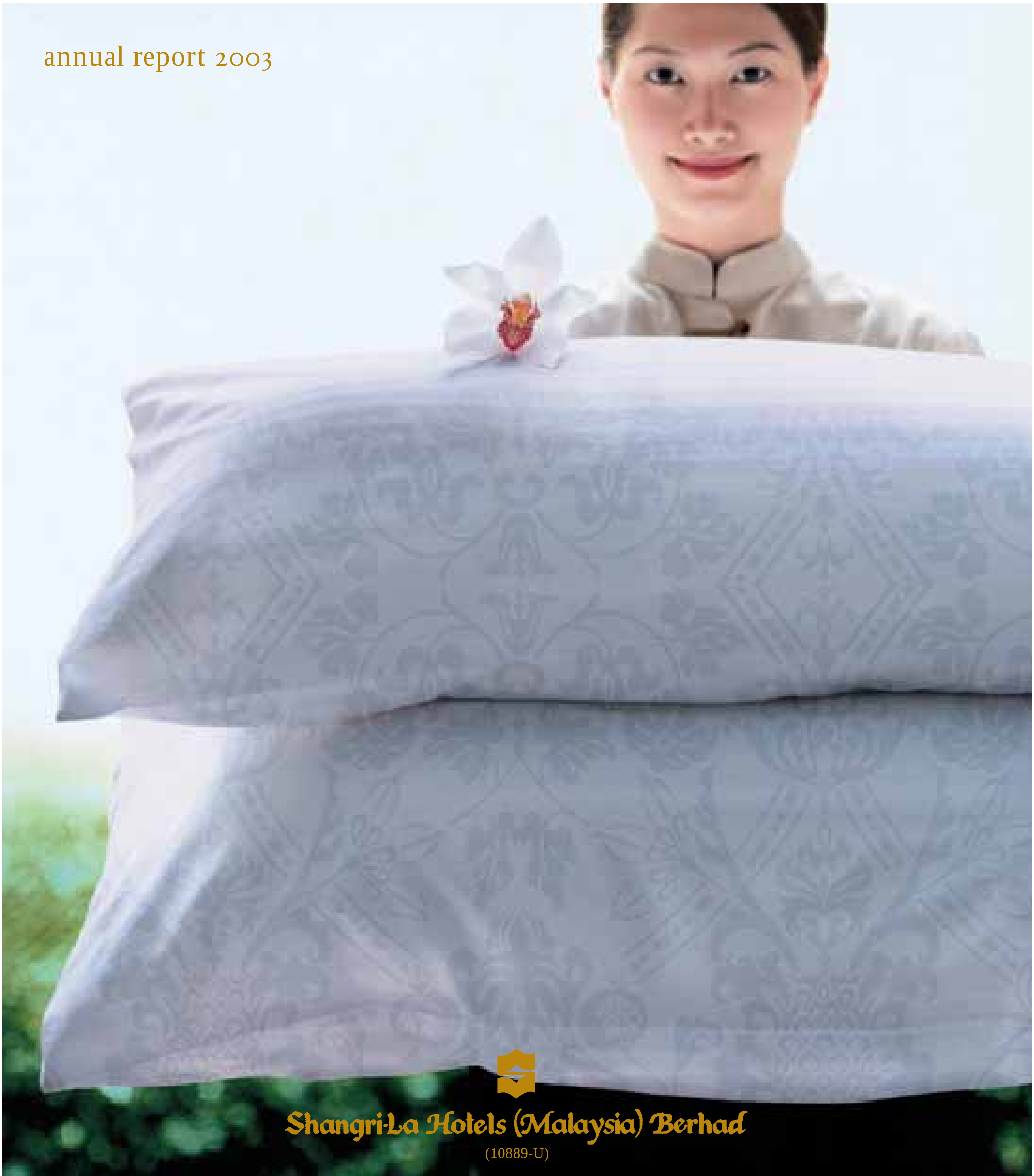
annual report 2003



Shangri-La Hotels (Malaysia) Berhad

(10889-U)

contents

"A Sense of Shangri-La"

In each and every Shangri-La Hotel and Resort, there's a sense of specialness that differentiates it from the predictable, the ordinary and the everyday.

A certain quality that, somehow, you can't quite put your finger on... a sense of refinement, style, elegance, luxury and comfort.

But above all, it is about our commitment to always put you at the centre of all our efforts.

	2003 RM'000	2002 RM'000	2001 RM'000	2000 RM'000	1999 RM'000
RESULTS					
Revenue	253,219	233,547	217,130	262,075	232,627
Exceptional items	-	(3,292)	(36,049)	6,264	3,343
Profit / (Loss) before tax	24,710	5,769	(14,348)	58,255	33,754
Profit / (Loss) attributable to shareholders	16,472	3,269	(21,819)	39,916	32,718
Dividend-net	20,592	19,008	19,008	25,608	19,008
KEY BALANCE SHEET DATA					
Issued capital	440,000	440,000	440,000	440,000	440,000
Total assets employed	1,556,079	1,521,610	1,306,625	1,122,208	1,136,212
Shareholders' funds	1,136,056	1,138,592	1,196,737	988,264	981,471
Net tangible assets	1,136,056	1,138,592	1,196,737	988,264	979,985
PER SHARE DATA					
Net earnings / (loss) per share (sen)	3.74	0.74	(4.96)	9.07	7.44
Net tangible assets (RM)	2.58	2.59	2.72	2.25	2.23
Dividend-gross (sen)	6.5	6.0	6.0	7.5	6.0
FINANCIAL RATIOS					
Return on shareholders' funds (%)	1.4	0.3	(2.0)	4.1	3.4
Return on total assets (%)	1.1	0.2	(1.8)	3.5	2.8
Net borrowings to shareholders' funds (%)	17.1	15.0	-	-	3.1

Notes:

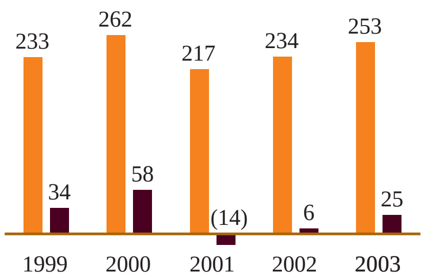
1. With effect from 1 January 2003, the Group changed its accounting policy with respect to the treatment of deferred taxation in order to conform with the requirements of MASB Standard 25 – Income Taxes, which has become effective for financial periods beginning on or after 1 July 2002. The adoption of MASB Standard 25 has been dealt with by way of a prior year adjustment, which has given rise to a reduction in shareholders' funds as at 31 December 2002 amounting to RM50.709 million. Consequently, the net tangible assets per share of the Group as at 31 December 2002 have reduced from RM2.71 to RM2.59. Only 2002 comparative figures have been restated to reflect the adoption of MASB Standard 25 – Income Taxes.

2. There is no exceptional item for the year ended 31 December 2003. For the financial year ended 2002, the exceptional items of RM3.292 million comprised (a) RM1.693 million write-down of certain development expenditure incurred for the redevelopment project of Palm Beach Resort, which has since been shelved indefinitely (b) RM1.168 million further provision for the write-down of the Group's investments in an associated company in Myanmar and (c) RM0.431 million net revaluation deficit of a subsidiary's property in respect of a golf course and clubhouse in Sabah.

3. The dividend figure of RM20.592 million for the financial year ended 31 December 2003 consist of (a) the interim dividend of 3.0% per share less tax at 28% paid on 14 November 2003 amounting to RM9.504 million and (b) the proposed final dividend of 3.5% per share less tax at 28% amounting to RM11.088 million. The proposed final dividend of 3.5% per share less tax at 28% for the financial year ended 2003 is subject to the approval of the shareholders at the Company's Annual General Meeting to be held on 21 May 2004.

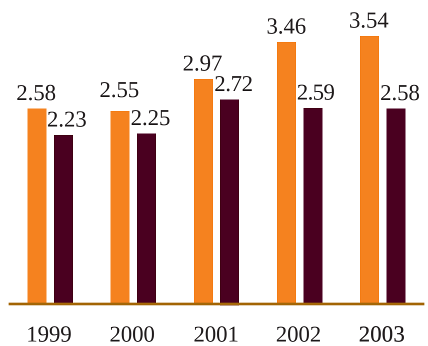
group financial highlights

REVENUE & PROFIT / (LOSS) BEFORE TAX



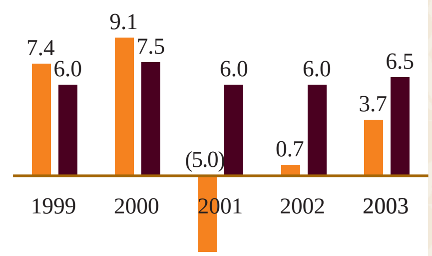
Revenue (RM'Million)
Profit / (Loss) before tax (RM'Million)

TOTAL ASSETS EMPLOYED PER SHARE & NET TANGIBLE ASSETS PER SHARE



Total assets employed per share (RM)
Net tangible assets per share (RM)

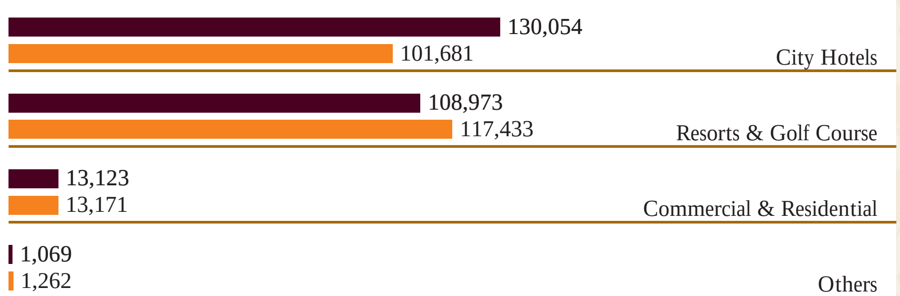
EARNINGS / (LOSS) PER SHARE & DIVIDEND PER SHARE



Earnings / (Loss) per share (sen)
Dividend per share (sen)

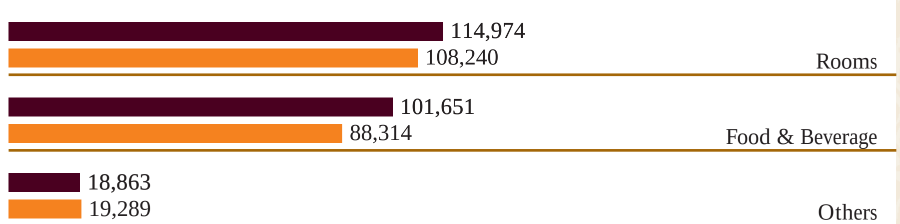
REVENUE BY SEGMENT

2003 ~ Total 253,219
2002 ~ Total 233,547
(All figures in RM'000)



REVENUE OF HOTELS & RESORTS BY DEPARTMENTS

2003 ~ Total 235,488
2002 ~ Total 215,843
(All figures in RM'000)



Shang Palace, Shangri-La Hotel Kuala Lumpur

Dear Shareholders

I am pleased to report that we have been able to achieve a good set of results for the year 2003, despite the more difficult and challenging trading conditions in the hotel industry. During the year, the continuing economic and global uncertainties, the war in Iraq, and the outbreak of SARS in the region all combined to create an extremely testing environment for our hotel business and investment properties.

GROUP RESULTS

In the year to 31 December 2003, Group revenue posted an increase of RM19.672 million or 8% to RM253.219 million largely from improved revenue contribution from Shangri-La Hotel Kuala Lumpur. Group profit before tax grew by RM18.941 million to RM24.710 million compared with RM5.769 million earned in 2002. The Group's consolidated profit after tax attributable to shareholders for 2003 was RM16.472 million, up RM13.203 million from the previous year's profit of RM3.269 million, as restated. Earnings per share consequently rose to 3.74 sen in 2003 from 0.74 sen in 2002, as restated.

Overall, the profitability of the Group in 2003 was boosted principally by higher earnings from Shangri-La Hotel Kuala Lumpur, as well as considerable cost savings that arose from the various cost reduction initiatives that had to be taken in the year at the Group's hotels and resorts.

The net interest expense of the Group in 2003 was RM7.332 million against RM4.861 million in the prior year, reflecting an increase in the level of borrowings during 2003 primarily to finance the major renovation programme at Shangri-La Hotel Kuala Lumpur.

Shareholders' funds at 31 December 2003 were RM1,136 million and the Group's consolidated net debt amounted to RM194.041 million. At the same date, net debt of RM194.041 million was 17% of shareholders' funds, and remains well within our parameters.

DIVIDENDS

As a result of our better performance in 2003, your Board is proposing a final dividend of 3.5% less tax of 28%, payable on 18 June 2004. This, together with the interim dividend of 3.0% less tax of 28% paid last November, gives a total dividend of 6.5% less tax of 28% for the financial year 2003, an increase of 0.5% over 2002. If the proposed final dividend is approved at the Annual General Meeting of the Company to be held on 21 May 2004, the total dividend for the financial year 2003 will amount to RM20.592 million compared with RM19.008 million in the year before.

PERFORMANCE REVIEW

In our hotel business, Shangri-La Hotel Kuala Lumpur delivered strong results in challenging circumstances. In 2003, total revenues at the hotel surged by almost RM27 million to RM105.721 million driven by a substantial growth in business volumes in both rooms and food and beverage operations. The hotel improved its occupancy to 65% from 56% in 2002 and this was accompanied by a 15% increase in the average room rate. Consequently, the hotel turned in a profit of RM14.746 million against last year's loss of RM2.343 million. The hotel's robust performance in 2003 has provided a clear demonstration of the benefits of the significant investments made over the last two years in extensive renovations to its facilities and rooms, which have enabled the hotel to enhance its leading position in a competitive market.

Over in Sabah, Rasa Ria Resort has also performed well and increased its occupancy to 64%, with a 9% improvement in total revenues compared with 2002. The operating results of Rasa Ria Resort benefited from an improved second half performance buoyed by increased leisure demand from the domestic and regional markets. In addition, there was a satisfactory performance at Shangri-La Hotel Penang in a difficult local market, reflecting a strengthening in demand as the benefits of its newly renovated rooms began to flow through in the second half coupled with reduced operating costs. The hotel's occupancy at 55%, was up from 51% in 2002, with a 6% increase in overall revenue.

In contrast however, results from Rasa Sayang Resort and Golden Sands Resort in Penang were disappointing. Both resorts were hit particularly hard by reduced levels of visitor arrivals from their major long haul markets due to a sustained weakness in the global economy exacerbated by the effects of the hostilities in Iraq and the SARS outbreak. Occupancy levels at the resorts were sharply lower than in 2002, leading to a substantial decline in revenues both from rooms and from food and beverage. Rasa Sayang Resort's occupancy fell from 60% in 2002 to 50% while occupancy at Golden Sands Resort was down to 58% from 67% in the previous year.

The Group's investment properties in Kuala Lumpur also recorded weaker results owing to a subdued trading climate in the property rental market. Notwithstanding a continued softness in demand and weak market sentiments, the total combined revenue from UBN Tower and UBN Apartments was only marginally down from RM13.171 million in 2002 to RM13.123 million, whilst pre-tax profits at RM7.581 million were 4% lower than the profits of RM7.860 million reported in 2002.

For 2003, our share of results in associated companies showed a lower net loss of RM1.834 million against RM3.065 million in the prior year. This reflects higher profits derived from Johdaya Karya Sdn Bhd and

reduced losses at Traders Hotel Yangon. The ongoing economic difficulties and political instability in Myanmar have held back the performance of Traders Hotel Yangon. In this environment, the hotel continued to incur losses, although at much lower levels but remained profitable at the gross operating level.

INITIATIVES AND DEVELOPMENT

In the second quarter of 2003, our hotel business was impacted heavily by the dramatic decline in both leisure and business travel as a result of the outbreak of SARS in the region from late March 2003 onwards. This prompted a steep fall in occupancy levels, and led to a sharp downturn in business levels at our hotels and resorts, particularly in the months of April and May. Rasa Sayang Resort experienced by far the most drastic decline in occupancy levels, which dropped to an average of 29% for the three months to 30 June 2003.

The unprecedented deterioration in the trading environment arising from SARS required us to implement major cost cutting initiatives across our hotels and resorts in the second quarter, with a particular focus on payroll costs to help mitigate the impact of declining revenues. We also took decisive action to cut back on certain advertising spending and deferred some capital expenditure. Our efforts to reduce costs were vigorous and the savings achieved contributed to good overall results for the Group in 2003. At the same time, early action was taken to mount a series of successful marketing campaigns aimed at the domestic and regional markets to support occupancy levels. Our hotel operations in Kuala Lumpur and Sabah recovered more quickly in the second half of the year once the SARS epidemic was contained in late June 2003.

We nevertheless pressed ahead with the capital improvement programmes at two of our existing hotel properties, which were committed and well advanced before the onset of SARS. At Rasa Sayang Resort, a soft refurbishment programme for all the rooms and suites in the Garden Wing was successfully completed in July 2003. Additionally, significant improvement works took place at Shangri-La Hotel Penang to enhance the quality of its room product. However, in line with our prudent decision to reduce capital expenditure in the year, the planned rooms refurbishment programme at Rasa Ria Resort in Sabah was deferred, and will now proceed in the second quarter of 2004.

