282,003	2,179,656	281,788
Issue of shares upon share placement (note (a))	183,832	23,568	–	–
Allotment of shares upon exercise of share options (note (b))	22,754	2,917	–	–
Issue of scrip dividend shares (note (c))	16,377	2,100	1,673	215
At 31 December	2,404,292	310,588	2,181,329	282,003

- (a) In February 2004, the Company under an arrangement involving placement of existing shares and subscription top-up for new shares issued 183,832,000 new shares at HK\$7.4 per share to certain companies within the Kuok Group. The associated issuing expenses were US\$295,000. The net proceeds from such issue were approximately HK\$1,358 million (US\$174.1 million).

- (b) During the year, the following option shares at various exercise prices granted to option holders of the Company under the Executive Option Scheme and the New Option Scheme were exercised:

	Number of option shares issued				Total consideration US\$'000
	At HK\$8.26 per share	At HK\$8.82 per share	At HK\$8.18 per share	At HK\$6.81 per share	
May	–	–	–	100,000	87
October	–	–	97,030	3,750,000	3,376
November	1,992,654	969,108	1,736,837	6,327,000	10,552
December	4,011,010	1,881,824	892,676	996,000	8,181
Total	6,003,664	2,850,932	2,726,543	11,173,000	22,196

Details of the movement in share options under the two option schemes were stated in note 22. The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$9.59.

- (c) The Company offered to its shareholders a scrip dividend alternative under which the shareholders could elect to receive ordinary shares of HK\$1 each in lieu of a cash dividend during the following dividend declaration and ordinary shares were issued under these schemes.

	Number of shares issued	Issue price per share	Issue date
Interim dividend for the year ended 31 December 2004	15,809,483	HK\$8.63	7 December 2004
Final dividend for the year ended 31 December 2003	567,268	HK\$7.73	28 July 2004
Interim dividend for the year ended 31 December 2003	1,673,089	HK\$6.88	18 November 2003

22 Share Options

At the Special General Meeting of the Company held on 24 May 2002, the shareholders of the Company approved the adoption of a new share option scheme (the "New Option Scheme") and the termination of the operation of the executive share option scheme adopted by the shareholders of the Company on 16 December 1997 (the "Executive Option Scheme"), such that no further options shall thereafter be offered under the Executive Option Scheme but in all other respects the provisions of the Executive Option Scheme shall remain in full force and effect. Pursuant to both the Executive Option Scheme and the New Option Scheme, the Directors of the Company may, at their discretion, grant to Executive Directors and key employees of the Group options to subscribe for shares in the Company subject to terms and conditions stipulated therein.

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 2004	12,278,861	7,859,463	4,589,521
Exercised during the year (note 21(b))	(6,003,664)	(2,850,932)	(2,726,543)
Lapsed during the year	(435,421)	(193,822)	(97,030)
Balance at 31 December 2004	5,839,776	4,814,709	1,765,948
Exercise price per share (HK\$)	8.26	8.82	8.18

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

	Number of option shares granted on 29 May 2002 (Note d)
Balance at 1 January 2004	16,400,000
Exercised during the year (note 21 (b))	(11,173,000)
Lapsed during the year	(335,000)
Balance at 31 December 2004	4,892,000
Exercise price per share (HK\$)	6.81

Notes:

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

No option shares were cancelled under the Executive Option Scheme and the New Option Scheme during the year (2003: Nil).

According to the terms of the Executive Option Scheme and the New Option Scheme, options on 359,308 shares, 465,171 shares, 203,763 shares and 1,816,000 shares with exercise price per share of HK\$8.26, HK\$8.82, HK\$8.18 and HK\$6.81, respectively have been exercised subsequent to the year end and up to the date of this report. Options on 104,555 shares with exercise price of HK\$8.82 have lapsed subsequent to the year end and up to the date of this report.