During the year, we also continued to work hard on the training, development and motivation of our employees at all levels to enable us to achieve our business objectives, whilst ensuring our commitment to consistently deliver high standards of service to our customers. To support this, comprehensive training programmes and policies are in place throughout the Group's operations focusing on recruitment, retention, career development, productivity, employee relations and recognition.

Garden Wing guest room, Rasa Sayang Resort

Horizon Club Lounge, Shangri-La Hotel Penang

Once again in 2003, our hotels and resorts received several noteworthy awards and high accolades in recognition of service excellence and the quality of product. In the area of corporate governance, we were extremely delighted to receive the prestigious KLSE Corporate Sectoral Award 2003 in the Hotels sector of the Main Board. We have always placed a high priority on sound corporate governance in the way we manage our Group, and will continue to work towards further reinforcing best practice.

OUTLOOK

Turning to the outlook for 2004, we expect Shangri-La Hotel Kuala Lumpur to deliver further growth in revenue and profitability as the hotel continues to capitalise on its strong market presence and the strength of its renovated product. With the benefit of improving levels of demand, both Rasa Ria Resort in Sabah and Shangri-La Hotel Penang should also perform better in the current year, although their average room rates will continue to be vulnerable to price competition. However, trading conditions are likely to remain difficult and challenging for our resorts in Penang as we have not yet seen a sustainable recovery in visitor arrivals from their long haul major markets in UK and Europe.

The operating performances of our investment properties are expected to remain broadly similar to last year as the property rental market in Kuala Lumpur is not anticipated to experience a significant turn-around in 2004.

Meanwhile, although we have made substantial progress in 2003, we all recognise there is much work ahead of us to strengthen the Group for the future. In this period of continuing uncertainty, the Group's businesses will remain vigilant in their control of operating costs to achieve overall efficiency, with a relentless commitment to drive revenue growth through more aggressive and innovative sales and marketing programmes in order to enhance financial performance in 2004.

SPECIAL THANKS

Across the Group, our employees have responded positively to the significant tasks and challenges posed by the difficult operating environment in the last year with great determination and hard work.

On behalf of the Board, I want to take this opportunity to thank each and every one of them for their exceptional efforts and commitment that played a major part in helping the Group achieve a year of strong performance. I would also like to extend the same gratitude to my fellow Directors on the Board for their valuable contributions and advice throughout the past year.

To you our shareholders, we have greatly appreciated your support and encouragement, and look forward to your continued confidence in us.

TAN SRI DATO' WAN SIDEK BIN WAN ABD. RAHMAN
Chairman
17 April 2004

KLSE Corporate Sectoral Award 2003

Main Lobby, Shangri-La Hotel Penang

Lemon Garden 2Go, Shangri-La Hotel Kuala Lumpur

CITY HOTELS

Shangri-La Hotel Kuala Lumpur enjoyed a very successful year, reflecting the benefits of the hotel's extensive renovation programme over the past two years, which enhanced the overall quality of its product offering. With a stronger business platform, the hotel consolidated its leadership position within the top tier of deluxe hotels in Kuala Lumpur and achieved considerable market share gains during 2003. Despite the fall off in business travel in reaction to the war in Iraq and the SARS outbreak in the first half of the year, the hotel delivered a robust trading performance in 2003, with good increases in both occupancy and average room rates.

Improved demand from the corporate, conventions and incentive travel markets, supported by aggressive sales and marketing efforts, enabled the hotel to increase its occupancy to 65%, compared with 56% in 2002. The hotel also increased its average room rate by some 15% over the previous year. Demand was underpinned by healthy growth in corporate arrivals from the UK and the regional markets, principally from Singapore, Japan and Hong Kong. The significant improvement in the average room rate was due mainly to the hotel’s successful efforts to secure increased high yield corporate business for its renovated Horizon rooms on five dedicated floors, with services and facilities specifically designed for business travellers. Total room revenues at the hotel for the full year grew by over 37% from RM32.613 million in 2002 to RM44.830 million in 2003.

Similarly, the hotel's food and beverage operations saw a year of solid progress, in which results exceeded expectations, reflecting strong patronage of the newly renovated outlets both by the local community and hotel guests, and successful promotions held during the year. Most notably, *Lemon Garden Cafe*, *Lobby Lounge* and the Japanese restaurant, *Zipangu* experienced buoyant business, and generated a marked increase in covers, with sales and profits well ahead of 2002. Additionally, the hotel's banqueting and meeting facilities attracted increased social events, corporate and convention activities throughout the year. Revenue from food and beverage operations for 2003 reached RM53.272 million, a rise of nearly RM14 million from RM39.284 million in the prior year, underlining the importance of this element of the hotel's business.

Overall, total revenues from the hotel's operations for 2003 rose by RM26.924 million to RM105.721 million compared with RM78.797 million in 2002. The hotel turned in a profit of RM14.746 million for 2003 against last year’s loss of RM2.343 million.

Malaysian Suite, Shangri-La Hotel Penang

Malaysian Suite, Shangri-La Hotel Penang

Lafite, Shangri-La Hotel Kuala Lumpur

Shang Palace, the hotel's Chinese restaurant closed for renovation for three months and re-opened in early December 2003 with a new and more attractive décor, and has been extremely well received in the local market. At the same time, the hotel's Gourmet Corner has also been upgraded to a new concept, and was relaunched in January 2004 as *Lemon Garden 2Go*, and the response from customers has been positive.

Besides its strong financial performance, the hotel also received a number of awards and accolades during the year for its outstanding facilities, service and culinary excellence. In the Business Traveller, Asia Pacific magazine's 2003 annual survey, the hotel was voted "Best Business Hotel in Kuala Lumpur". It was once again rated as the "Best Hotel in Kuala Lumpur" by readers of Global Finance (USA) and won the "Five Star Diamond Award" from The American Academy of Hospitality Sciences for the third consecutive year. The hotel also distinguished itself by receiving the "Best Hotel Development Award" under the hotel category at the 11th FIABCI Property Awards of Distinction held in October 2003. More recently, the hotel's signature restaurant, *Lafite* and its Japanese restaurant, *Zipangu* were the recipients of the prestigious Malaysia Tourism Awards 2003 for "Best Western Restaurant" and "Best Oriental Restaurant" respectively.

The hotel has made a good start in 2004 and is well placed to take full advantage of the expected improvement in market conditions. In the current year, the hotel will continue to focus its efforts on increasing profitability in all areas of its business, strengthening brand awareness and placing greater emphasis on service delivery, as well as improving operational efficiency. Sales and marketing activities within the hotel's key corporate markets will also be intensified to broaden the customer base. Just as important, effective catering initiatives and promotional activities will be increased to drive revenues for its food and beverage facilities.

Shangri-La Hotel Penang did well to achieve revenue and profit growth in a difficult market. The trading environment remained challenging during 2003, with continuing low levels of corporate arrivals and aggressive pricing from competitors. The sharp decline in regional business travel as a consequence of the Iraq conflict and SARS outbreak in the first half of 2003 added further competitive pressures on both occupancy and average room rates.

Zipangu, Shangri-La Hotel Kuala Lumpur


Shang Palace, Shangri-La Hotel Penang

Nonetheless, the hotel made some recovery after a weak first half, partly in response to a stringent programme of cost savings and a strengthening in demand as the benefits of its newly renovated rooms came through in the second half of 2003. A strong sales effort and active marketing programmes at the local level also helped the hotel to gain increased business from the government sector and the local corporate market, particularly within the high technology and manufacturing segments.

The hotel was able to improve its occupancy to 55% from 51% in 2002, which offset the decrease of 2% in average room rate, thereby giving an overall increase of 5% in room revenue to RM12.536 million in 2003.

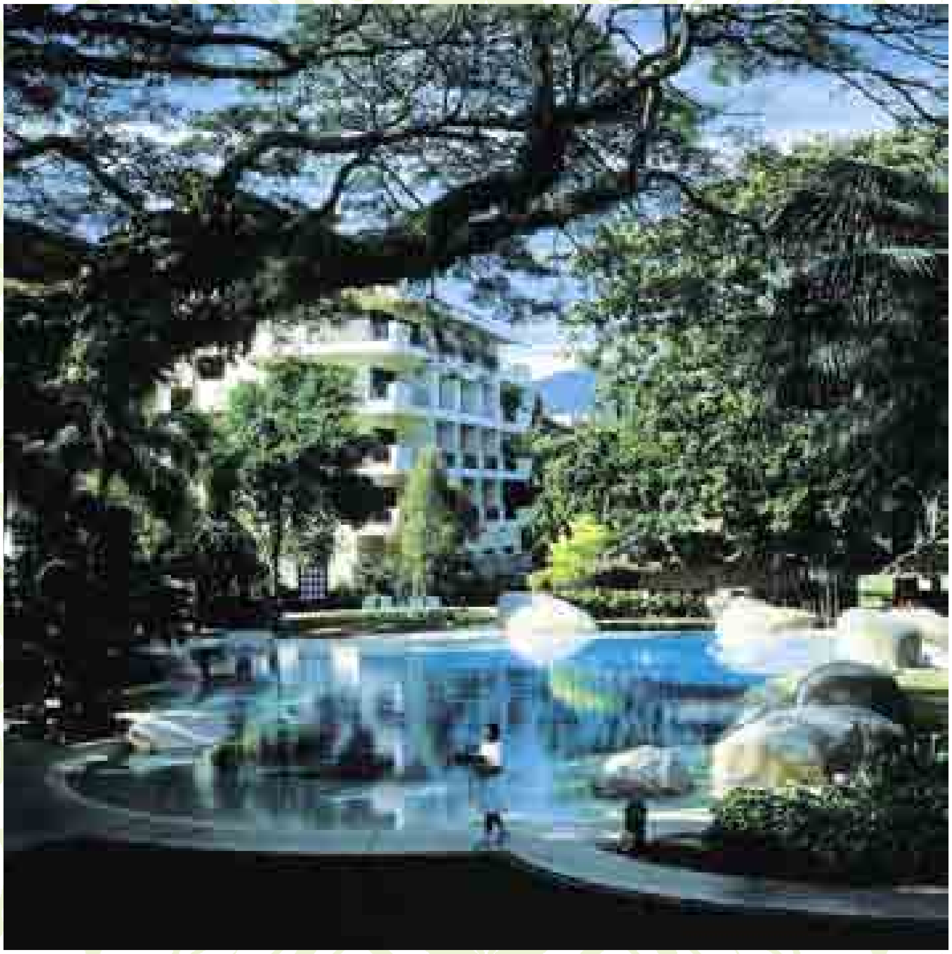
Food and beverage operations also made a positive contribution to overall results with a 13% increase in revenue to RM10.425 million for 2003. The hotel's food and beverage performance benefited from higher room occupancy and the various promotions initiated in the past year aimed at encouraging local patronage of its food and beverage outlets. There was also a significant improvement in banqueting due to the increased number of government and corporate functions at the hotel, along with good outside catering business. Margins in food and beverage operations improved significantly over 2002 due to operational effectiveness and firm action on costs. In 2004, the hotel plans to renovate its coffee shop, and this is expected to further increase revenue.

Total hotel revenues in 2003 was RM24.333 million, representing a growth of 6% over the prior year. As a result, the hotel's operations recovered from a loss of RM1.098 million in 2002 to record a profit of RM0.987 million for 2003.

Last year saw the completion of the hotel's selective rooms renovation programme with eight floors of rooms and all suites having been fully upgraded including the Horizon Club Lounge and Main Lobby at a total cost of some RM4.8 million. The renovated rooms and facilities have significantly enhanced the hotel's competitiveness, and will support its efforts to generate additional business in a challenging market.

With the expected continuing recovery in corporate business travel, the hotel should see further progress in its performance in 2004 but is likely to experience significant pressure on room rates. To further enhance revenue and profitability, the hotel will strive to increase market share through more effective marketing strategies, improve cost efficiency and maintain a tight control over operating costs without compromising service standards.


Zipangu, Shangri-La Hotel Kuala Lumpur



Rasa Sayang Resort

RESORTS

Rasa Sayang and Golden Sands in Penang faced a tougher trading environment in 2003, and reported significant shortfalls in their operating results.

A sluggish global economy, compounded by the effects of the war in Iraq and continued concerns over the threat of international terrorism resulted in weakened demand from their major long haul markets in UK and Europe. Additionally, the onset of SARS beginning in late March caused major disruptions in travel patterns and virtually brought international air travel to an abrupt halt during the second quarter of 2003. This situation had a further negative impact on the number of long haul visitors, and also led to a severe reduction in leisure arrivals from their important regional travel markets of Japan and Australia as well as the Middle Eastern market.

Against this background, immediate action was taken to reduce costs by implementing comprehensive cost cutting measures and contingency plans in all areas of operations to cushion the impact of the material drop in revenues, without diminishing service standards. The two resorts also initiated early moves to put in place intensive marketing plans to capture business aggressively in both the domestic and regional leisure markets once the SARS epidemic subsided. These marketing efforts enabled Rasa Sayang and Golden Sands to gain increased leisure business in the domestic market during the second half of 2003, which partially compensated for the lack of demand from the overseas markets. By growing their market share in domestic business, both Rasa Sayang and Golden Sands were able to maintain their respective leading positions in the local market.

Although Rasa Sayang experienced a reduction in room occupancy from 60% in 2002 to 50% in 2003, the average room rate remained firm. At Golden Sands, room occupancy dropped to 58% from 67% in 2002, with a slight increase of 2% in the average room rate through higher yielding business in the wholesale leisure segments. Total room revenues at Rasa Sayang fell by 16% from RM32.575 million in 2002 to RM27.317 million in 2003, whereas at Golden Sands, total room revenues declined by 12% to RM17.323 million in 2003 from RM19.588 million in the previous year.

The results from food and beverage operations at both resorts were also adversely affected mainly owing to the substantial decline in business volumes at their outlets due to the shortage of hotel guests coupled with weakening local patronage. Increased revenues from local catering business and corporate functions during the year offset, to some extent, the loss of food and beverage revenues in the outlets. At Rasa Sayang, total food and beverage revenues showed a decline of 15% from the previous year to RM15.812 million in 2003. In the case of Golden Sands, the total food and beverage revenues for 2003 reduced to RM9.757 million, down 9% from 2002.

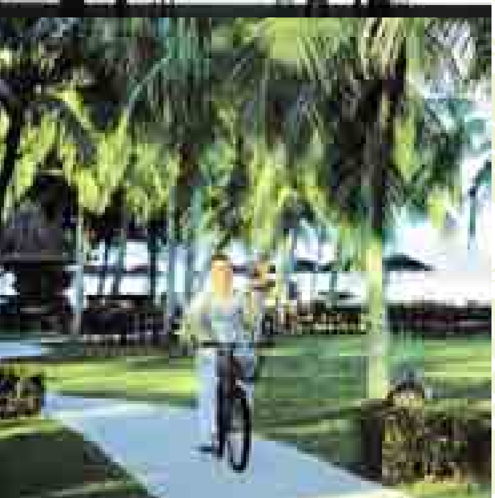
Dalit Bay Golf Course, Rasa Ria Resort


Coast, Rasa Ria Resort

Overall, the cost cutting actions taken in the year at the two resorts enabled some significant savings, but could not prevent a fall in profitability due to the substantial decline in revenues. In such circumstances, Rasa Sayang recorded an operating loss of RM0.574 million in 2003 compared with a profit of RM3.060 million in 2002. Golden Sands ended the year with a profit of RM2.980 million versus a profit of RM4.516 million in 2002.

At Rasa Sayang, a soft refurbishment programme for all the rooms and suites in the Garden Wing costing about RM5 million was completed in July 2003, and the enhanced room product has been positively received by guests. In 2003, Rasa Sayang was ranked as one of the “Top 500 Hotels and Resorts in the World” by readers of Travel & Leisure (USA). Golden Sands earned the award for “Excellence in Hotel Services 4-star Resort” under the Malaysia Tourism Awards 2003 for the second year in a row.

2004 will be another challenging year for Rasa Sayang and Golden Sands. Both resorts continue to operate under difficult circumstances due primarily to the slower recovery in demand from their major long haul markets. The two resorts will therefore focus increasingly on growing their revenues through wider marketing programmes and sales activities with a continued emphasis on the domestic and regional travel leisure markets. Given the uncertain business environment, the financial well-being of the resorts remains a fundamental objective. To this end, both resorts will keep up efforts to maintain a tight control on operating costs, as well as actively pursuing opportunities to further streamline cost structures in order to enhance the performance of their operations.



In Sabah, Rasa Ria Resort made good progress in 2003, recovering well from the negative effects of the Iraq war and outbreak of SARS on its business operations in the first half of the year. The resort achieved significant growth in both revenue and profit over 2002 following a stronger second half performance, and also maintained its strong competitive position in the local market. The improvement in the operating results was boosted by a strong rebound in leisure travel after the SARS crisis ended in late June, coupled with the success of effective marketing campaigns.

In response to the market downturn created by SARS, a range of attractive packages was launched to stimulate demand in the domestic and local corporate travel markets, as well as in the government sector. In addition, tactical promotions were also aimed at the leisure individual and leisure group segments in the regional markets of Hong Kong and Taiwan through joint initiatives with major airlines and selected agents. These marketing activities reaped a strong response from both domestic and regional leisure travellers, and drove occupancy up in the second half of 2003. The resort also benefited from a strengthening in demand from Australia and China, its new emerging markets, which are showing good potential.