Notes to the Accounts

For the year ended 31 December 2004

23 Reserves

	Share premium US\$'000	Capital redemption reserve US\$'000	Investment properties revaluation reserve US\$'000	Share of investment properties revaluation reserves in associated companies US\$'000	Exchange fluctuation reserve US\$'000	Capital reserve US\$'000	Other reserve US\$'000	Contributed surplus US\$'000	Total US\$'000
Group									
At 1 January 2004	533,237	10,666	456,368	194,078	(137,586)	601,490	1,340	389,741	2,049,334
Surplus on valuation									
– gross	–	–	151,740	42,176	–	–	–	–	193,916
– deferred taxation	–	–	(28,052)	(10,867)	–	–	–	–	(38,919)
			123,688	31,309					154,997
Arising from issue of shares (note 21(a) and (b))	169,820	–	–	–	–	–	–	–	169,820
Arising from issue of scrip dividend (note 21(c))	15,954	–	–	–	–	–	–	–	15,954
Realised on disposal of partial interest in a subsidiary, net of deferred taxation	–	–	(324)	(78)	–	–	–	–	(402)
Exchange differences	–	–	–	–	26,098	–	–	–	26,098
Other movements	–	–	–	–	–	–	28	–	28
At 31 December 2004	719,011	10,666	579,732	225,309	(111,488)	601,490	1,368	389,741	2,415,829
Company									
At 1 January 2004	533,237	10,666	–	–	–	–	–	1,524,231	2,068,134
Arising from issue of shares (note 21(a) and (b))	169,820	–	–	–	–	–	–	–	169,820
Arising from issue of scrip dividend (note 21(c))	15,954	–	–	–	–	–	–	–	15,954
At 31 December 2004	719,011	10,666	–	–	–	–	–	1,524,231	2,253,908

23 Reserves (Continued)

	Share premium US\$'000	Capital redemption reserve US\$'000	Investment properties revaluation reserve US\$'000	Share of investment properties revaluation reserves in associated companies US\$'000	Exchange fluctuation reserve US\$'000	Capital reserve US\$'000	Other reserve US\$'000	Contributed surplus US\$'000	Total US\$'000
Group									
At 1 January 2003	531,976	10,666	474,234	188,229	(161,136)	601,490	1,057	389,741	2,036,257
(Deficit)/surplus on valuation									
– gross	–	–	(20,671)	8,091	–	–	–	–	(12,580)
– deferred taxation	–	–	2,805	(2,242)	–	–	–	–	563
	–	–	(17,866)	5,849	–	–	–	–	(12,017)
Arising from issue of scrip dividend (note 21(c))	1,261	–	–	–	–	–	–	–	1,261
Exchange differences	–	–	–	–	23,550	–	–	–	23,550
Other movements	–	–	–	–	–	–	283	–	283
At 31 December 2003	533,237	10,666	456,368	194,078	(137,586)	601,490	1,340	389,741	2,049,334
Company									
At 1 January 2003	531,976	10,666	–	–	–	–	–	1,524,231	2,066,873
Arising from issue of scrip dividend (note 21(c))	1,261	–	–	–	–	–	–	–	1,261
At 31 December 2003	533,237	10,666	–	–	–	–	–	1,524,231	2,068,134

Notes to the Accounts

For the year ended 31 December 2004

23 Reserves (Continued)

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

24 Retained Profits

	Group		Company	
	2004 US\$'000	2003 US\$'000	2004 US\$'000	2003 US\$'000
At 1 January	292,664	237,047	29,388	31,277
Profit attributable to shareholders for the year	141,486	72,667	113,733	14,878
2003 final dividend paid (note 8)	(24,258)	–	(24,258)	–
2004/2003 Interim dividend paid (note 8)	(27,298)	(16,767)	(27,298)	(16,767)
Transfer to other reserve	(28)	(283)	–	–
At 31 December	382,566	292,664	91,565	29,388
Representing:				
2004/2003 final dividend proposed (note 8)	30,861	24,258	30,861	24,258
Retained profits	351,705	268,406	60,704	5,130
At 31 December	382,566	292,664	91,565	29,388
Company and subsidiaries	205,035	132,630	91,565	29,388
Associated companies	177,531	160,034	–	–
	382,566	292,664	91,565	29,388

Included in the retained profits of subsidiaries and associated companies are statutory funds of approximately US\$243,000 and US\$18,545,000 respectively (2003: US\$225,000 and US\$16,785,000). These funds are set up by way of appropriation from the profit after taxation of the respective companies, established and operating in the PRC, in accordance with the relevant laws and regulations.

25 Distributable Reserves

As at 31 December 2004, the Group's distributable reserves comprised:

	2004 US\$'000	2003 US\$'000
The Company		
Distributable retained profits	91,565	29,388
Contributed surplus	1,524,231	1,524,231
	1,615,796	1,553,619
Subsidiaries (notes (a) and (b))		
Distributable retained profits	514,936	493,695
Associated companies (notes (a) and (b))		
Distributable retained profits	241,313	231,952

- (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 after deducted appropriate withholding tax.
- (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.