Rasa Ria Resort improved its room occupancy from 55% in 2002 to 64% in 2003. However, there was an 11% decline in the average room rate against 2002 because of the change in mix of arrivals with more regional business rather than long haul, combined with lower pricing in the promotional activities conducted during the year. Total room revenues at the resort for 2003 were RM12.968 million, an increase of 6% from 2002 despite the reduction in average room rate.

In food and beverage operations, results were strong, with revenues up 13% to RM12.385 million in 2003. The higher occupancy helped generate increased revenues from most of the resort's food and beverage outlets, while banqueting revenue improved significantly due to healthy demand for local corporate meetings and government functions. The resort's new Northern Indian outlet, *NAAN* opened in late November 2003 and provides additional variety to both hotel guests and local residents.

The total revenues from the resort's operations for 2003 grew from RM27.623 million in 2002 to RM30.059 million. Overall, a strong revenue performance and improved efficiencies, along with the benefits from cost saving initiatives implemented during the year, led to a further increase in operating profit margins. The resort recorded a profit of RM3.972 million in 2003 compared with RM1.786 million in 2002.

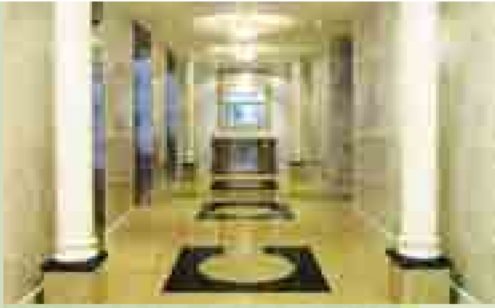
To further enhance the resort's competitive advantage, the first phase of a soft refurbishment programme will start in May 2004, and over a two-year period will cover all the rooms and suites at the resort. The refurbished rooms will greatly increase the resort's capability to secure better market share and should also bring about a steady rise in room rates.

Prospects for the resort in 2004 remain encouraging. The improving air accessibility to Sabah, with additional and increased frequency of direct flights from around the region, bodes well for the local hotel and tourism industry. Rasa Ria Resort is well positioned to benefit strongly from the expected continuing growth in travel in the Asia Pacific region. Meanwhile, the resort will aggressively drive sales in existing markets and make further inroads into promising new markets as well as focus on improving the overall business mix. At the same time, the resort will seek to increase room rates through more effective yield management, achieve better cost efficiency and improve operational processes.

Rasa Sayang Resort

Deluxe Seafacing Room, Golden Sands Resort


UBN Tower & UBN Apartments



Main Lobby, UBN Apartments

COMMERCIAL & RESIDENTIAL PROPERTIES

2003 was another year of subdued performance for the Group's investment properties, reflecting weak market conditions in the property rental market in Kuala Lumpur's Golden Triangle.

The continuing problems of oversupply of office space in the market once again put downward pressure on both occupancy levels and rental rates throughout the year. Generally, there was limited new demand, with leasing activity dominated by relocations and renewals. A number of companies scaled down their operations and shelved their expansion or set-up plans in response to the uncertain economic climate. With vacancy levels still high, rental rates became increasingly competitive as landlords offered attractive rents and incentives to secure and retain tenants.

At UBN Tower, though the average rental rate was broadly stable, occupancy rate dipped to 45% from 47% in 2002 as a few tenants either downsized or relocated during the course of 2003.

The demand for rental of high-end apartments was equally sluggish. The rental rates for apartment units in prime locations remained depressed owing to excess supply and shrinking housing budgets for expatriates. Despite keen competition, UBN Apartments managed to improve the occupancy rate for its owned units from 54% to 58% in 2003, thanks to a steady rise in demand for one-bedroom units mainly from single expatriates preferring to stay in the city centre. However, average rental rates fell slightly owing to market pressures, and as a result overall rental revenue for 2003 was largely maintained at the 2002 level.

For the full year 2003, the total combined revenue from UBN Apartments and UBN Tower decreased slightly from RM13.171 million in 2002 to RM13.123 million, whilst pre-tax profits reduced from RM7.860 million in the previous year to RM7.581 million in 2003.

In these circumstances, the strategy for the two properties was to focus on the retention of tenants at lease expiry, providing higher standards of tenant services and strengthening relationships with tenants. Apart from this, much emphasis was also placed on maintaining and improving the quality and facilities of both properties so as to maintain their competitiveness, undertaking continuous high quality maintenance, as well as enhancing the security and safety aspects of the two buildings. During 2003, the second floor lift lobby and corridors including the hawker centre at UBN Tower were refurbished. At UBN Apartments, the main lobby area was also upgraded with new granite tiles.

Notwithstanding improving economic prospects and the business outlook, the property rental market in Kuala Lumpur is not expected to recover strongly during 2004. However, vigorous efforts are being made to increase occupancy levels at both the properties through more effective and creative marketing programmes.

Main Lobby, UBN Tower

SHANGRI-LA HOTELS (MALAYSIA) BERHAD

Hotels, Resorts & Golf Course

Shangri-La Hotel (KL) Sdn Bhd	Golden Sands Beach Resort Sdn Bhd	Palm Beach Hotel Sdn Bhd	Pantai Dalit Beach Resort Sdn Bhd	Dalit Bay Golf & Country Club Berhad [1]	Komtar Hotel Sdn Bhd
100%	100%	100%	75%	75%	60%

SHANGRI-LA HOTELS (MALAYSIA) BERHAD

Investment Holding & Others

Pantai Emas Sdn Bhd	Madarac Corporation [2]	Wisegain Sdn Bhd	Hasil-Usaha Sdn Bhd	Pantai Dalit Development Sdn Bhd [1]	Johdaya Karya Sdn Bhd
100%	100%	100%	100%	75%	30%

Traders Yangon Company Ltd [3]	Shangri-La Yangon Company Ltd [3]	Traders Square Company Ltd [3]
22.2%	22.2%	22.2%

SHANGRI-LA HOTELS (MALAYSIA) BERHAD

Commercial & Residential Properties

UBN Tower Sdn Bhd	UBN Holdings Sdn Bhd
100%	100%

(1) Held via Pantai Dalit Beach Resort Sdn Bhd
(2) Incorporated in British Virgin Islands
(3) Incorporated in Union of Myanmar

financial calendar

~ YEAR 2003 ~

21 May
Announcement of Unaudited Consolidated Results for the 1st Quarter ended 31.3.2003

19 August
Announcement of Unaudited Consolidated Results for the 2nd Quarter ended 30.6.2003

23 October
2003 Interim Dividend Entitlement Date

11 November
Announcement of Unaudited Consolidated Results for the 3rd Quarter ended 30.9.2003

14 November
2003 Interim Dividend Payment Date

31 December
Financial Year End

~ YEAR 2004 ~

25 February
Announcement of Audited Consolidated Results for the 4th Quarter and Financial year ended 31.12.2003

29 April
Issue of 2003 Annual Report

21 May
2004 Annual General Meeting to be held

28 May
Entitlement Date for the proposed 2003 Final Dividend

18 June
Payment Date for the proposed 2003 Final Dividend

BOARD OF DIRECTORS

Tan Sri Dato' Wan Sidek bin Wan Abd. Rahman* *Chairman*
Kuok Oon Kwong *Managing Director*
Rozina Mohd Amin *Executive Director*
Tan Sri Datuk Asmat bin Kamaludin*
Dato' Che Mohd Annuar bin Che Mohd Senawi
Dato' Seri Ismail Farouk Abdullah*
Kuok Khoon Ho
Tan Sri Dato' Mohd Amin bin Osman
Mohamad Abdul Halim bin Ahmad
Dato' Dr Tan Tat Wai*
Faisal bin Ismail (Alternate to Mohamad Abdul Halim bin Ahmad)

* Independent Non-Executive Directors

AUDIT COMMITTEE

Tan Sri Dato' Wan Sidek bin Wan Abd. Rahman *Chairman*
Tan Sri Datuk Asmat bin Kamaludin
Dato' Seri Ismail Farouk Abdullah
Mohamad Abdul Halim bin Ahmad

POLICY IMPLEMENTATION COMMITTEE ~ Hotels & Resorts

Kuok Oon Kwong *Chairman*
Rozina Mohd Amin

NOMINATION & REMUNERATION COMMITTEE

Tan Sri Dato' Wan Sidek bin Wan Abd. Rahman *Chairman*
Tan Sri Datuk Asmat bin Kamaludin
Kuok Khoon Ho

COMPANY SECRETARY

Rozina Mohd Amin

REGISTERED OFFICE

13th Floor, UBN Tower
10 Jalan P. Ramlee
50250 Kuala Lumpur
Tel (+60-3) 2026 1018
Fax (+60-3) 2026 1068
E-Mail shmb@po.jaring.my

AUDITORS

KPMG
Wisma KPMG, Jalan Dungun
Damansara Heights
50490 Kuala Lumpur

SOLICITORS

Kadir, Andri Aidham & Partners
Shook Lin & Bok

PRINCIPAL BANKERS

HSBC Bank Malaysia Berhad
Malayan Banking Berhad
RHB Bank Berhad

SHARE REGISTRAR

PPB Corporate Services Sdn Bhd
14th Floor, Wisma Jerneh
38 Jalan Sultan Ismail
50250 Kuala Lumpur
Tel (+60-3) 2141 2077
Fax (+60-3) 2141 8242

STOCK EXCHANGE LISTING

Malaysia Securities Exchange Berhad

TAN SRI DATO' WAN SIDEK BIN WAN ABD. RAHMAN
Board Chairman
Malaysian, Independent Non-Executive Director

Tan Sri Dato' Wan Sidek bin Wan Abd. Rahman was appointed to the Board of Shangri-La Hotels (Malaysia) Berhad ("SHMB") on 3 December 1992 and became Board Chairman of SHMB on 27 May 1995. He is also currently Chairman of the Audit Committee and the Nomination & Remuneration Committee. Tan Sri Dato' Wan Sidek holds a Bachelor of Arts (Honours) degree in Economics from the University of Malaya. He has vast experience in the civil service where he held several senior posts such as Secretary General of the Ministry of Science, Technology & Environment (1981–1982), Secretary General of the Ministry of Information (1982–1986), Deputy Secretary General in the Prime Minister's Department (1986–1988) and Secretary General in the Ministry of Home Affairs Malaysia (1988–1990). Between 1990 and 1993, he served as High Commissioner for Malaysia to the United Kingdom and Ambassador for Malaysia to the Republic of Ireland.

He is also a board member of a number of public listed companies namely Resorts World Berhad, Eng Technologi Holdings Berhad, Olympia Industries Berhad and MP Technology Resources Berhad.

Tan Sri Dato' Wan Sidek has no family relationship with any Director and/or major shareholder of SHMB and has no conflict of interest with SHMB. He has no convictions for any offences within the past ten years. He attended all five Board meetings held in 2003. Age 67.

KUOK OON KWONG
Managing Director
Singaporean, Non-Independent Executive Director

Madam Kuok Oon Kwong was appointed Managing Director on 16 November 1998 and has been an Executive Director of the Company since 14 November 1996. In her capacity as Managing Director, she has overall responsibility for the Group's business operations and development. She also sits on the board of all the major subsidiaries in the SHMB Group and is the Chairman of the Policy Implementation Committee, which oversees the Group's hotel operations.

Madam Kuok joined Shangri-La Hotel Limited, Singapore in 1986 where she gained extensive practical and business experience in hotel operations through her various senior management positions. She is also Executive Chairman of Shangri-La Hotel Limited, Singapore, Managing Director of Shangri-La Hotel Public Company Limited, Thailand and a non-executive Director of Shangri-La Asia Limited, Hong Kong. Madam Kuok is an Advocate and Solicitor (Barrister-at-Law) of Gray's Inn, London.

Her brother, Mr Kuok Khoon Ho is also a member of the Board. She has no conflict of interest with SHMB and no convictions for any offences within the past ten years. She attended all five Board meetings held in 2003. Age 57.

ROZINA MOHD AMIN
Executive Director
Malaysian, Non-Independent Executive Director

Puan Rozina Mohd Amin was appointed as an Executive Director of SHMB on 1 June 1998. She sits on the board of a number of companies in the SHMB Group and has also been a member of the Policy Implementation Committee since 1996. She has been with the Group for more than twenty years and has held various senior corporate positions within the Group before her present appointment as Executive Director. Puan Rozina is also Group Company Secretary, a position which she has held since August 1991, and oversees the Group's corporate finance, legal and company secretarial functions. She is an Associate Member of The Malaysian Institute of Chartered Secretaries and Administrators.

Her father, Tan Sri Dato' Mohd Amin bin Osman is also a member of the Board. She does not have any family relationship with any major shareholder of SHMB. She has no conflict of interest with SHMB and no convictions for any offences within the past ten years. She attended all five Board meetings held in 2003. Age 44.

TAN SRI DATUK ASMAT BIN KAMALUDIN
Malaysian, Independent Non-Executive Director

Tan Sri Datuk Asmat bin Kamaludin was appointed as a Director of SHMB on 26 February 2001. He is also a member of the Audit Committee and the Nomination & Remuneration Committee. He holds a Bachelor of Arts (Honours) degree in Economics from the University of Malaya. Tan Sri Datuk Asmat served in the Ministry of International Trade and Industry (MITI) for thirty-five years and retired as its Secretary General, a position he held for nine years. Dealing with both domestic and international sectors at MITI, he also represented Malaysia in several international bodies such as ASEAN, WTO and APEC. He was actively involved as MITI's representative in several national organisations such as the Johor Corporation, the Small and Medium Scale Industries Corporation (SMIDEC) and the Malaysian Trade Development Board Authority (MATRADE). Tan Sri Datuk Asmat currently sits on the boards of Malaysian Pacific Industries Berhad, Symphony House Berhad, Carlsberg Brewery Malaysia Berhad, UMW Holdings Berhad, Lion Industries Corporation Berhad, Commerce Asset Holdings Berhad, YTL Cement Berhad, Matsushita Electric Company (Malaysia) Berhad, Permodalan Nasional Berhad and Scomi Group Berhad.

Tan Sri Datuk Asmat has no family relationship with any Director and/or major shareholder of SHMB, no conflict of interest with SHMB and no convictions for any offences within the past ten years. He attended all five Board meetings held in 2003. Age 60.

DATO' CHE MOHD ANNUAR BIN CHE MOHD SENAWI
Malaysian, Non-Independent Non-Executive Director

Dato' Che Mohd Annuar bin Che Mohd Senawi has been a Board member since 29 March 1996. He holds a Bachelor of Arts degree in Actuarial Science and Demography from the Macquarie University, Sydney and is also an Associate Member of the Institute of Actuaries, London. He began his career in 1974 in the Prime Minister's Department. Between 1978 and 1983, Dato' Mohd Annuar held the position of Government Actuary in the Prime Minister's Department. He was Chief Executive of the Malaysian Co-Operative Insurance Society Limited from 1983 to 1988, and Executive Chairman of Malaysian National Insurance Berhad from 1988 to 1996. He is currently a Director of Landmarks Berhad, and also sits on the boards of Island & Peninsular Berhad, Parade Season Berhad and Idaman Unggul Berhad.

Dato' Mohd Annuar has no family relationship with any Director and/or major shareholder of SHMB, no conflict of interest with SHMB and no convictions for any offences within the past ten years. He attended all five Board meetings held in 2003. Age 56.

DATO' SERI ISMAIL FAROUK ABDULLAH
Malaysian, Independent Non-Executive Director

Dato' Seri Ismail Farouk Abdullah was appointed to the Board on 23 June 1979. He is also a member of the Audit Committee. He holds a degree in Hotel Management from L'Ecole Hoteliere, Lausanne, Switzerland. His experience in the hospitality industry spans over twenty years both in Europe and Asia. He is actively involved in the development and management of hotels and resorts, travel and leisure, property development, manufacturing and education. He is currently Chief Executive Officer of The KAB Group of Companies. He also sits on the board of Jerneh Asia Berhad and several other private limited companies.

Dato' Seri Ismail Farouk has no family relationship with any Director and/or major shareholder of SHMB, no conflict of interest with SHMB and no convictions for any offences within the past ten years. He attended all five Board meetings held in 2003. Age 58.

KUOK KHOON HO
Malaysian, Non-Independent Non-Executive Director

Mr Kuok Khoon Ho was appointed to the Board of SHMB on 1 June 2001 and is a member of the Nomination & Remuneration Committee. He graduated from McGill University, Canada with a bachelor's degree in Commerce. He began his career with the Kuok Group in 1976 and has extensive international experience in hotel management, property development and corporate management. He previously held the positions of Managing Director and Deputy Chairman of Shangri-La Asia Limited which manages 42 hotels and resorts across Asia Pacific and the Middle East. He is currently the Chairman of Kuok Brothers Sdn Bhd, Malaysia and a non-executive Director of Shangri-La Hotel Public Company Limited, Thailand. He also sits on the board of Astro All Asia Networks plc, which is listed on the Malaysia Securities Exchange Berhad.