26 Minority Interests and Loans

	Group	
	2004 US\$'000	2003 US\$'000
Share of equity	324,000	305,515
Loans from minority shareholders	92,485	86,024
	416,485	391,539

The loans from minority shareholders are unsecured and interest-free except for the following amounts which are interest bearing:

	2004 US\$'000	2003 US\$'000
HIBOR plus 1% per annum	3,900	3,900
LIBOR plus 2.5% per annum	335	—
2.5% per annum	20,012	21,953
	24,247	25,853

Notes to the Accounts

For the year ended 31 December 2004

27 Convertible Bonds

On 15 March 2004, a wholly owned subsidiary of the Company issued zero coupon guaranteed convertible bonds due March 2009 (the "Maturity Date"), in the aggregate principal amount of US\$200 million with an initial conversion price of HK\$9.25 per ordinary share of the Company (subject to adjustment). Unless previously redeemed, converted or purchased and cancelled, these bonds will be redeemed at 114.633 per cent of their principal amount on the Maturity Date. The net proceeds from such issue were approximately US\$196.4 million. During the year, no convertible bonds were redeemed, converted or purchased and cancelled. No adjustment on conversion price was made during the year. Convertible bonds with principal amount of US\$100,000 were converted to 84,324 ordinary shares subsequent to the year end and up to the date of this report.

28 Deferred Taxation

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%) for subsidiaries operating in Hong Kong. Deferred taxation of overseas subsidiaries are calculated at the rates of taxation prevailing in the countries in which the respective subsidiaries operate.

The movement on the deferred tax liabilities account is as follows:

	Group	
	2004 US\$'000	2003 US\$'000
At 1 January	352,223	335,157
Exchange differences	354	3
Deferred taxation charged to profit and loss account (note 6)	1,393	19,195
Deferred taxation charged/(credited) to equity in relation to revaluation reserves of investment properties	32,019	(2,132)
At 31 December	385,989	352,223

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2004, the Group has the following unrecognised tax losses to carry forward against future taxable income:

	Group	
	2004 US\$'000	2003 US\$'000
With no expiry date	8,303	7,934
Lapsed within the next five years	22,922	56,598
	31,225	64,532

28 Deferred Taxation (Continued)

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

Deferred tax liabilities	Accelerated tax depreciation		Properties valuation Surplus/(deficit)		Dividend withholding tax		Total	
	2004 US\$'000	2003 US\$'000	2004 US\$'000	2003 US\$'000	2004 US\$'000	2003 US\$'000	2004 US\$'000	2003 US\$'000
At 1 January	122,676	104,189	216,631	219,916	21,368	18,358	360,675	342,463
Charged/(credited) to profit and loss account	6,943	18,463	–	(1,198)	(6,694)	3,010	249	20,275
Charged/(credited) to equity	–	–	32,019	(2,132)	–	–	32,019	(2,132)
Exchange differences	366	24	–	45	–	–	366	69
At 31 December	129,985	122,676	248,650	216,631	14,674	21,368	393,309	360,675

Deferred tax assets	Tax losses		Others		Total	
	2004 US\$'000	2003 US\$'000	2004 US\$'000	2003 US\$'000	2004 HK\$'000	2003 HK\$'000
At 1 January	(1,939)	(1,064)	(6,513)	(6,242)	(8,452)	(7,306)
Charged/(credited) to profit and loss account	(276)	(875)	1,420	(205)	1,144	(1,080)
Exchange differences	–	–	(12)	(66)	(12)	(66)
At 31 December	(2,215)	(1,939)	(5,105)	(6,513)	(7,320)	(8,452)

Notes to the Accounts

For the year ended 31 December 2004

28 Deferred Taxation (Continued)

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

	2004 US\$'000	2003 US\$'000
Deferred tax assets	(3,606)	(4,342)
Deferred tax liabilities	389,595	356,565
	385,989	352,223