His sister, Madam Kuok Oon Kwong is also a member of the Board. He has no conflict of interest with SHMB and no convictions for any offences within the past ten years. He attended all five Board meetings held in 2003. Age 53.

TAN SRI DATO' MOHD AMIN BIN OSMAN
Malaysian, Non-Independent Non-Executive Director

Tan Sri Dato' Mohd Amin bin Osman joined the Board on 3 December 1992. He has had a successful and distinguished career with the Royal Malaysian Police Force spanning over thirty-six years. He joined the Royal Malaysian Police Force in 1949 as an Inspector and held various senior posts including Deputy Commissioner of Police (Sabah), Brigade Commander, Police Field Force (East Malaysia), Chief of City Police (Kuala Lumpur) and Director of Special Branch (Malaysia). He later became the Acting Inspector General of Police (Malaysia) before retiring from the civil service in 1985. He also sits on the boards of other public listed companies including Genting Berhad and Asiatic Development Berhad.

His daughter, Puan Rozina Mohd Amin is also a member of the Board. He does not have any family relationship with any major shareholder of SHMB. He has no conflict of interest with SHMB and no convictions for any offences within the past ten years. He attended all five Board meetings held in 2003. Age 76.

MOHAMAD ABDUL HALIM BIN AHMAD
Malaysian, Non-Independent Non-Executive Director

Encik Mohamad Abdul Halim bin Ahmad joined the Board on 29 March 1996. He also serves as a member of the Audit Committee. He holds a Bachelor of Science (Honours-First Class) degree in Civil Engineering from the Imperial College, University of London and is an Associate Member of the Institute of Chartered Accountants in England & Wales as well as a member of the Malaysian Institute of Accountants. Encik Mohamad Abdul Halim is currently the Managing Director of Landmarks Berhad, which is involved in a wide range of activities including hotel business, property investment and development, healthcare services and infrastructure works. He joined Landmarks Berhad in 1988 and he has since held several senior financial positions such as General Manager (Finance) and Finance Director. He also sits on the board of Saujana Consolidated Berhad.

Encik Mohamad Abdul Halim does not have any family relationship with any Director and/or major shareholder of SHMB. He has no conflict of interest with SHMB and no convictions for any offences within the past ten years. He attended three out of five Board meetings held in 2003. Age 43.

DATO' DR TAN TAT WAI
Malaysian, Independent Non-Executive Director

Dato' Dr Tan Tat Wai was appointed to the Board on 6 June 1995. He holds a Bachelor of Science degree in Electrical Engineering and Economics from the Massachusetts Institute of Technology and a PhD in Economics from Harvard University. He started his career with Bank Negara Malaysia in 1978 undertaking research in economic policies. In 1984, he became a consultant to Bank Negara, World Bank and the United Nations University for several years. He served as the Secretary and a member of the Council of Malaysian Invisible Trade set up to formulate policies to reduce Malaysia's deficit in service trade. He was a member of the Government appointed Malaysian Business Council and is currently a member of the Penang Industrial Council, the Industrial Co-ordination Council (ICC) and the National Committee on Business Competitiveness (NCBC) set up by the Ministry of International Trade and Industry (MITI). He represents Malaysia as a member of the APEC Business Advisory Council (ABAC) and is also the Vice-President of the Harvard Club of Malaysia and a member of Corporate Malaysia Roundtable and Malaysia-Thailand Business Group. Dato' Dr Tan is currently the Group Managing Director of Southern Steel Berhad and also sits on the Board of NatSteel Ltd, Singapore.

Dato' Dr Tan does not have any family relationship with any Director and/or major shareholder of SHMB. He has no conflict of interest with SHMB and no convictions for any offences within the past ten years. He attended all five Board meetings held in 2003. Age 57.

FAISAL BIN ISMAIL
Malaysian, Alternate Director

Encik Faisal bin Ismail was appointed as Alternate Director to Encik Mohamad Abdul Halim bin Ahmad on 12 September 1996. He is currently an Executive Director of Landmarks Berhad and serves on the boards of several companies within the Landmarks Group. Encik Faisal joined Landmarks Berhad in 1991 and has held a number of senior financial positions within the Landmarks Group including Finance Manager, General Manager (Finance), Senior General Manager (Finance) and Chief Operating Officer. He is an Associate Member of the Institute of Chartered Accountants in England & Wales and a member of the Malaysian Institute of Accountants.

Encik Faisal does not have any family relationship with any Director and/or major shareholder of SHMB. He has no conflict of interest with SHMB and no convictions for any offences within the past ten years. Age 40.

INTRODUCTION

The Board supports the fundamental principles of good corporate governance and the best practice provisions contained in the Malaysian Code on Corporate Governance ("the Code"). The Board is firmly committed to upholding the highest standards of integrity, accountability and transparency in the governance of the Company in order to protect and enhance the interests of all shareholders.

The revamped Listing Requirements of the Malaysia Securities Exchange Berhad ("MSEB"), requires listed companies to publish each year in the annual report, a disclosure statement describing the manner in which the principles of the Code have been applied and the extent of compliance with its best practices during the financial year. In the opinion of the Directors, this statement reflects the way in which the Company has applied the principles in Part 1 and, save where otherwise identified, its compliance with the best practices set out in Part 2 of the Code for the year ended 31 December 2003.

THE BOARD

Board Structure and Procedures

The Board has a total of ten directors, all of whom served throughout the year under review. Apart from Madam Kuok Oon Kwong and Puan Rozina Mohd Amin, all the other eight members of the Board are non-executive directors. The brief profiles of the current Board membership are shown on pages 23 to 26 of this annual report.

Of the eight non-executive directors on the Board, four including the Board Chairman are considered to be fully independent. As such, independent non-executive directors make-up more than one-third of the membership of the Board as prescribed by the MSEB Listing Requirements. The composition of the Board also fairly reflects the investment of the minority shareholders of the Company as only two out of the ten-member board represent the interests of Shangri-La Asia Limited, the largest shareholder of the Company holding 54.37% equity interest.

The Board is responsible to the shareholders for the good standing of the Company and the strategic direction for its future development. It has adopted a formal schedule of matters specifically reserved to itself for decision and approval to ensure that the overall control of the affairs of the Company is firmly in its hands. These include approval of corporate strategic plans, financial statements, dividend recommendations, annual operating budgets, major capital projects and expenditure, major acquisitions and disposals, risk management policies, appointment of directors and important announcements to be issued.

The responsibility for managing business, for implementing policy and monitoring business performance is delegated to the executive directors. There is an effective working relationship between the executive and non-executive directors. All directors are expected to bring independent, objective judgement to the Board's deliberations and decision-making process.

Given the present scope and nature of the Group's business operations, the Board considers that the current size of the Board is adequate and facilitates effective decision-making. The Board is also satisfied that there is a broad spread of knowledge and relevant competencies among its current members for it to operate effectively and expeditiously in the overall interests of the Company.

The non-executive directors bring a wide range of business and financial experience, and have proven track records in the private and public service sectors vital to the success of the Company. They fulfil a key role in ensuring that corporate strategic plans and business proposals are fully discussed and critically reviewed. This process ensures that the Board acts in the best long-term interest of the shareholders.

Board Structure and Procedures *(cont'd)*

There is a clear separation of the roles of the Board Chairman and the Managing Director, each with clearly defined responsibilities to ensure a balance of power and authority. Tan Sri Dato' Wan Sidek bin Wan Abd. Rahman is the Board Chairman with responsibility for ensuring the integrity and effectiveness of the Board. Madam Kuok Oon Kwong who is the Managing Director is responsible to the Board for the operational and financial performance of the Group's businesses.

During the period under review, the Board has not adopted the Code's recommendation pursuant to best practice AA VII whereby a senior independent non-executive director should be identified. The Board has again considered this appointment and has concluded that given the strong independent element on the Board, it is appropriate that if a shareholder wishes to convey a concern, he or she should contact the Board Chairman.

Re-election of Directors

All directors are required to seek re-appointment by the shareholders at the first Annual General Meeting ("AGM") after their appointment, and thereafter are subject to retirement by rotation in accordance with the articles of association of the Company. Additionally, all Directors are required to retire from office at least once in every three years, but shall be eligible for re-election. Directors of the Company over the age of seventy years are required to submit themselves for re-appointment annually in accordance with section 129(6) of the Companies Act, 1965.

The directors of the Company who are seeking re-election or re-appointment at the Thirty-third AGM of the Company to be held on 21 May 2004 are contained in the Notice and the Statement Accompanying the Notice of AGM.

Board Meetings

The Board meets at least five times a year to deal with business requiring Board approval, but arranges to meet at other times, if the need arises.

The Board met five times during 2003 and the record of attendance of each director at the board meetings is set out in the table below. Several meetings of board committees were also held during 2003 and generally, these meetings correspond with major phases of the financial reporting cycles.

Name of Director	Total Attendance
Tan Sri Dato' Wan Sidek bin Wan Abd. Rahman	5 / 5
Kuok Oon Kwong	5 / 5
Rozina Mohd Amin	5 / 5
Tan Sri Datuk Asmat bin Kamaludin	5 / 5
Dato' Che Mohd Annuar bin Che Mohd Senawi	5 / 5
Dato' Seri Ismail Farouk Abdullah	5 / 5
Kuok Khoon Ho	5 / 5
Tan Sri Dato' Mohd Amin bin Osman	5 / 5
Mohamad Abdul Halim bin Ahmad	3 / 5
Dato' Dr Tan Tat Wai	5 / 5

Supply of Information and Access to Advice

All directors are briefed by use of comprehensive papers, in advance of Board meetings and by presentations at meetings, to allow proper consideration of the matters on the agenda. From time to time, the Board requests for additional information to regular reporting as it requires. The Board Chairman ensures that the meeting agenda is designed to meet the Board's objectives and that all directors have complete and timely access to all relevant information. The Managing Director keeps the Board informed on a timely basis, of all material matters affecting the Group's performance and major developments within the Group.

The directors have access to the advice and services of the Company Secretary who is responsible for ensuring that the board procedures are followed and that the Company observes all relevant laws and regulations. Additionally, the full Board as well as any member of the Board may in exercising their duties take independent professional advice if necessary, at the Company's expense.

Board Committees

The Board has delegated specific responsibilities to established board committees, as described below, which all operate within defined terms of reference. Decisions and recommendations of the committees of the board are reported to the Board on a formal basis.

a. Audit Committee ("AC")

The AC is chaired by Tan Sri Dato' Wan Sidek bin Wan Abd. Rahman and meets at least four times a year. The other members are Tan Sri Datuk Asmat bin Kamaludin, Dato' Seri Ismail Farouk Abdullah and Encik Mohamad Abdul Halim bin Ahmad. Three of the members, including the Chairman, are independent non-executive directors. Its primary functions include the review of the effectiveness of the internal control and risk management processes within the Group, overseeing the financial reporting process and the external audit process.

b. Policy Implementation Committee ("PIC") – Hotels & Resorts

The PIC comprises the two executive directors under the chairmanship of the Managing Director and met on fifteen occasions during the year. The PIC oversees the overall business operations and activities of the Group's hotels and resorts. The respective General Managers together with other senior management attend the meetings to report on operational issues, business performance and project developments. The committee is authorised to approve capital expenditure within the levels agreed by the Board.

c. Nomination & Remuneration Committee ("NRC")

The NRC comprises three non-executive directors, two of whom are independent, and met in December 2003. The Board Chairman acts as Chairman of this committee and the other members are Tan Sri Datuk Asmat bin Kamaludin and Mr Kuok Khoon Ho. The key functions of the NRC are to make recommendations on all new appointments to the Board, and to recommend membership of board committees as well as the remuneration framework for executive directors. Its other responsibilities include the review of the structure, size and composition of the Board, including the ongoing effectiveness of the Board as a whole and the committees of the board, and the contributions of each director towards the effective functioning of the Board.

Directors' Training

The Board places the responsibility for training of directors on the NRC. To ensure that the Directors are competent in carrying out their expected roles and responsibilities, they are provided with the opportunity for training on an ongoing basis so as to keep up to date on relevant new legislation, regulations and changing commercial risks. At the same time, the Directors are committed to continue with the Continuing Education Programme ("CEP") training on an annual basis in compliance with the MSEB Listing Requirements.

Directors' Remuneration

The Company's general policy on the remuneration of executive directors is to offer competitive remuneration packages, which are designed to attract and retain high calibre executives, and to motivate the highest performance. The NRC advises the Board on the overall remuneration policy for the executive directors and, in doing so, has given full consideration to the best practice provisions of the Code dealing with the level and make-up of directors' remuneration.

In determining the structure and level of individual remuneration packages the NRC takes into account specific responsibilities, individual performance, the business performance of the Company and the general economic outlook. It aims to provide a balanced remuneration package, which consists of an appropriate level of basic salary and annual bonus that is linked to the achievement of annual targets related to the performance of the Company. The NRC makes comparison with the remuneration practices and salary levels of comparable companies, particularly in the hotel industry, but exercises its own judgement as to whether such other practices are appropriate for the Company.

The non-executive directors of the Company are paid an annual fixed fee for serving on the Board, which is determined by the Board as a whole, subject to shareholders approval at the Annual General Meeting. No director is involved in deciding his or her own remuneration.

The aggregate remuneration of the directors of the Company categorised into the appropriate components and analysed into bands of RM50,000 for the financial year ended 31 December 2003 is set out below. The total fees payable for the non-executive directors of the Company in respect of the financial year ended 31 December 2003 is proposed to be increased by RM108,000 to RM188,000, which is described in more detail in the Notice of AGM.

Category	Fees & Allowances (RM)	Salaries & Bonus (RM)	Benefits-in-kind (RM)
Executive directors	-	638,000	21,000
Non-executive directors	214,000	-	-
Total	214,000	638,000	21,000

Amount of Remuneration	Executive directors	Non-executive directors
Below RM50,000	-	8
RM50,001 to RM100,000	-	-
RM200,001 to RM250,000	-	-
RM250,001 to RM300,000	1	-
RM300,001 to RM350,000	-	-
RM350,001 to RM400,000	1	-

RELATIONSHIP WITH SHAREHOLDERS

Communications with shareholders are given high priority. The Board aims to ensure the timely disclosure of information to all shareholders. The Company keeps the shareholders abreast of the overall financial performance and future developments of the Group through its annual report and accounts, quarterly announcements of results made through the MSEB, press releases and circulars to shareholders. The Company values its dialogue with institutional investors and analysts, and responds continually to their ad-hoc requests for discussion on the Group's strategy and financial performance.

The Board uses the Annual General Meeting ("AGM") as an important means of communication with shareholders. At that meeting, shareholders are given a balanced report of the results and progress of the Group's performance and its future prospects. Shareholders are also invited to ask questions on items of business put before the meeting and have the opportunity to vote separately on each resolution. The Board encourages shareholders to participate in discussions with the Board and to give their views to directors. After the meeting, the directors are available to answer further questions on the business of the Group.

ACCOUNTABILITY AND AUDIT

Financial Reporting

In presenting the annual financial statements and quarterly announcement of results, the Board aims to provide shareholders with a balanced and understandable assessment of the Group's financial position and prospects. The Audit Committee of the Board assists the Board in ensuring the reliability and integrity of the accounting and financial reporting systems of the Company. In addition, it reviews the annual financial statements and quarterly financial reports before they are submitted to the Board for approval. A statement of the directors' responsibilities for preparing the financial statements is set out on page 39 of this annual report.

Internal Control

The Board recognises that it is responsible for the Group's system of internal control and for reviewing its effectiveness. The Statement on Internal Control which provides an overview of the state of the Group's system of internal control is set out on pages 32 to 34 of this annual report.

Relationship with the Auditors

The Audit Committee of the Board provides an independent channel of communication for the external and internal auditors. The Board ensures that an objective and professional relationship is maintained with the external auditors through the Audit Committee which keeps under review the nature, scope and results of the external audit, its cost effectiveness and the independence and objectivity of the auditors. It also reviews the scope of work and extent of the activity of the internal audit function.

This statement is made in accordance with a resolution of the Board of Directors dated 24 March 2004.

INTRODUCTION

The Board acknowledges the importance of maintaining a sound system of internal control and effective risk management as part of its ongoing efforts to practice good corporate governance. The Board is committed to practising the highest standards of corporate governance and observing best practices, and will continue to improve on current practices.

BOARD RESPONSIBILITY

The Board has ultimate responsibility for the system of internal control operating throughout the Group and for reviewing its effectiveness, including financial and operational controls, compliance with relevant laws and regulations, and risk management in order to safeguard shareholders' investments and the Group's assets.

The Board recognises that the Group's system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and that it can only provide reasonable and not absolute assurance against misstatement or loss.

The Group has established the necessary procedures, which accord with the guidance on internal controls provided in the Statement on Internal Control : Guidance for Directors of Public Listed Companies, and that these procedures have been in place throughout the financial year and up to the date of approval of this report.

These procedures ensure that the Board is aware of the key risks facing the Group and that the system of internal control is regularly reviewed for effectiveness and adequacy. The Board has delegated the primary responsibility for the operation of the system of internal control to the executive directors and management within an established framework that applies throughout the Group.