29 Notes to the Consolidated Cash Flow Statement

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

	2004 US\$'000	2003 US\$'000
Profit before taxation	197,078	128,413
Share of results of associated companies	(47,524)	(39,668)
Surplus on valuation of investment properties	–	(25,044)
Provision for impairment losses on other land	–	9,500
Depreciation	39,109	36,762
Amortisation of negative goodwill	(5,506)	(5,893)
Interest on bank loans and overdrafts, other borrowings and convertible bonds	44,642	46,369
Interest income	(4,662)	(2,634)
Dividend received from other investments	(1,446)	(1,427)
Loss on disposal of fixed assets and discarding of fixed assets due to properties renovations and redevelopment	20,981	14,770
Net realised and unrealised gains on other investments	(20,902)	(18,348)
Reversal of provision for impairment on long-term investment	(87)	–
Loss on disposal of partial interest in a subsidiary	1,170	–
Operating profit before working capital changes	222,853	142,800
Increase in inventories	(1,562)	(1,665)
(Increase)/decrease in accounts receivable, prepayments and deposits	(15,375)	1,982
Increase in accounts payable and accruals	42,939	19,980
Increase in amounts due to minority shareholders	30	–
Decrease in amounts due from associated companies	–	1,377
Decrease in amounts due from minority shareholders	–	554
Net cash generated from operations	248,885	165,028

29 Notes to the Consolidated Cash Flow Statement (Continued)

(b) Analysis of changes in financing during the year

		2004			
	Note	Share capital (including premium) US\$'000	Bank loans and other borrowings US\$'000	Convertible bonds US\$'000	Loans from minority shareholders US\$'000
At 1 January 2004		815,240	1,214,698	–	86,024
Issue of shares upon share placement	21(a)	174,109	–	–	–
Issue of shares upon exercise of share options	21(b)	22,196	–	–	–
Issue of shares for scrip dividend	21(c)	18,054	–	–	–
Proceeds from issuance of convertible bonds	27	–	–	200,000	–
Accrual of redemption premium		–	–	4,372	–
Reclassification from minority interest to loans from minority shareholders		–	–	–	7,715
Decrease in minority interest due to deemed acquisition in a subsidiary		–	–	–	(1,651)
Net cash (outflow)/inflow from financing		–	(342,391)	–	397
At 31 December 2004		1,029,599	872,307	204,372	92,485
		2003			
	Note	Share capital (including premium) US\$'000	Bank loans and other borrowings US\$'000	Loans from minority shareholders US\$'000	
At 1 January 2003		813,764	1,140,430	88,334	
Issue of shares for scrip dividend	21(c)	1,476	–	–	
Net cash inflow/(outflow) from financing		–	71,115	(720)	
Reclassification to amounts due to minority shareholders under current liabilities		–	–	(1,548)	
Exchange differences		–	3,153	(42)	
At 31 December 2003		815,240	1,214,698	86,024	

Notes to the Accounts

For the year ended 31 December 2004

29 Notes to the Consolidated Cash Flow Statement (Continued)

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

	2004 US\$'000	2003 US\$'000
Cash and bank balances	186,874	150,343
Bank overdrafts	(147)	(513)
	186,727	149,830

At 31 December 2004, the Group's cash and bank balances of US\$111,268,000 (2003: US\$63,807,000) were kept in Mainland China, Malaysia, Thailand, the Philippines and Myanmar. The remittance of funds out of these countries is subject to rules and regulations of foreign exchange control promulgated by the governments of the respective countries.

30 Related Party Transactions

In addition to those connected transactions and continuing 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\$4,607,000 (2003: US\$2,950,000) from other 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 2004, the Group and the Company had the following commitments:

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

	2004 US\$'000	2003 US\$'000
Contracted but not provided for	108,439	142,757
Authorised by Directors but not contracted for	1,207,487	749,693
	1,315,926	892,450

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

	2004 US\$'000	2003 US\$'000
Not later than one year	6,458	7,123
Later than one year and not later than five years	19,077	19,340
Later than five years	108,648	140,713
	134,183	167,176

31 Commitments (Continued)

- (c) At 31 December 2004, the Group had future aggregate minimum lease rental receivable under non-cancellable operating leases in respect of land and buildings as follows:

	2004 US\$'000	2003 US\$'000
Not later than one year	7,894	6,425
Later than one year and not later than five years	2,162	1,251
	10,056	7,676

- (d) The Company had entered into HIBOR interest rate swap contracts for an aggregate principal amount of HK\$2,716,000,000 at fixed interest rates between 4.69% to 5.74% per annum to reduce its interest rate exposure. These contracts will be maturing between October 2005 through December 2006.

32 Contingent Liabilities and Charges Over Assets

(a) Contingent liabilities

As at 31 December 2004, 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 and which also represented the financial exposure of the Company at the balance sheet date amounts to US\$801,543,000 (2003: US\$990,960,000) for the subsidiaries and US\$23,469,000 (2003: Nil) for associated companies.