RISK MANAGEMENT FRAMEWORK

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group in the context of its business objectives. Each major operating unit of the Group has produced a risk register, which identifies the key risks, their potential impact and likelihood of occurrence as well as the control strategies in place to manage those risks. Action plans have been developed and monitored continuously to ensure compliance, and these plans are reviewed at each regular Audit Committee meeting. The Group's risk profile is updated periodically to reflect the changing business environment.

The process is supported by the engagement of a firm of external risk consultants, which monitors the continuing effectiveness of the Group's risk management activities and reports to the Audit Committee of the Board on any control failings and corrective action.

OTHER KEY ELEMENTS OF INTERNAL CONTROL

The other key elements of the Group's internal control system are described below.

- Organisation structure with clearly defined lines of responsibility and delegated authority
  The Group has in place an organisation structure with key responsibilities clearly defined for the Board, committees of the board and the executive management of the Group's major operating units.

- Independence of Audit Committee
  The Audit Committee of the Board comprises four non-executive directors, the majority of whom are independent, and has full access to both the internal and external auditors.

- Documented internal policies and procedures
  Key policies and control procedures regulating financial and operating activities are clearly documented in manuals for the hotel operating units. Compliance with the controls set out in the manuals is monitored by monthly self assessment reports from the finance heads of each operating unit and a rolling programme of internal audit reviews. These manuals are subject to regular reviews and updates to reflect the changing business risks and to resolve operational deficiencies, if any.

- Detailed budgeting process
  Detailed annual budgets are prepared by individual operating units containing business strategies, financial and operating targets, performance indicators and capital expenditure proposals, which are reviewed by the Policy Implementation Committee of the Board. The Board approves the consolidated Group budget with objectives for each operating unit.

- Comprehensive system of financial reporting
  A comprehensive system of reporting financial information to the executive management of major operating units, the executive directors and the Board is in place. Detailed management accounts are prepared by each operating unit based on an annual budget with monthly reports compared against budget, analysis of significant variances and key performance indicators and regular re-forecasting.

  The Board also reviews the treasury reports on a quarterly basis, which analyse the Group's funding requirements and monitor the Group's borrowings and exposure to interest rate risk. Other important areas such as legal and regulatory compliance and insurance risk management are monitored and reviewed by the Policy Implementation Committee of the Board on a continuous basis.

  The Policy Implementation Committee and senior management keep the Board updated periodically on the Group's operation and on any significant changes in the business and external environment that may have an impact on the financial position of the Group.

OTHER KEY ELEMENTS OF INTERNAL CONTROL *(cont'd)*

- Established capital expenditure approval process
  The Group has formal procedures for the appraisal of major capital expenditure, which must be approved by the Board, and detailed procedures and authority levels relating to all other capital expenditure. There are also clear procedures for obtaining approval for assets disposal and major business transactions.

- Employee competency
  Continuous staff training and development are emphasised to enhance and improve employee competencies and proficiencies via on-the-job and classroom training. The Group also places high emphasis on communicating information relating to business plans and performance to employees so as to encourage participation and to create awareness of the financial and economic factors affecting the Group. This is achieved through established communication channels between executive management and employees, ad-hoc briefings and periodic in-house publications.

  The Group's hotel operating units have in place a Code of Conduct, to which all employees are signatories, governing the standards of ethical behaviour in dealing with customers, suppliers and fellow employees. The Shangri-La's Strategic Plan, *One Team – One Way Towards Dominance* sets out the guiding principles for all employees towards achieving market leadership, the goals and financial objectives for the Group's hotels.

INTERNAL AUDIT FUNCTION

Internal audit plays a critical role in the objective assessment of the Group's business processes by providing the Audit Committee of the Board with reasonable independent assurance on the effectiveness and integrity of the Group's system of internal control.

The Audit Committee of the Board is assisted by the Internal Audit Department ("IAD") of the Company's ultimate holding company. The role of the IAD is to perform independent reviews, and monitor and ensure compliance with the Group's policies, procedures and systems of internal control. The Group has outsourced the risk-based internal audit function to KPMG Management Assurance Services ("KMAS"), which reports to the Audit Committee of the Board regarding the effectiveness of risk and control management, and also recommends improvements in controls. The audits performed by KMAS are based on audit plans approved by the Audit Committee.

The Audit Committee of the Board considers significant control matters and receives regular reports from both the IAD and KMAS, and reports its findings and conclusions to the full Board on a quarterly basis.

There were no material losses incurred arising from weaknesses in internal control identified during the financial year that would require mention in the Annual Report.

This statement is made in accordance with a resolution of the Board of Directors dated 24 March 2004.

The Audit Committee ("committee") of Shangri-La Hotels (Malaysia) Berhad was established on 6 July 1994. The committee assists the Board in fulfilling its responsibility for maintaining a sound system of internal control in order to safeguard the assets of the Group and shareholders investments. It also assists the Board in ensuring the reliability of financial information for publication, the maintenance of proper accounting records, the efficiency of operations and compliance with relevant laws and regulations. In carrying out its duties, the committee maintains effective working relationships with the Board, management, and the external and internal auditors.

COMPOSITION AND ATTENDANCE AT MEETINGS

The committee currently consists of four non-executive directors, three of whom are independent under the chairmanship of Tan Sri Dato' Wan Sidek bin Wan Abd. Rahman. The other members of the committee are Tan Sri Datuk Asmat bin Kamaludin, Dato' Seri Ismail Farouk Abdullah and Encik Mohamad Abdul Halim bin Ahmad.

The committee met four times in 2003. Detailed written agendas are prepared and distributed to committee members in advance of each meeting to allow proper consideration of enclosed reports. While the executive directors and senior management are normally invited to attend the meetings, the external and internal auditors may have private discussions with the members of the committee. The committee reports its conclusions and recommendations to the Board on a quarterly basis and the minutes of the committee meetings are made available to the full Board. The record of attendance of each member at the committee meetings is set out in the table below.

Name of Member		Total Attendance
Tan Sri Dato’ Wan Sidek bin Wan Abd. Rahman, *Chairman*	(Independent Non-Executive Director)	4 / 4
Tan Sri Datuk Asmat bin Kamaludin	(Independent Non-Executive Director)	2 / 4
Dato’ Seri Ismail Farouk Abdullah	(Independent Non-Executive Director)	4 / 4
Mohamad Abdul Halim bin Ahmad	(Non-Independent Non-Executive Director)	4 / 4

SUMMARY OF ACTIVITIES OF THE COMMITTEE

A summary of the activities performed by the committee during the year under review is given below.

- reviewed with the external auditors their scope of work, the audit plan for the year, the audit findings and management’s follow-up actions.
- reviewed with the external auditors the annual financial statements, the auditors’ report and the impact of changes in accounting policies and regulatory requirements on the financial statements before submission to the Board.
- reviewed the quarterly announcements of results prior to their submission to the Board for approval.
- reviewed reports from the internal audit on the effectiveness of the Group’s internal control system and monitored the progress of actions taken in relation to significant internal control issues.

TERMS OF REFERENCE OF THE COMMITTEE

1. Membership

1.1 The members of the Audit Committee shall be appointed by the Board and shall consist of not less than three members, the majority of whom shall be independent non-executive directors in accordance with the definition provided under Paragraph 1.01 of the MSEB Listing Requirements. If membership for any reason falls below three members, the Board of Directors shall, within one month of that event, appoint such number of new members as may be required to fulfil the minimum requirement.

1.2 No alternate directors shall be appointed to the Audit Committee.

1.3 At least one member of the Audit Committee must be a member of the Malaysian Institute of Accountants or a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.

1.4 The Chairman of the Committee shall be an independent non-executive Director appointed by the Board.

1.5 The term of office and performance of the Committee and each of its members shall be reviewed by the Board at least once every three (3) years.

2. Meetings

2.1 Meetings of the Audit Committee shall be held at least four times a year.

2.2 The quorum for a meeting of the Audit Committee shall be two members, a majority of whom must be independent non-executive directors. In the absence of the Chairman, the members present shall elect a chairman for the meeting from amongst the members present.

2.3 The meetings of the Audit Committee shall normally be attended by the executive director and the Head of Internal Audit. The Audit Committee may also request other directors, members of senior management, counsels, internal and external auditors to participate in the Audit Committee meetings, as necessary.

2.4 The Audit Committee shall meet the external auditors at least once a year without members of senior management and executive directors present.

2.5 Minutes of the Audit Committee meetings shall be tabled at the meeting of the Board of Directors. The Audit Committee, through its Chairman, shall report on each meeting to the Board of Directors.

3. Authority

   In the performance of its duties and responsibilities, the Audit Committee shall at the cost of the Company:

   a. have authority to investigate any activity within its Terms of Reference;

   b. have access to resources required to perform its duties within its Terms of Reference;

   c. have full and unrestricted access to any employee and information pertaining to the Group;

   d. have direct communication channels with the external auditors and members of the internal audit department who carry out the internal audit function of the Group;

   e. be able to engage independent professional advisers or to secure attendance of outsiders with relevant experience and expertise, when the Audit Committee considers this necessary.

4. Functions & Duties

   The Audit Committee shall carry out the following functions and duties:

   a. review external audit plans and scope of work before audit commences.

   b. review the adequacy of the internal audit plan and its scope of audit and ensure that the internal audit function has the necessary authority and resources to carry out its work.

   c. review the quarterly results and annual financial statements of the Company and Group before submission to the Board. The review should focus primarily on:
      - any changes in or implementation of major accounting policies and practices;
      - significant and unusual events;
      - significant adjustments arising from the audit;
      - the going concern assumptions;
      - compliance with accounting standards and regulatory requirements.

   d. review and assess the adequacy and effectiveness of the systems of internal control and the efficiency of the Group's operations in particular those relating to areas of significant risks. Additionally, to assess the internal process for determining and managing the principal risks throughout the Group.

   e. review the scope of internal and external auditors' evaluation of the systems of internal control of the Group.

   f. review audit reports prepared by the internal and external auditors, the major findings and management's responses thereto and ensure that appropriate action is taken in respect of these reports.

4. Functions & Duties *(cont'd)*

g. review appraisals or assessment of the performance of the staff members of the internal audit function.

h. approve the appointments or termination of the Head of Internal Audit and senior executives in the internal audit function.

i. be informed of resignations of internal audit staff members and provide the resigning staff member with an opportunity to submit his/her reasons for resigning.

j. direct any special investigations to be carried out by internal audit.

k. discuss problems arising from external audit including the assistance given by employees of the Group to the external auditors and any matters the external auditors may wish to discuss.

l. nominate the external auditors and recommend for approval of the Board of Directors the external audit fee; and consider any questions of resignation or dismissal, resources and capability.

m. review the effectiveness of the system for monitoring compliance with applicable laws and regulatory requirements.

n. review any related party transaction and conflict of interest situation that may arise within the Company or the Group including any transaction, procedure or course of conduct that raises questions of management integrity.

o. where the Audit Committee is of the view that the matter reported by it to the Board of Directors has not been satisfactorily resolved, resulting in a breach of the MSEB Listing Requirements, the Audit Committee shall promptly report such matters to MSEB.

p. perform other duties as directed by the Board of Directors.

INTERNAL AUDIT FUNCTION

Internal audit plays a critical role in the objective assessment of the Group's business processes and the provision of assurance. The Audit Committee of the Board is assisted by the Internal Audit Department ("IAD") of the Company's ultimate holding company. The role of the IAD is to review, monitor and ensure compliance with the Group's policies, procedures and systems of internal control. The Group has outsourced the risk-based internal audit function to KPMG Management Assurance Services, which reports to the Audit Committee of the Board regarding the effectiveness of risk and control management and also recommends improvements in controls.

1. NON-AUDIT FEES

Non-audit fees paid by the Company and its subsidiaries to the external Auditors, Messrs KPMG and its affiliated companies for the financial year ended 31 December 2003 amounted to RM416,802. These were mainly in respect of tax advisory services and, enterprise risk management advisory services and risk-based internal audits undertaken by KPMG Management Assurance Services.

	RM
KPMG	325,388
KPMG Tax Services Sdn Bhd	91,414
Total	416,802

2. MATERIAL CONTRACTS INVOLVING DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

Other than those disclosed in the financial statements of the Group and of the Company for the financial year ended 31 December 2003, there were no material contracts entered into by the Company or its subsidiaries, involving the interests of Directors and substantial shareholders.

statement on directors' responsibility

in relation to the audited financial statements
for the year ended 31 December 2003

The Directors are required by the Companies Act, 1965 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for that period.

The Directors consider that in preparing the financial statements for the year ended 31 December 2003 on pages 50 to 89, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards in Malaysia have been followed, subject to any explanations and any material departures disclosed in the notes to the financial statements.

The Directors have responsibility for ensuring that the Company and the Group keep accounting records which disclose, with reasonable accuracy, the financial position of the Company and the Group and which enable them to ensure that the financial statements comply with the Companies Act, 1965. The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to seek to prevent and detect fraud and other irregularities.

financial statements

contents

The Directors have pleasure in submitting their Report together with the audited financial statements of the Group and of the Company for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The Group is engaged in the operation of hotels and beach resorts, a golf course and clubhouse, property management and investment and commercial laundry.

The principal activities of the Company are investment holding and the operation of a beach resort.

There has been no significant change in the nature of these activities during the financial year.

RESULTS FOR THE FINANCIAL YEAR

	Group RM'000	Company RM'000
Net profit for the year	16,472	16,414
Unappropriated profits brought forward		
As previously reported	225,202	117,793
Prior year adjustments:		
– Effect of adopting MASB 25, Income Taxes	(19,136)	(4,619)
– Realisation of foreign exchange loss	(1,682)	–
Restated balance	204,384	113,174
Profits available for appropriation	220,856	129,588
Dividends	(19,008)	(19,008)
Unappropriated profits carried forward	201,848	110,580

RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year except as disclosed in the financial statements.

ISSUE OF SHARES

The company did not issue any shares during the financial year.

DIVIDENDS

Since the end of the previous financial year, the Company paid:

i. a final dividend of 3% less tax at 28% totalling RM9,504,000 in respect of the year ended 31 December 2002 on 12 June 2003; and

ii. an interim dividend of 3% less tax at 28% totalling RM9,504,000 in respect of the year ended 31 December 2003 on 14 November 2003.

The Board has proposed a final dividend of 3.5% less tax at 28% totalling RM11,088,000 for the financial year ended 31 December 2003. The proposed final dividend has not been accounted for as it is pending shareholders' approval at the forthcoming Annual General Meeting, which is scheduled to be held on 21 May 2004. The final dividend, if approved by the shareholders shall be accounted for as an appropriation of unappropriated profits in the financial year ending 31 December 2004.

DIRECTORS OF THE COMPANY

The Directors of the Company in office since the date of the last Directors' Report are:

Directors

Tan Sri Dato' Wan Sidek bin Wan Abd. Rahman *Chairman*
Kuok Oon Kwong *Managing Director*
Rozina Mohd Amin *Executive Director*
Tan Sri Datuk Asmat bin Kamaludin
Dato' Che Mohd Annuar bin Che Mohd Senawi
Dato' Seri Ismail Farouk Abdullah
Kuok Khoon Ho
Tan Sri Dato' Mohd Amin bin Osman
Mohamad Abdul Halim bin Ahmad
Dato' Dr Tan Tat Wai

Alternate Director

Faisal bin Ismail (Alternate to Mohamad Abdul Halim bin Ahmad)

In accordance with Article 95 of the Company's Articles of Association, Tan Sri Datuk Asmat bin Kamaludin, Dato' Seri Ismail Farouk Abdullah and Mr Kuok Khoon Ho retire by rotation from the Board at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

Tan Sri Dato' Mohd Amin bin Osman, who has attained the age of seventy (70) years, retires in accordance with Section 129(2) of the Companies Act, 1965 and offers himself for re-appointment in accordance with Section 129(6) of the said Act to hold office until the next Annual General Meeting of the Company.

DIRECTORS' INTERESTS IN SHARES

According to the Register of Directors' Shareholdings, the particulars of interests of Directors who held office at the end of the financial year in shares and share options in the Company and related corporation are as follows:

	As at 1.1.2003	Acquired	(Disposed)	As at 31.12.2003
The Company	**Number of Ordinary Shares of RM1.00 each**			
DIRECT INTERESTS				
Tan Sri Dato' Wan Sidek bin Wan Abd. Rahman	–	–	–	–
Kuok Oon Kwong	–	–	–	–
Rozina Mohd Amin	–	–	–	–
Tan Sri Datuk Asmat bin Kamaludin	–	–	–	–
Dato' Che Mohd Annuar bin Che Mohd Senawi	–	–	–	–
Dato' Seri Ismail Farouk Abdullah	19,000	–	–	19,000
Kuok Khoon Ho	–	–	–	–
Tan Sri Dato' Mohd Amin bin Osman	–	–	–	–
Mohamad Abdul Halim bin Ahmad	–	–	–	–
Dato' Dr Tan Tat Wai	–	–	–	–
Faisal bin Ismail	–	–	–	–
DEEMED INTERESTS				
Kuok Oon Kwong	10,000	–	–	10,000
Kuok Khoon Ho	10,000	–	–	10,000
Related Corporation				
Shangri-La Asia Limited ("SAL") – Ultimate Holding Company	**Number of Ordinary Shares of HKD1.00 each**			
DIRECT INTERESTS IN SAL				
Tan Sri Dato' Wan Sidek bin Wan Abd. Rahman	–	–	–	–
Kuok Oon Kwong	151,379	–	–	151,379
Rozina Mohd Amin	–	–	–	–
Tan Sri Datuk Asmat bin Kamaludin	–	–	–	–
Dato' Che Mohd Annuar bin Che Mohd Senawi	–	–	–	–
Dato' Seri Ismail Farouk Abdullah	–	–	–	–
Kuok Khoon Ho	3,510	–	–	3,510
Tan Sri Dato' Mohd Amin bin Osman	15,900	–	–	15,900
Mohamad Abdul Halim bin Ahmad	–	–	–	–
Dato' Dr Tan Tat Wai	–	–	–	–
Faisal bin Ismail	–	–	–	–
DEEMED INTERESTS IN SAL				
Kuok Oon Kwong	2,834,815	–	–	2,834,815
Kuok Khoon Ho	3,219,965	–	–	3,219,965

SHARE OPTIONS IN SAL

	Option period	Exercise price per share option	Number of Ordinary Shares of HKD1.00 each granted under the option As at 1.1.2003	Granted	Exercised	As at 31.12.2003
Kuok Oon Kwong	29.5.2003 – 28.5.2012	HKD6.81	150,000	–	–	150,000
	29.5.2004 – 28.5.2012	HKD6.81	150,000	–	–	150,000
Rozina Mohd Amin	29.5.2003 – 28.5.2012	HKD6.81	30,000	–	–	30,000
	29.5.2004 – 28.5.2012	HKD6.81	30,000	–	–	30,000
Kuok Khoon Ho	1.5.1999 – 30.4.2008	HKD8.26	387,041	–	–	387,041
	1.5.2000 – 30.4.2008	HKD8.26	387,041	–	–	387,041
	1.5.2001 – 30.4.2008	HKD8.26	387,041	–	–	387,041
	15.1.2001 – 14.1.2010	HKD8.82	242,278	–	–	242,278
	15.1.2002 – 14.1.2010	HKD8.82	242,277	–	–	242,277
	15.1.2002 – 14.1.2011	HKD8.18	145,545	–	–	145,545
	15.1.2003 – 14.1.2011	HKD8.18	145,545	–	–	145,545
	29.5.2003 – 28.5.2012	HKD6.81	500,000	–	–	500,000
	29.5.2004 – 28.5.2012	HKD6.81	500,000	–	–	500,000

Other than as disclosed above, none of the Directors held any shares as at 31 December 2003, nor has any Director acquired or disposed any shares during the course of the year, in any other related corporations of the Company.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements) by reason of a contract made by the Company or a related corporation with a Director or with a firm of which a Director is a member, or with a company in which a Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

i. all known bad debts have been written off and adequate provision made for doubtful debts, and

ii. all current assets have been stated at the lower of cost and net realisable value.

At the date of this report, the Directors are not aware of any circumstances:

i. which would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and in the Company inadequate to any substantial extent, or

ii. which would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or

iii. which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or

iv. not otherwise dealt with in this report or in the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

i. any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or

ii. any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, other than the change in accounting policy disclosed in Note 33 and Note 34 to the financial statements, the results of the operations of the Group and of the Company for the financial year ended 31 December 2003 have not been substantially affected by any item, transaction or event of a material and unusual nature.

In the opinion of the Directors, no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report, which would affect substantially the results of the operation of the Group or of the Company for the financial year in which this report is made.

ULTIMATE HOLDING COMPANY

The Directors regard Shangri-La Asia Limited, a company incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited and the Singapore Exchange Securities Trading Limited as the ultimate holding company.

AUDITORS

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed in accordance with a resolution of the Directors:

TAN SRI DATO' WAN SIDEK BIN WAN ABD. RAHMAN
Chairman

KUOK OON KWONG
Managing Director

Kuala Lumpur
25 February 2004

statement by directors
pursuant to Section 169(15) of the Companies Act, 1965

We, TAN SRI DATO' WAN SIDEK BIN WAN ABD. RAHMAN and KUOK OON KWONG, being two of the Directors of SHANGRI-LA HOTELS (MALAYSIA) BERHAD state that, in the opinion of the Directors, the financial statements set out on pages 50 to 89 are drawn up in accordance with applicable approved accounting standards in Malaysia and comply with the provisions of the Companies Act, 1965 so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 December 2003 and of the results of their operations and cash flows for the year ended on that date.

Signed in accordance with a resolution of the Directors:

TAN SRI DATO' WAN SIDEK BIN WAN ABD. RAHMAN
Chairman

KUOK OON KWONG
Managing Director

Kuala Lumpur
25 February 2004

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statutory declaration
pursuant to Section 169(16) of the Companies Act, 1965

I, TAY KENG HOCK, the Officer primarily responsible for the financial management of SHANGRI-LA HOTELS (MALAYSIA) BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 50 to 89 are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed
TAY KENG HOCK at Kuala Lumpur in
Wilayah Persekutuan on 25 February 2004

Before me:

ONG KAH CHONG, A.M.N.
Commissioner for Oaths
Kuala Lumpur

report of the auditors
to the Members of Shangri-La Hotels (Malaysia) Berhad

We have audited the financial statements set out on pages 50 to 89. The preparation of the financial statements is the responsibility of the Company's Directors. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. These standards require that we plan and perform the audit to obtain all the information and explanations which we consider necessary to provide us with evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion:

a. the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:

    i. the state of affairs of the Group and of the Company at 31 December 2003 and of the results of their operations and cash flows for the year ended on that date; and
    ii. the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company;

    and

b. the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the said Act.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The audit reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsection (3) of Section 174 of the Act.

KPMG
Firm Number: AF 0758
Chartered Accountants

TANG SENG CHOON
Partner
Approval Number: 2011/12/05(J)

Kuala Lumpur
25 February 2004

balance sheets
at 31 December 2003

	Note	Group 2003 RM'000	Group 2002 RM'000 (As restated)	Company 2003 RM'000	Company 2002 RM'000 (As restated)
Property, plant and equipment	2	298,221	328,318	11,366	11,782
Hotel properties	3	921,383	867,032	223,056	220,102
Investment properties	4	213,269	208,853	–	–
Investments in subsidiaries	5	–	–	591,403	591,403
Interests in associates	6	46,702	49,301	16,200	16,200
Property development expenditure	7	11,578	11,578	–	–
Deferred tax assets	16	17,497	18,551	–	–
		1,508,650	1,483,633	842,025	839,487
Current assets					
Inventories	8	9,622	9,854	780	976
Trade and other receivables	9	23,552	20,885	216,915	206,574
Tax recoverable	9	4,975	2,907	2,017	874
Cash and cash equivalents	10	9,280	4,331	5,175	313
		47,429	37,977	224,887	208,737
Current liabilities					
Trade and other payables	11	54,118	48,692	27,133	27,511
Borrowings (unsecured)	12	103,490	102,652	34,500	42,968
Taxation		813	2,033	–	–
		158,421	153,377	61,633	70,479
Net current (liabilities)/assets		(110,992)	(115,400)	163,254	138,258
		1,397,658	1,368,233	1,005,279	977,745
Financed by:					
Capital and reserves					
Share capital	13	440,000	440,000	440,000	440,000
Reserves	14	696,056	698,592	511,153	513,747
		1,136,056	1,138,592	951,153	953,747
Negative goodwill		2,874	2,874	–	–
Minority shareholders' interests	15	66,044	65,302	–	–
Long term and deferred liabilities					
Borrowings (unsecured)	12	99,831	72,964	30,000	–
Deferred taxation	16	77,094	74,501	15,829	16,372
Retirement benefits	17	15,759	14,000	8,297	7,626
		1,397,658	1,368,233	1,005,279	977,745

Certain comparative figures in the year 2002 have been restated. Refer to Note 33 and Note 34 to the financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 25 February 2004.

The notes set out on pages 56 to 89 form an integral part of, and should be read in conjunction with, these financial statements.

income statements
for the year ended 31 December 2003

		Group		Company	
		2003	2002	**2003**	2002
	Note	**RM'000**	RM'000	**RM'000**	RM'000
			(As restated)		(As restated)
Revenue	18	253,219	233,547	70,947	68,611
Operating profit	18	33,876	13,695	23,676	15,909
Interest expense	20	(7,396)	(4,922)	(2,456)	(1,553)
Interest income	21	64	61	852	734
Share of losses of associates		(1,834)	(3,065)	–	–
Profit before taxation		24,710	5,769	22,072	15,090
Tax expense					
– Company and subsidiaries		(6,879)	(2,448)	(5,658)	(3,750)
– Associates		(617)	(440)	–	–
	23	(7,496)	(2,888)	(5,658)	(3,750)
Profit after taxation		17,214	2,881	16,414	11,340
Less: Minority interest		(742)	388	–	–
Net profit for the year		16,472	3,269	16,414	11,340
Basic earnings per ordinary share (sen)	24	3.7	0.7		
Dividends per ordinary share – gross (sen)	25	6.5	6.0	6.5	6.0
– net (sen)		4.7	4.3	4.7	4.3

Certain comparative figures in the year 2002 have been restated. Refer to Note 33 and Note 34 to the financial statements.

The notes set out on pages 56 to 89 form an integral part of, and should be read in conjunction with, these financial statements.

consolidated statement of changes in equity

for the year ended 31 December 2003

			Non-distributable				Distributable		
	Note	Share capital RM'000	Share premium RM'000	Asset revaluation reserve RM'000	Merger reserves RM'000	Exchange fluctuation account RM'000	Other reserves RM'000	Unappropriated profits RM'000	Total RM'000
Group									
At 1 January 2002		440,000	104,501	473,288	(65,859)	(1,682)	7,511	238,978	1,196,737
Prior year adjustments:									
Effect of adopting MASB 25	33	–	–	(30,823)	–	–	–	(17,173)	(47,996)
Realisation of foreign exchange loss	33	–	–	–	–	1,682	–	(1,682)	–
Restated balance		440,000	104,501	442,465	(65,859)	–	7,511	220,123	1,148,741
Gain not recognised in the income statement									
Group's share of surplus arising from revaluation		–	–	6,340	–	–	–	–	6,340
Net profit for the year	33	–	–	–	–	–	–	5,232	5,232
Effect of adopting MASB 25	33	–	–	(750)	–	–	–	(1,963)	(2,713)
Restated balance		–	–	5,590	–	–	–	3,269	8,859
Dividends – 2001 final	25	–	–	–	–	–	–	(9,504)	(9,504)
– 2002 interim	25	–	–	–	–	–	–	(9,504)	(9,504)
At 31 December 2002		440,000	104,501	448,055	(65,859)	–	7,511	204,384	1,138,592
At 1 January 2003		440,000	104,501	479,628	(65,859)	(1,682)	7,511	225,202	1,189,301
Prior year adjustments:									
Effect of adopting MASB 25	33	–	–	(31,573)	–	–	–	(19,136)	(50,709)
Realisation of foreign exchange loss	33	–	–	–	–	1,682	–	(1,682)	–
Restated balance		440,000	104,501	448,055	(65,859)	–	7,511	204,384	1,138,592
Net profit for the year	33	–	–	–	–	–	–	20,119	20,119
Effect of adopting MASB 25	33	–	–	–	–	–	–	(3,647)	(3,647)
		–	–	–	–	–	–	16,472	16,472
Dividends – 2002 final	25	–	–	–	–	–	–	(9,504)	(9,504)
– 2003 interim	25	–	–	–	–	–	–	(9,504)	(9,504)
At 31 December 2003		440,000	104,501	448,055	(65,859)	–	7,511	201,848	1,136,056
		Note 13		Note 14				Note 14	

The notes set out on pages 56 to 89 form an integral part of, and should be read in conjunction with, these financial statements.

statement of changes in equity
for the year ended 31 December 2003

	Note	Share capital RM'000	Non-distributable Share premium RM'000	Non-distributable Asset revaluation reserve RM'000	Non-distributable Capital reserve RM'000	Distributable Unappropriated profits RM'000	Total RM'000
Company							
At 1 January 2002		440,000	104,501	158,144	145,835	125,318	973,798
Prior year adjustment:							
Effect of adopting MASB 25	33	–	–	(7,907)	–	(4,476)	(12,383)
Restated balance		440,000	104,501	150,237	145,835	120,842	961,415
Net profit for the year	33	–	–	–	–	11,483	11,483
Effect of adopting MASB 25	33	–	–	–	–	(143)	(143)
Restated balance		–	–	–	–	11,340	11,340
Dividends – 2001 final	25	–	–	–	–	(9,504)	(9,504)
– 2002 interim	25	–	–	–	–	(9,504)	(9,504)
At 31 December 2002		440,000	104,501	150,237	145,835	113,174	953,747
At 1 January 2003		440,000	104,501	158,144	145,835	117,793	966,273
Prior year adjustment:							
Effect of adopting MASB 25	33	–	–	(7,907)	–	(4,619)	(12,526)
Restated balance		440,000	104,501	150,237	145,835	113,174	953,747
Net profit for the year	33	–	–	–	–	16,957	16,957
Effect of adopting MASB 25	33	–	–	–	–	(543)	(543)
		–	–	–	–	16,414	16,414
Dividends – 2002 final	25	–	–	–	–	(9,504)	(9,504)
– 2003 interim	25	–	–	–	–	(9,504)	(9,504)
At 31 December 2003		440,000	104,501	150,237	145,835	110,580	951,153
		Note 13		Note 14		Note 14	

The notes set out on pages 56 to 89 form an integral part of, and should be read in conjunction with, these financial statements.

cash flow statements
for the year ended 31 December 2003

	Group		Company	
	2003	2002	**2003**	2002
	RM'000	RM'000	**RM'000**	RM'000
Cash flows from operating activities				
Profit before taxation	24,710	5,769	22,072	15,090
Adjustments for:				
Allowance for doubtful debts for loans to associates	–	1,168	–	–
Depreciation	19,625	17,187	3,328	3,214
Development expenditure written down	–	1,693	–	–
Hotel properties written off	386	766	–	–
Interest expense	7,396	4,922	2,456	1,553
Interest income	(64)	(61)	(852)	(734)
Loss on disposal of property, plant and equipment and hotel properties	1,032	1,898	797	58
Property, plant and equipment written off	1,093	1,023	–	525
Retirement benefits charged	3,018	3,038	1,663	1,613
Share of losses of associates	1,834	3,065	–	–
Deficit arising from revaluation of property, plant and equipment	–	431	–	–
Operating profit before working capital changes	59,030	40,899	29,464	21,319
(Increase)/Decrease in working capital:				
Inventories	232	(715)	196	(88)
Trade and other receivables	(2,667)	(4,805)	(8,146)	(975)
Trade and other payables	5,426	6,514	(1,002)	137
Cash generated from operations	62,021	41,893	20,512	20,393
Income taxes paid	(6,520)	(14,903)	(7,344)	(10,369)
Retirement benefits paid	(1,259)	(973)	(992)	(701)
Net cash generated from operating activities	54,242	26,017	12,176	9,323

The notes set out on pages 56 to 89 form an integral part of, and should be read in conjunction with, these financial statements.

cash flow statements

for the year ended 31 December 2003

		Group		Company	
		2003	2002	**2003**	2002
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Cash flows from investing activities					
Acquisition of subsidiary, net of cash acquired	32	–	(27,216)	–	(25,818)
Interest received		64	61	852	734
Proceeds from disposal of property, plant and equipment and hotel properties		206	280	32	5
Additions to hotel properties		(2,175)	(1,683)	(59)	(107)
Additions to investment properties		(4,416)	(2,465)	–	–
Purchase of property, plant and equipment		(44,421)	(67,931)	(6,636)	(3,317)
Net cash used in investing activities		(50,742)	(98,954)	(5,811)	(28,503)
Cash flows from financing activities					
Advances and payments made on behalf of subsidiaries		–	–	(1,571)	(4,701)
Refund of excess call from associates		451	–	–	–
Drawdown of loans to associates		(303)	(17,541)	–	–
Dividend paid to minority interest		–	(240)	–	–
Dividend paid to shareholders of the Company		(19,008)	(19,008)	(19,008)	(19,008)
Interest paid		(7,396)	(5,132)	(2,456)	(1,553)
(Repayments)/Drawdown of revolving credits		(14,320)	64,344	(8,400)	42,900
Drawdown of term loans		43,000	52,000	30,000	–
Repayments of term loan		–	(4,706)	–	–
Net cash generated from/(used in) financing activities		2,424	69,717	(1,435)	17,638
Net increase/(decrease) in cash and cash equivalents		5,924	(3,220)	4,930	(1,542)
Cash and cash equivalents at beginning of year		2,639	5,859	245	1,787
Cash and cash equivalents at end of year		8,563	2,639	5,175	245
Cash and cash equivalents comprise:					
Cash and bank balances		2,799	3,957	775	313
Deposits placed with licensed banks and a licensed financial institution		6,481	374	4,400	–
Bank overdrafts		(717)	(1,692)	–	(68)
		8,563	2,639	5,175	245

The notes set out on pages 56 to 89 form an integral part of, and should be read in conjunction with, these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the Group and the Company are consistent with those adopted in previous years except for the following:

i. MASB 25, Income Taxes, which has been adopted retrospectively. Comparative figures have been adjusted to reflect the change in this accounting policy;

ii. MASB 27, Borrowing Costs, which is applied retrospectively. Comparative figures have not been restated as the previous accounting policy was in line with the new accounting standard; and

iii. MASB 29, Employee Benefits, which is applied retrospectively. Comparative figures have not been restated as the previous accounting policy was in line with the new accounting standard.