- (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\$25,265,000 (2003: US\$9,986,000).

- (iii) The Group executed a performance guarantee in favour of the owner of a hotel in Sydney for the financial performance of the hotel under a management contract. The maximum cumulative amount of liability under such guarantee is A\$10,000,000 (equivalent to US\$7,800,000) (2003: A\$10,000,000).

(b) Charges over assets

As at 31 December 2004, bank loans of a subsidiary amounting to US\$68,000 were secured by charges over certain motor vehicles of the subsidiary with net book values totaling US\$112,000.

As at 31 December 2003, bank loan and banking facility of a subsidiary amounting to US\$11,765,000 were secured by charges over the investment property and other fixed assets of that subsidiary with net book values totaling US\$64,706,000 and other assets totaling US\$3,381,000. Bank loan of a subsidiary amounting to US\$4,201,000 was secured by charges over other investments of this subsidiary with net book values totaling US\$12,349,000. These loans were fully repaid during the year.

Apart from the aforesaid, neither the Group nor the Company had any material contingent liabilities or charges over assets as at 31 December 2004.

Notes to the Accounts

For the year ended 31 December 2004

33 Group Structure – Principal Subsidiaries and Associated Companies

(a) At 31 December 2004, 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	/
Shangri-La Asia Treasury Limited	The British Virgin Islands	Ordinary HK\$780	100	–	Group financing	/
Shangri-La Finance Limited	The British Virgin Islands	Ordinary US\$1,000	100	–	Investment holding	/
Kerry Industrial Company Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred HK\$10,000,000	–	100	Investment holding	/
Shangri-La Hotel (Kowloon) Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred HK\$10,000,000	–	100	Hotel ownership and operation	/
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	/
Shenzhen Shangri-La Hotel Limited	The People's Republic of China	US\$32,000,000	–	51.30	Hotel ownership and operation	2, 5, 7
Beihai Shangri-La Hotel Ltd.	The People's Republic of China	US\$16,000,000	–	97	Hotel ownership and operation	5, 7
Shanghai Pu Dong New Area Shangri-La Hotel Co., Ltd.	The People's Republic of China	US\$47,000,000	–	100	Hotel ownership and operation	2, 4, 7
Shenyang Traders Hotel Ltd.	The People's Republic of China	US\$28,334,000	–	100	Hotel ownership and operation	6, 7
Changchun Shangri-La Hotel Co., Ltd.	The People's Republic of China	RMB167,000,000	–	90	Hotel ownership and operation and real estate operation	5, 7

33 Group Structure – Principal Subsidiaries and Associated Companies (Continued)

(a) At 31 December 2004, 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	RMB25,000,000	–	90	Real estate development and operation	5, 7
Qingdao Shangri-La Hotel Co., Ltd.	The People's Republic of China	US\$18,334,000	–	100	Hotel ownership and operation and real estate development and operation	6, 7
Dalian Shangri-La Hotel Co., Ltd.	The People's Republic of China	US\$33,000,003	–	90	Hotel ownership and operation	5, 7
Dalian Kerry Real Estate Development Co., Ltd.	The People's Republic of China	US\$18,666,670	–	100	Real estate development and operation	6, 7
Xian Shangri-La Golden Flower Hotel Co., Ltd	The People's Republic of China	US\$12,000,000	–	100	Hotel ownership and operation	4, 7
Harbin Shangri-La Hotel Co., Ltd.	The People's Republic of China	US\$20,767,000	–	95	Hotel ownership and operation	5, 7
Wuhan Kerry Real Estate Development Co., Ltd.	The People's Republic of China	US\$6,000,000	–	92	Real estate development and operation	5, 7
Wuhan Shangri-La Hotel Co., Ltd.	The People's Republic of China	US\$26,667,000	–	92	Hotel ownership and operation	5, 7
Fujian Kerry World Trade Centre Co., Ltd.	The People's Republic of China	HK\$94,860,051	–	100	Real estate development	3, 6, 7
Fuzhou Shangri-La Hotel Co., Ltd.	The People's Republic of China	US\$18,700,000	–	100	Hotel ownership and operation	3, 4, 7
Zhongshan Shangri-La Hotel Co., Ltd.	The People's Republic of China	US\$16,310,000	–	51	Hotel ownership and operation	5, 7