In addition to the new policies and extended disclosures where required by these new standards, the effects of the adoption of the above standards are disclosed in Note 33 and Note 34 to these financial statements.

a. Basis of Accounting

The financial statements of the Group and of the Company are prepared on the historical cost basis except as disclosed in the notes to the financial statements and in compliance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

b. Basis of Consolidation

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Subsidiaries are consolidated using the acquisition method of accounting except for UBN Holdings Sdn Bhd, which is consolidated using the merger method of accounting. Merger method of accounting for the consolidation of UBN Holdings Sdn Bhd is continued to be applied in line with the transition provision of MASB 21, Business Combinations, which allows the Group to apply the standard prospectively.

A subsidiary is excluded from consolidation when control is intended to be temporary if the subsidiary is acquired and held exclusively with a view of its subsequent disposal in the near future and it has not previously been consolidated or it operates under severe long term restrictions which significantly impair its ability to transfer funds to the Company. Subsidiaries excluded on these grounds are accounted for as investments.

Under the acquisition method of accounting, the results of subsidiaries acquired or disposed during the year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the Group financial statements. The difference between the acquisition cost and the fair values of the subsidiaries' net assets is reflected as goodwill or negative goodwill as appropriate.

Under the merger method of accounting, the results of subsidiaries acquired are accounted for on a full year basis irrespective of the date of merger. The difference between the cost of acquisition and the nominal value of the share capital and reserves of the subsidiaries is taken to merger reserve.

Intragroup transactions and balances and the resulting unrealised profits are eliminated on consolidation. Unrealised losses resulting from intragroup transactions are also eliminated unless cost cannot be recovered.

c. Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies.

The Group's share of result of associates is accounted for in the consolidated income statement in place of dividend received and receivable and the Group's share of post-acquisition reserves is added to the cost of investments.

The consolidated financial statements include the total recognised gains and losses of associates on an equity accounted basis from the date that significant influence effectively commences until the date that significant influence effectively ceases.

Unrealised profits arising on transactions between the Group and its associates which are included in the carrying amount of the related assets and liabilities are eliminated partially to the extent of the Group's interests in the associates. Unrealised losses on such transactions are also eliminated partially unless cost cannot be recovered.

Goodwill on acquisition is calculated based on the fair value of net assets acquired.

The Group's share of results and reserves of associates are based on the audited and unaudited financial statements of these companies for the year ended 31 December 2003.

d. Property, Plant and Equipment

Freehold, long term leasehold land (with an unexpired lease period of fifty (50) years or more) and renovation and contract-in-progress are stated at cost/valuation. All other property, plant and equipment are stated at cost/valuation less accumulated depreciation and accumulated impairment losses, if any.

The Group revalues its properties comprising freehold land, leasehold land and buildings and golf course and its related buildings every five (5) years and at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value.

Surpluses arising from revaluation are dealt with in the Asset Revaluation Reserve. Any deficit arising is offset against the Asset Revaluation Reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is charged to the income statement.

Property, plant and equipment retired from active use and held for disposal are stated at the carrying amount at the date when the asset is retired from active use, less impairment losses, if any.

Depreciation

Freehold and long term leasehold land (with an unexpired lease period of fifty (50) years or more) and renovation and contract-in-progress are not amortised. Short term leasehold land is amortised in equal instalments over the period of lease of fifty (50) years. The straight line method is used to write off the cost of the other property, plant and equipment over the term of their estimated useful lives at the following principal annual rates:

Buildings and improvements	2%
Golf course and its related buildings (60 years)	1.7%
Furniture, fixtures and equipment	5% to 20%
Motor vehicles	20%

The initial cost of operating equipment is capitalised and amortised between five (5) to twenty (20) years, and subsequent replacements are written off in the income statement as and when incurred.

Renovation-in-progress represent the renovation works-in-progress for the hotel buildings and they will be reclassified to the respective categories of assets upon completion of the renovation.

e. Hotel Properties

Hotel properties comprise land, the hotel buildings thereon and the related fixed plant. No depreciation is provided on freehold hotel properties or those with unexpired lease periods of twenty (20) years or more. The Directors are of the opinion that it is more appropriate not to depreciate hotel properties since it is the Group's practice to maintain all its hotel properties to a high standard and condition in order to maintain residual values at least equal to their respective book values such that depreciation would be insignificant. The related maintenance expenditure is dealt with in the income statement.

In order to establish whether hotel properties have maintained residual value at least equal to their respective book values, all hotel properties are appraised by independent professional valuers at least once in every five (5) years and at shorter intervals whenever the fair value of the revalued hotel properties is expected to differ materially from their carrying value based on open market value on an existing use basis.

Surpluses arising from revaluation are dealt with in the Asset Revaluation Reserve. Any deficit arising is offset against the Asset Revaluation Reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is charged to the income statement.

f. Investment Properties

Investment properties are properties held for their investment potential and rental income.

Investment properties are stated at Directors' valuations based on independent professional valuers' reports. Additions subsequent to the date of the last valuation are stated at cost. Investment properties are appraised by independent professional valuers at least once in every five (5) years and at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value based on open market value on an existing use basis.

Revaluation surpluses, if considered by the Directors to be other than temporary, are incorporated in the financial statements through the Asset Revaluation Reserve. Any deficit would be set off against the Asset Revaluation Reserve. If the reserve is insufficient to cover a deficit on an individual basis, the excess of the deficit is charged to the income statement.

No depreciation is provided on investment properties. Maintenance is regularly undertaken and is expensed off to the income statement.

g. Investments

Investments in subsidiaries and associates are stated at cost in the Company, less impairment losses, where applicable.

h. Property Development Expenditure

Property development expenditure are stated at cost less foreseeable losses, if any. Cost comprises direct cost of development, capitalised interest cost and other related expenses.

i. Goodwill

Goodwill represents the excess of the cost of acquisition over the fair values of the net identifiable assets acquired and is stated at cost. Annual review will be carried out and an adjustment is made, if in the opinion of the Directors, its value has fallen below the carrying value.

Negative goodwill represents the excess of the fair values of the net identifiable assets acquired over the cost of acquisition.

j. Inventories

Inventories are stated at the lower of cost and net realisable value with the weighted average cost being the main basis for cost.

k. Trade and Other Receivables

Trade and other receivables are stated at cost less allowance for doubtful debts.

l. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts.

m. Liabilities

Borrowings and trade and other payables are stated at cost.

n. Impairment

The carrying amount of assets, other than inventories, deferred tax assets and financial assets (financial assets in this context does not include investments in subsidiaries and associates), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to equity.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have determined, net of depreciation or amortisation, if no impairment loss has been recognised. The reversal is recognised in the income statement, unless it reverses an impairment loss on a revalued asset, in which case it is taken to equity.

o. Borrowing Costs

Borrowing costs incurred on property development project are capitalised. Capitalisation of borrowing costs will cease when the assets are ready for their intended use.

The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is the actual borrowing costs applicable to the borrowing that is specifically for the purpose of financing a property under development.

Capitalisation of borrowing costs is suspended during extended periods in which active development is interrupted.

p. Income Tax

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

q. Employee Benefits

i. Defined Contribution Plans

Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

ii. Defined Benefit Plans

The Company and certain subsidiaries (“The Group”) provides retirement benefits for its unionised employees in accordance with the Collective Union Agreement, which is operated on an unfunded defined benefit scheme.

The Group’s net obligation is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and that benefit is discounted to determine the present value. The discount rate is the market yield at the balance sheet date on high quality corporate bonds or government bonds. The calculation is performed by an actuary using the projected unit credit method (accrued benefit valuation method).

When the benefits of a scheme are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

In calculating the Group’s obligation in respect of a scheme, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the scheme. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the scheme or reductions in future contributions to the scheme.

r. Foreign Currency

i. Foreign Currency Transactions

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to Ringgit Malaysia at the foreign exchange rates ruling at the date of the transactions.

ii. Financial Statements of Foreign Operations

The Group's foreign operations are an integral part of the Company's operations. Accordingly, the long term assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation and the short term assets and liabilities, are translated to Ringgit Malaysia at exchange rates ruling at the transaction date. The revenues and expenses of foreign operations are translated to Ringgit Malaysia at average exchange rates applicable throughout the year. Foreign exchange differences arising on translation are recognised directly in the exchange fluctuation account in equity.

The closing rates used in the translation of foreign currency monetary assets and liabilities and the financial statements of foreign operations are as follows:

	2003	2002
USD 1.00	RM3.800	RM3.800
HKD 1.00	RM0.494	RM0.482
JPY 1.00	RM0.036	RM0.031
SGD 1.00	RM2.250	RM2.150

s. Revenue

i. Hotel and Golf Operations

Revenue from the provision of rooms, food and beverage, other department sales, laundry service fees and golf related income are recognised when services are rendered.

ii. Rental

Revenue from rental of offices, shoplots and apartment lettings and rental of car park are recognised based on the value invoiced to customers during the year.

iii. Dividend Income

Dividend income from subsidiaries and associates is recognised when the right to receive payment is established.

iv. Laundry Services

Revenue from the provision of laundry services by non-hotel operations is recognised when services are rendered.

v. Interest Income

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the assets.

t. Financing Costs

All interest and other costs incurred in connection with borrowings, other than that capitalised in accordance with Note 1(o), are expensed as incurred.

2. PROPERTY, PLANT AND EQUIPMENT

Group	Note	Freehold land RM'000	Long term leasehold land RM'000	Short term leasehold land and buildings RM'000	Golf course and its related buildings RM'000	Furniture, fixtures, equipment and motor vehicles RM'000	Renovation and contract-in-progress RM'000	Total RM'000
Cost/Valuation								
At 1 January 2003		155,000	9,173	2,500	37,990	222,447	63,428	490,538
Additions		–	–	–	93	5,941	38,387	44,421
Disposals		–	–	–	–	(2,892)	–	(2,892)
Write off		–	–	–	–	(8,673)	(52)	(8,725)
Transfers		–	–	–	82	41,803	(41,885)	–
Transfers from hotel properties	3	–	–	–	–	2,328	–	2,328
Transfers to hotel properties	3	–	–	–	–	(1,738)	(54,407)	(56,145)
At 31 December 2003		155,000	9,173	2,500	38,165	259,216	5,471	469,525
Representing items at:								
Cost		–	–	–	175	259,216	5,471	264,862
Directors' valuation – 2001		155,000	–	2,500	–	–	–	157,500
– 2002		–	9,173	–	37,990	–	–	47,163
At 31 December 2003		155,000	9,173	2,500	38,165	259,216	5,471	469,525
Accumulated depreciation								
At 1 January 2003		–	–	53	–	162,167	–	162,220
Charge for the year		–	–	51	719	18,855	–	19,625
Disposals		–	–	–	–	(2,077)	–	(2,077)
Write off		–	–	–	–	(7,632)	–	(7,632)
Transfer to hotel properties	3	–	–	–	–	(832)	–	(832)
At 31 December 2003		–	–	104	719	170,481	–	171,304
Net book value								
At 31 December 2003		155,000	9,173	2,396	37,446	88,735	5,471	298,221
At 31 December 2002		155,000	9,173	2,447	37,990	60,280	63,428	328,318
Depreciation charge for the year ended 31 December 2002		–	–	53	461	16,673	–	17,187

Company	Note	Short term leasehold land RM'000	Furniture, fixtures, equipment and motor vehicles RM'000	Renovation-in-progress RM'000	Total RM'000
Cost/Valuation					
At 1 January 2003		800	55,768	1,899	58,467
Additions		–	1,339	5,297	6,636
Disposals		–	(722)	–	(722)
Transfers		–	2,821	(2,821)	–
Transfer to hotel properties	3	–	–	(3,302)	(3,302)
At 31 December 2003		800	59,206	1,073	61,079
Representing items at:					
Cost		–	59,206	1,073	60,279
Directors' valuation – 2001		800	–	–	800
At 31 December 2003		800	59,206	1,073	61,079
Accumulated depreciation					
At 1 January 2003		19	46,666	–	46,685
Charge for the year		17	3,311	–	3,328
Disposals		–	(300)	–	(300)
At 31 December 2003		36	49,677	–	49,713
Net book value					
At 31 December 2003		764	9,529	1,073	11,366
At 31 December 2002		781	9,102	1,899	11,782
Depreciation charge for the year ended 31 December 2002		19	3,195	–	3,214

Revaluation

Group

The long term leasehold land and the golf course together with its related buildings of certain subsidiaries were revalued by the Directors in 2001 based on valuation performed by C.H. Williams, Talhar & Wong (S) Sdn Bhd, a firm of independent professional valuers, which was based on open market value on an existing use basis. This was for the purpose of acquisition of an additional 25% equity interest in the said subsidiaries on 25 January 2002. In relation to this, the said leasehold land and the golf course together with its related buildings were revalued at RM17,896,000 and RM27,128,000 respectively.

The Group's share of surplus of RM6,514,000 arising from the revaluation of the said long term leasehold land was credited to the Asset Revaluation Reserve in the previous year. The Group's share of deficit of RM8,875,000 (Note 22) arising from the revaluation of the golf course together with its related buildings was recognised as an expense in the income statement in the previous year.

2. PROPERTY, PLANT AND EQUIPMENT *(cont'd)*

In accordance with the Group's accounting policy, the said long term leasehold land and the golf course together with its related buildings were revalued again at the previous year end together with the hotel properties, which are disclosed in Note 3 to the financial statements.

The said long term leasehold land and the golf course together with its related buildings were revalued by the Directors based on valuation performed by W.M. Malik & Kamaruzaman, a firm of independent professional valuers, which was based on open market value on an existing use basis. In relation to this, the said leasehold land and the golf course together with its related buildings were revalued at RM9,173,000 and RM37,990,000 respectively.

The Group's share of deficit of RM6,543,000 arising from the revaluation of the said long term leasehold land was debited against the Asset Revaluation Reserve in the previous year. The Group's share of surplus of RM8,444,000 (Note 22) arising from the revaluation of the golf course together with its related buildings was recognised as reversal of previous deficit in the income statement in the previous year.

The freehold land, short term leasehold land and buildings were revalued by the Directors in 2001 based on valuation performed by W.M. Malik & Kamaruzaman, a firm of independent professional valuers, which was based on open market value on an existing use basis. In relation to this, the freehold land and the short term leasehold land and buildings were revalued at RM155,000,000 and RM2,500,000 respectively.

As at 31 December 2003, the Group has updated the valuation of its freehold land, long term leasehold land, short term leasehold land and buildings, golf course and its related buildings based on valuation performed by a firm of independent professional valuers, which is based on open market value on an existing use basis. In relation to this, there are no material differences between the carrying values of the assets and their fair values.

Included in renovation and contract-in-progress of the Group is RM1,414,000 (2002 – RM1,414,000) pertaining to redevelopment project of a subsidiary, which has been shelved for the time being until market conditions improve.

Company

The short term leasehold land was revalued by the Directors in 2001 based on valuation performed by W.M. Malik & Kamaruzaman, a firm of independent professional valuers, which was based on open market value on an existing use basis. In relation to this, the said short term leasehold land was revalued at RM800,000.

As at 31 December 2003, the Company has updated the valuation of its short term leasehold land based on valuation performed by a firm of independent professional valuers, which is based on open market value on an existing use basis. In relation to this, there is no material difference between the carrying value of the asset and its fair value.

Had the land and buildings been carried at historical cost less accumulated depreciation, the carrying amount of the revalued assets that would have been included in the financial statements at the end of the year would be as follows:

	Group		**Company**	
	2003	2002	**2003**	2002
	RM'000	RM'000	**RM'000**	RM'000
Freehold land	11,718	11,718	–	–
Long term leasehold land	4,867	4,867	–	–
Short term leasehold land and buildings	2,630	2,693	2,153	2,203
Golf course and its related buildings	43,437	44,178	–	–
	62,652	63,456	2,153	2,203

3. HOTEL PROPERTIES

		Group		Company	
		2003	2002	**2003**	2002
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Cost/Valuation					
At 1 January		867,032	757,000	220,102	220,000
Additions		2,175	1,683	59	107
Disposals		(423)	(120)	(407)	(38)
Write off		(386)	(766)	–	–
Transfers from property, plant and equipment	2	55,313	5,068	3,302	33
Transfers to property, plant and equipment	2	(2,328)	(2,097)	–	–
Acquisition of subsidiaries	32	–	112,261	–	–
Revaluation		–	(5,997)	–	–
At 31 December		921,383	867,032	223,056	220,102
Representing items at:					
Cost		58,684	1,663	3,056	102
Directors' valuation – 2001		755,829	756,171	220,000	220,000
– 2002		106,870	109,198	–	–
At 31 December		921,383	867,032	223,056	220,102
Hotel properties consist:					
Freehold hotel properties		713,267	658,148	223,056	220,102
Long term leasehold hotel properties		208,116	208,884	–	–
		921,383	867,032	223,056	220,102

Hotel properties of RM2,328,000, which were transferred to property, plant and equipment during the year were stated at Directors' valuation in year 2002.