Notes to the Accounts

For the year ended 31 December 2004

33 Group Structure – Principal Subsidiaries and Associated Companies (Continued)

(a) At 31 December 2004, the Company held interests in the following principal subsidiaries: (Continued)

Name	Place of establishment/ operation	Paid up/ issued capital	Percentage holding in the voting shares		Nature of business	Notes
			Direct	Indirect		
Shanghai Ji Xiang Properties Co., Ltd.	The People's Republic of China	US\$76,000,000	–	99	Real estate development and operation	2, 3, 5, 7
Tianjin Kerry Real Estate Development Co., Ltd.	The People's Republic of China	US\$11,707,000	–	90	Real estate development and operation	3, 5, 7
Shangri-La Hotel (Chengdu) Co., Ltd.	The People's Republic of China	US\$17,090,641	–	80	Hotel ownership and operation	3, 6, 7
Shangri-La Hotel (Guangzhou Pazhou) Co., Ltd.	The People's Republic of China	US\$28,340,000	–	100	Hotel ownership and operation	3, 6, 7
Shangri-La Hotel (Shenzhen Futian) Co., Ltd.	The People's Republic of China	US\$8,700,000	–	100	Hotel ownership and operation	3, 6, 7
Shangri-La Hotel (Ningbo) Co., Ltd.	The People's Republic of China	US\$25,000,000	–	100	Hotel ownership and operation	3, 6, 7
Shangri-La Hotel (Wenzhou) Co., Ltd.	The People's Republic of China	US\$7,000,000	–	100	Hotel ownership and operation	3, 6, 7
Shangri-La Hotel (Xian) Co., Ltd.	The People's Republic of China	US\$9,601,753	–	100	Hotel ownership and operation	3, 6, 7
Shangri-La Hotel (Guilin) Co., Ltd.	The People's Republic of China	US\$3,250,500	–	100	Hotel ownership and operation	3, 6, 7
Shangri-La Hotel (Baotou) Co., Ltd.	The People's Republic of China	US\$5,000,000	–	100	Hotel ownership and operation	3, 6, 7
Shangri-La Hotel (Huhhot) Co., Ltd.	The People's Republic of China	US\$13,000,000	–	100	Hotel ownership and operation	3, 6, 7
Makati Shangri-La Hotel & Resort, Inc.	The Philippines	Common Peso 921,948,400	–	100	Hotel ownership and operation	

33 Group Structure – Principal Subsidiaries and Associated Companies (Continued)

(a) At 31 December 2004, 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		
Edsa Shangri-La Hotel & Resort, Inc.	The Philippines	Common Peso 792,128,700	–	100	Hotel ownership and operation	
Mactan Shangri-La Hotel & Resort, Inc.	The Philippines	Common Peso 272,630,000 Preferred Peso 170,741,500	–	100	Hotel ownership and operation	
Fiji Mocambo Limited	Fiji	Ordinary F\$751,459	–	71.64	Hotel ownership and operation	2
Yanuca Island Limited	Fiji	Ordinary F\$1,262,196	–	71.64	Hotel ownership and operation	2
Shangri-La Hotel Limited	Singapore	Ordinary S\$164,663,560	–	100	Investment holding, hotel ownership and operation and leasing of residential and serviced apartments	
Sentosa Beach Resort Pte Ltd	Singapore	Ordinary S\$30,000,000	–	100	Hotel ownership and operation	
Shangri-La Hotels (Malaysia) Berhad	Malaysia	Ordinary RM440,000,000	–	52.78	Investment holding and hotel ownership and operation	
Shangri-La Hotel (KL) Sdn Bhd	Malaysia	Ordinary RM150,000,000	–	52.78	Hotel ownership and operation	
Golden Sands Beach Resort Sdn Bhd	Malaysia	Ordinary RM6,000,000	–	52.78	Hotel ownership and operation	
Komtar Hotel Sdn Bhd	Malaysia	Ordinary RM6,000,000	–	31.67	Hotel ownership and operation	



Notes to the Accounts

For the year ended 31 December 2004

33 Group Structure – Principal Subsidiaries and Associated Companies (Continued)

(a) At 31 December 2004, 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		
Pantai Dalit Beach Resort Sdn Bhd	Malaysia	Ordinary RM135,000,000	–	64.59	Hotel and golf club ownership and operation	
UBN Tower Sdn Bhd	Malaysia	Ordinary RM500,000	–	52.78	Property investment and office management	
UBN Holdings Sdn Bhd	Malaysia	Ordinary RM45,000,000	–	52.78	Investment holding and property investment	
Traders Yangon Company Limited	Myanmar	Ordinary Kyat 21,600,000	–	59.16	Hotel ownership and operation	
Shangri-La Hotel Public Company Limited	Thailand	Common Baht 1,300,000,000	–	73.61	Hotel, serviced apartments 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 Hotel Management Consultancy (Shanghai) Co., Ltd	The People's Republic of China	US\$140,000	–	100	Hotel management, marketing, consultancy services	7
Shangri-La International Hotel Management B.V.	The Netherlands	Ordinary EUR18,151	–	100	Licensing use of intellectual property rights	1

33 Group Structure – Principal Subsidiaries and Associated Companies (Continued)

(a) At 31 December 2004, the Company held interests in the following principal subsidiaries: (Continued)

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.
- 7 The amount of paid up/issued capital for subsidiaries incorporated in The People's Republic of China represented the amount of paid in registered capital.

Notes to the Accounts

For the year ended 31 December 2004

33 Group Structure – Principal Subsidiaries and Associated Companies (Continued)

(b) At 31 December 2004, the Group held interests in the following principal associated companies:

Name	Place of establishment/ operation	Percentage holding in the registered capital by the Group	Nature of business	Notes
China World Trade Center Ltd.	The People's Republic of China	50	Hotel ownership and operation and property investment	2
Beijing Shangri-La Hotel Ltd.	The People's Republic of China	49	Hotel ownership and operation	
Hangzhou Shangri-La Hotel Ltd.	The People's Republic of China	45	Hotel ownership and operation	
Seacliff Limited	The People's Republic of China	30	Hotel ownership and operation and property investment	1
Beijing Jia Ao Real Estate Development Co., Ltd.	The People's Republic of China	23.75	Real estate development and operation	2
Beijing Kerry Centre Hotel Co., Ltd.	The People's Republic of China	23.75	Hotel ownership and operation	2
Shanghai Xin Ci Hou Properties Co., Ltd.	The People's Republic of China	24.75	Real estate development and operation	2
Cuscaden Properties Pte Ltd	Singapore	40.75	Hotel ownership and operation and property investment	
Johdaya Karya Sdn Bhd	Malaysia	35.83	Property investment	
Tanjong Aru Hotel Sdn. Bhd.	Malaysia	40	Hotel ownership and operation	
PT Swadhama Kerry Satya	Indonesia	25	Hotel ownership and operation	

Notes:

1 Associated company audited by PricewaterhouseCoopers, Hong Kong.

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

33 Group Structure – Principal Subsidiaries and Associated Companies (Continued)

(c) The above tables list out the subsidiaries and associated companies of the Company as at 31 December 2004 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 2004 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	
	2004 US\$'000	2003 US\$'000
Turnover	173,096	147,337
Profit before taxation	60,365	63,151
Taxation	(21,432)	(24,650)
Profit after taxation	38,933	38,501
Minority interests	(5,782)	(7,980)
Profit attributable to shareholders	33,151	30,521
Depreciation and amortisation	3,676	3,912
Profit after taxation attributable to the Group	16,576	15,261

(ii) Summarised assets and liabilities

	As at 31 December	
	2004 US\$'000	2003 US\$'000
Fixed assets	1,455,274	1,414,168
Deferred tax assets	2,455	3,794
Current assets	129,303	95,587
Current liabilities	(302,393)	(312,688)
Net current liabilities	(173,090)	(217,101)
Long-term liabilities	(276,352)	(260,546)
Net assets and minority interests	1,008,287	940,315

Notes to the Accounts

For the year ended 31 December 2004

34 Investment Properties of Subsidiaries and Associated Companies

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

Address	Existing use	Lease term	Address	Existing use	Lease term
Kowloon Shangri-La, Hong Kong 64 Mody Road, Tsimshatsui East Kowloon Hong Kong	Hotel operation	Medium lease	Shangri-La Hotel, Qingdao 9 Xiang Gang Zhong Lu, Qingdao 266071 The People's Republic of China	Hotel operation	Medium lease
Island Shangri-La, Hong Kong Pacific Place, 88 Queensway, Central Hong Kong	Hotel operation	Medium lease	Shangri-La Hotel, Dalian 66 Renmin Road, Dalian 116001 The People's Republic of China	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	Dalian Century Tower Apartments 66 Renmin Road, Dalian 116001 The People's Republic of China	Residential rental	Medium lease
Shangri-La Hotel, Beihai 33 Chating Road, Beihai, Guangxi 536007 The People's Republic of China	Hotel operation	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
Pudong Shangri-La, Shanghai 33 Fu Cheng Lu Pudong New Area Shanghai 200120 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
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, Wuhan No. 700, Jianshe Avenue, Hankou Wuhan 430015 The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Changchun 569 Xian Road, Changchun 130061 The People's Republic of China	Hotel operation and commercial and residential rental	Medium lease			

34 Investment Properties of Subsidiaries and Associated Companies (Continued)

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

Address	Existing use	Lease term	Address	Existing use	Lease term
Shangri-La Hotel, Zhongshan 16 Qi Wan Road North Eastern Area, Zhongshan 528403 The People's Republic of China	Hotel operation	Long lease	Shangri-La Apartments, Singapore 1 Anderson Road Singapore 259983	Residential rental	Freehold
Makati Shangri-La, Manila Ayala Avenue, corner Makati Avenue Makati City, Metro Manila 1200 The Philippines	Hotel operation	Medium lease	Shangri-La Residences, Singapore No.1A Lady Hill Road Singapore 258685	Residential rental	Freehold
Edsa Shangri-La, Manila 1 Garden Way, Ortigas Center Mandaluyong City 1650, Metro Manila The Philippines	Hotel operation	Medium lease	Shangri-La's Rasa Sentosa Resort, Singapore 101 Siloso Road, Sentosa Singapore 098970	Hotel operation	Long lease
Shangri-La's Mactan Island Resort, Cebu Punta Engano Road, Mactan Island, Cebu The Philippines	Hotel operation	Medium lease	Shangri-La Hotel, Kuala Lumpur UBN Complex, 11 Jalan Sultan Ismail 50250 Kuala Lumpur Malaysia	Hotel operation	Freehold
Shangri-La's Fijian Resort, Yanuca Yanuca Island, Sigatoka, Nadroga Fiji	Hotel operation	Long lease	Shangri-La Hotel, Penang Magazine Road, 10300 Penang Malaysia	Hotel operation	Long lease
Fiji Mocombo, Nadi Namaka Hill, Nadi Fiji	Hotel operation	Long lease	Shangri-La's Golden Sands Resort, Penang Batu Feringgi Beach, 11100 Penang Malaysia	Hotel operation	Freehold
Shangri-La Hotel, Singapore 22 & 28 Orange Grove Road Singapore 258350	Hotel operation	Freehold	Shangri-La's Rasa Sayang Resort, Penang Batu Feringgi Beach, 11100 Penang Malaysia	Hotel operation	Freehold

Notes to the Accounts

For the year ended 31 December 2004

34 Investment Properties of Subsidiaries and Associated Companies (Continued)

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

Address	Existing use	Lease term
Shangri-La'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, residential and office rental	Freehold

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

Address	Existing use	Lease term
China World Trade Center 1 Jian Guo Men Wai Avenue Beijing 100004 The People's Republic of China	Hotel operation and office, commercial, residential and exhibition hall space rental	Medium lease
Shangri-La Hotel, Beijing 29 Zizhuyuan Road Beijing 100089 The People's Republic of China	Hotel operation	Short lease
Shangri-La Hotel, Hangzhou 78 Beishan Road Hangzhou 310007 The People's Republic of China	Hotel operation	Medium lease
Shanghai Centre 1376 Nanjing Xi Lu Shanghai 200040 The People's Republic of China	Hotel operation and office, commercial, residential and exhibition hall space rental	Medium lease
Beijing Kerry Centre 1 Guanghua Road Chaoyang District Beijing 100020 The People's Republic of China	Hotel operation and office, commercial and residential rental	Medium lease

34 Investment Properties of Subsidiaries and Associated Companies (Continued)

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

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

35 Subsequent Events

- (a) In March 2005, the Group executed 5 unsecured bilateral dual-currency loan agreements with individual banks in a total amount equivalent to US\$524.1 million. These loans have a maturity of 5 years and their all-inclusive cost is 37 basis points over LIBOR or HIBOR at the option of the Group.
- (b) In March 2005, the Group executed 3 HIBOR interest rate swap contracts for an aggregate principal amount of HK\$1,300 million for a period of 5 years at fixed interest rates ranging from 4.335% to 4.345% per annum.

36 Approval of Accounts

The accounts were approved by the Board of Directors on 31 March 2005.