Group and Company

In the previous year, the hotel property of a newly acquired subsidiary was revalued by the Directors based on valuation performed by C.H. Williams, Talhar & Wong (S) Sdn Bhd, a firm of independent professional valuers, which was based on open market value on an existing use basis on 26 July 2001. This was for the purpose of the acquisition of an additional 25% equity interest in the said subsidiary on 25 January 2002. In relation to this, the said hotel property was revalued at RM112,261,000 and the Group's share of surplus arising from the revaluation of RM10,866,000 was credited to the Asset Revaluation Reserve.

In accordance with the Group's accounting policy, the said hotel property was revalued again at the previous year end by the Directors based on valuation performed by W.M. Malik & Kamaruzaman, a firm of independent professional valuers, which was based on open market value on an existing use basis at RM109,198,000. The Group's share of deficit arising from the revaluation of RM4,497,000 was debited against the Asset Revaluation Reserve in the previous year.

3. HOTEL PROPERTIES *(cont'd)*

The Group's and Company's other hotel properties were revalued by the Directors in 2001 based on valuation performed by W.M. Malik & Kamaruzaman, a firm of independent professional valuers, which was based on open market value on an existing use basis. In relation to this, the hotel properties were revalued at RM757,000,000 for the Group and RM220,000,000 for the Company.

As at 31 December 2003, the Group and the Company have updated the valuation of its hotel properties based on valuation performed by a firm of independent professional valuers, which is based on open market value on an existing use basis. In relation to this, there are no material differences between the carrying values of the hotel properties and their fair values.

Had the hotel properties been carried at historical cost, the carrying amount of the revalued hotel properties that would have been included in the financial statements at the end of the year would be as follows:

	Group		**Company**	
	2003	2002	**2003**	2002
	RM'000	RM'000	**RM'000**	RM'000
Hotel properties	575,110	529,572	133,230	130,276

Hotel properties at 31 December 2003 are all located in Malaysia and comprised the following:

Property	**Location**	**Usage**	**Title**
Rasa Sayang Resort	Batu Feringgi Beach, Penang	514 room resort	Freehold
Shangri-La Hotel Kuala Lumpur	Jalan Sultan Ismail, Kuala Lumpur	701 room hotel	Freehold
Shangri-La Hotel Penang	Magazine Road, Penang	444 room hotel	Leasehold*
Golden Sands Resort	Batu Feringgi Beach, Penang	395 room resort	Freehold
Palm Beach Resort	Batu Feringgi Beach, Penang	Vacant land	Freehold
Rasa Ria Resort	Tuaran, Sabah	330 room resort	Leasehold

Note:

* The title deed to the long term leasehold land has yet to be issued by the relevant authority.

4. INVESTMENT PROPERTIES

	Group 2003 RM'000	Group 2002 RM'000
Cost/Valuation		
Freehold office and its integral plant and machinery		
At 1 January	177,864	175,399
Additions	4,416	2,465
At 31 December	182,280	177,864
Freehold apartment and its integral plant and machinery		
At 1 January/31 December	30,989	30,989
	213,269	208,853
Representing items at:		
Freehold office and its integral plant and machinery		
Cost	13,990	9,574
Directors' valuation – 1991	168,290	168,290
	182,280	177,864
Freehold apartment and its integral plant and machinery		
Directors' valuation – 1991	30,989	30,989
	213,269	208,853

The investment properties were revalued in 1991 by the Directors, which was based on a valuation performed by a firm of professional valuers on the existing use basis. The surplus arising from this revaluation was credited to the Asset Revaluation Reserve. The said investment properties were also revalued in 1996, 2000 and 2002.

As at 31 December 2003, the investment properties were revalued at a value of RM228,000,000 based on open market value on an existing use basis by an independent firm of professional valuers.

As a matter of prudence, the Directors did not incorporate the surplus arising from the revaluation of RM14,731,000 in the financial statements.

5. INVESTMENTS IN SUBSIDIARIES

	Company 2003 RM'000	Company 2002 RM'000
Unquoted shares, at 1992 valuation	156,448	156,448
Unquoted shares, at cost	434,955	434,955
	591,403	591,403

The unquoted shares at 1992 valuation were revalued by the Directors based on the underlying net tangible assets of the respective subsidiaries concerned. Revaluation of investments in subsidiaries were carried out primarily for the purpose of reflecting the fair values of these investments prior to its merger with UBN Holdings Sdn Bhd. The revaluation has not been updated and they continue to be stated at their carrying amounts.

The principal activities of the subsidiaries and the interest of Shangri-La Hotels (Malaysia) Berhad are as follows:

Name of company	Principal activities	Effective ownership interest 2003 %	Effective ownership interest 2002 %
Shangri-La Hotel (KL) Sdn Bhd	Operation of a city hotel	100	100
Komtar Hotel Sdn Bhd	Operation of a city hotel	60	60
Golden Sands Beach Resort Sdn Bhd	Operation of a beach resort	100	100
UBN Holdings Sdn Bhd	Investment holding and property investment	100	100
UBN Tower Sdn Bhd	Property investment and office management	100	100
Pantai Emas Sdn Bhd	Operation of a commercial laundry	100	100
Madarac Corporation	Investment holding	100	100
Palm Beach Hotel Sdn Bhd (Note a)	Operation of a beach resort	100	100
Wisegain Sdn Bhd	Investment holding	100	100
Hasil-Usaha Sdn Bhd	Dormant	100	100
Pantai Dalit Beach Resort Sdn Bhd	Operation of a beach resort	75	75
Dalit Bay Golf & Country Club Berhad	Operation of a golf course together with club house and related facilities	75	75
Pantai Dalit Development Sdn Bhd	Property development	75	75

All the subsidiaries are incorporated in Malaysia except for Madarac Corporation, which is incorporated in the British Virgin Islands.

Note:
(a) The company ceased its operation of a beach resort on 29 February 1996.

6. INTERESTS IN ASSOCIATES

	Group 2003 RM'000	Group 2002 RM'000	Company 2003 RM'000	Company 2002 RM'000
Unquoted shares, at cost	19,574	19,574	16,200	16,200
Share of losses of associates	(37,907)	(35,456)	–	–
	(18,333)	(15,882)	16,200	16,200
Less: Impairment losses	(3,374)	(3,374)	–	–
	(21,707)	(19,256)	–	–
Loans to associates	102,252	102,400	–	–
Less: Allowance for doubtful debts	(33,843)	(33,843)	–	–
	68,409	68,557	–	–
	46,702	49,301	16,200	16,200
Represented by:				
Group's share of net liabilities	(18,333)	(15,882)		

Details of the associates are as follows:

Name of company	Place of incorporation	Principal activities	Effective ownership interest 2003 %	Effective ownership interest 2002 %
Johdaya Karya Sdn Bhd	Malaysia	Property development and investment in real properties	30	30
Traders Yangon Company Ltd ("TYCL")*	Union of Myanmar	Hotel ownership and operation	22.2	22.2
Shangri-La Yangon Company Ltd ("SYCL")*	Union of Myanmar	Intended to construct and own apartment	22.2	22.2
Traders Square Company Ltd ("TSCL")*	Union of Myanmar	Intended to construct and own commercial complex	22.2	22.2

The Group's interest in TYCL, SYCL and TSCL are held via a wholly-owned subsidiary, Madarac Corporation. Subsequent to year end, the Group's beneficial interest in each of TYCL and TSCL has increased to 23.53% and 23.56% respectively. However, the Group's legal and registered shareholding interests in each of TYCL and TSCL remain unchanged at 22.2% respectively. The registration of the share transfers shall only be affected upon receipt of the approval from the Myanmar Investment Commission.

The loans to associates, namely TYCL, SYCL and TSCL are unsecured and repayable on demand, provided that such demand is made by shareholders holding not less than 51% interest in the respective associates. At 31 December 2003, balances of RM57,552,000 (2002 – RM57,552,000) of the loans to associates are interest free and the remaining balances are interest-bearing at 2.5% (2002 – 2.5%) per annum. The loan interest income has not been recognised in the financial statements as the recoverability of the loan interest income is remote and it is prudent to recognise the loan interest income on a cash basis.

Note:

* The results of these companies are based on unaudited financial statements for the year ended 31 December 2003.

7. PROPERTY DEVELOPMENT EXPENDITURE

The property development expenditure represents development expenditure incurred by a subsidiary. Interest was capitalised in property development expenditure at 2% in the previous year. Included in property development expenditure was interest capitalised of RM210,000 in the previous year.

8. INVENTORIES

	Group		Company	
	2003	2002	**2003**	2002
	RM'000	RM'000	**RM'000**	RM'000
At cost				
Food, beverage and tobacco	3,508	3,331	442	548
Room supplies	437	498	77	92
Other supplies	5,677	6,025	261	336
	9,622	9,854	780	976

9. TRADE AND OTHER RECEIVABLES AND TAX RECOVERABLE

		Group		Company	
		2003	2002	**2003**	2002
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Trade receivables		19,382	17,234	5,526	5,746
Other receivables, deposits and prepayments		4,170	3,651	1,257	1,113
Dividends receivable		–	–	17,460	9,252
Subsidiaries	a	–	–	241,163	238,954
Less: Allowance for doubtful debts		–	–	(48,491)	(48,491)
		–	–	192,672	190,463
		23,552	20,885	216,915	206,574
Tax recoverable	b	4,975	2,907	2,017	874

a. Subsidiaries

The amount due from subsidiaries comprises the following:

	Company	
	2003	2002
	RM'000	RM'000
Trade	372	358
Non-trade	240,791	238,596
Less: Allowance for doubtful debts	(48,491)	(48,491)
	192,300	190,105
	192,672	190,463

9. TRADE AND OTHER RECEIVABLES AND TAX RECOVERABLE *(cont'd)*

Non-trade balance comprises the following:

	Company	
	2003	2002
	RM'000	RM'000
Advances owing from	34,400	39,765
Interest receivable	59	65
Payments made on behalf of	157,841	150,275
	192,300	190,105

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment, except for an amount of RM14,946,000 (2002 – RM20,396,000), which bears interest at rates ranging from 3.50% to 3.85% (2002 – 3.5% to 4.0%) per annum.

b. Tax Recoverable

Tax recoverable is in respect of excess taxes paid, which are refundable and are subject to agreement by the Inland Revenue Board.

10. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	2002	**2003**	2002
	RM'000	RM'000	**RM'000**	RM'000
Deposits placed with:				
– licensed banks	630	374	–	–
– a licensed financial institution	5,851	–	4,400	–
Cash and bank balances	2,799	3,957	775	313
	9,280	4,331	5,175	313

11. TRADE AND OTHER PAYABLES

		Group		Company	
		2003	2002	**2003**	2002
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Trade payables		16,959	14,910	1,913	2,035
Other payables and accrued expenses		32,359	28,982	7,356	8,235
Loan from minority shareholder	a	4,800	4,800	–	–
Subsidiaries	b	–	–	17,864	17,241
		54,118	48,692	27,133	27,511

11. TRADE AND OTHER PAYABLES *(cont'd)*

a. Loan from Minority Shareholder

The loan is from Petaling Garden Berhad, a minority shareholder of a subsidiary. The loan is unsecured, interest free and has no fixed terms of repayment.

b. Subsidiaries

The amount due to subsidiaries comprises the following:

	Company	
	2003	2002
	RM'000	RM'000
Trade	199	200
Non-trade	17,665	17,041
	17,864	17,241

Non-trade balance comprises the following:

Advances owing to	17,665	17,010
Interest payable	–	31
	17,665	17,041

The amounts due to subsidiaries are unsecured, interest free and have no fixed terms of repayment, except for an amount of RM11,033,000 (2002 – RM10,378,000) which bears interest at 3.50% (2002 – 3.50%) per annum.

12. BORROWINGS (UNSECURED)

	Group		Company	
	2003	2002	**2003**	2002
	RM'000	RM'000	**RM'000**	RM'000
Current:				
Bank overdrafts	717	1,692	–	68
Revolving credits	81,934	96,254	34,500	42,900
Term loans	20,839	4,706	–	–
	103,490	102,652	34,500	42,968
Non-current:				
Term loans	99,831	72,964	30,000	–

12. BORROWINGS (UNSECURED) *(cont'd)*

Group

Terms and Debt Repayment Schedule

Bank overdrafts bear interest at rates ranging from Nil to 0.5% (2002 – Nil to 0.5%) per annum above the base lending rate whilst the revolving credits bear interest at rates ranging from 3.50% to 3.95% (2002 – 3.65% to 4.25%) per annum.

The term loans are unsecured and repayable as follows:

a. RM42,500,000 is repayable in thirteen (13) equal quarterly instalments commencing February 2004;

b. RM22,500,000 is repayable in thirteen (13) equal quarterly instalments commencing June 2004; and

c. RM25,670,000 is repayable in ten (10) equal semi-annual instalments commencing 10 July 2004 after the restructuring of term loan (previously was repayable in seventeen (17) equal semi-annual instalments commencing May 2000); and

d. RM30,000,000 is repayable in thirteen (13) equal quarterly instalments commencing April 2005.

The term loans bear interest at rates ranging from 3.5% to 4.1% (2002 – 4.1% to 4.6%) per annum.

Company

Bank overdrafts bear interest at base lending rate whilst the revolving credits bear interest at rates ranging from 3.50% to 3.95% (2002 – 3.65% to 3.95%) per annum.

The term loan is unsecured and is repayable in thirteen (13) equal quarterly instalments commencing April 2005.

The term loan bears interest at 3.5% (2002 – Nil) per annum.

13. SHARE CAPITAL

	Company	
	2003	2002
	RM'000	RM'000
Ordinary shares of RM1.00 each:		
Authorised	500,000	500,000
Issued and fully paid	440,000	440,000

14. RESERVES

i. Asset Revaluation Reserve

The Asset Revaluation Reserve arose from the revaluation of property, plant and equipment and hotel properties of the Group and of the Company.

ii. Unappropriated Profits

Subject to agreement by the Inland Revenue Board, the Company has sufficient Section 108 tax credit and tax exempt income to frank all its distributable reserves at 31 December 2003, if paid out as dividends.

15. MINORITY SHAREHOLDERS' INTERESTS

These consist of minority shareholders' proportion of share capital and reserves of subsidiaries.

16. DEFERRED TAXATION

The amounts, determined after appropriate offsetting, are as follows:

	Group		Company	
	2003	2002	**2003**	2002
	RM'000	RM'000	**RM'000**	RM'000
Deferred tax liabilities	(77,094)	(74,501)	(15,829)	(16,372)
Deferred tax assets	17,497	18,551	–	–
	(59,597)	(55,950)	(15,829)	(16,372)

Deferred tax liabilities and assets are offset above where there is a legally enforceable right to set off current tax assets against current tax liabilities and where the deferred taxes related to the same taxation authority.

The recognised deferred tax liabilities and assets (before offsetting) are as follows:

	Group		Company	
	2003	2002	**2003**	2002
	RM'000	RM'000	**RM'000**	RM'000
Property, plant and equipment				
– capital allowances	(49,972)	(46,605)	(10,308)	(10,664)
– revaluation	(32,908)	(32,908)	(7,907)	(7,907)
Provisions	5,385	4,077	2,386	2,199
Unabsorbed capital allowances	401	935	–	–
	(77,094)	(74,501)	(15,829)	(16,372)
Unabsorbed infrastructure allowance	18,944	18,793	–	–
Unutilised tax losses	4,041	4,041	–	–
Unabsorbed capital allowances	6,650	6,982	–	–
Property, plant and equipment				
– capital allowances	(12,310)	(11,437)	–	–
Provisions	172	172	–	–
	17,497	18,551	–	–

16. DEFERRED TAXATION *(cont'd)*

No deferred tax assets, arising from a subsidiary, has been recognised for the following items:

	Group	
	2003	2002
	RM'000	RM'000
Taxable temporary differences	(1,658)	(1,764)
Unabsorbed capital allowances	4,855	4,469
Unutilised tax losses	10,984	10,854
Infrastructure allowance	207	207
	14,388	13,766
Deferred tax assets not recognised at 28%	4,029	3,854

The unutilised tax losses, unabsorbed capital allowances and infrastructure allowance do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the subsidiary can utilise the benefits.

The Group has tax losses carried forward of RM25,416,000 (2002 – RM25,286,000), which give rise to the recognised and unrecognised deferred tax assets in respect of unutilised tax losses above.

17. RETIREMENT BENEFITS

	Group		Company	
	2003	2002	**2003**	2002
	RM'000	RM'000	**RM'000**	RM'000
Present value of unfunded obligations	16,997	16,272	8,999	9,030
Unrecognised transition obligations	(1,238)	(2,272)	(702)	(1,404)
Recognised liability for defined benefit obligations	15,759	14,000	8,297	7,626

Liability for Defined Benefit Obligations

The Group makes contributions to an unfunded defined benefit scheme in accordance with the Collective Union Agreement that provide pension benefits for employees upon retirement. Under the scheme, eligible employees are entitled to retirement benefits based on length of service and last drawn salary of the employees concerned. The most recent actuarial valuation at 31 December 2003, which is performed for the adoption of MASB 29, showed that there is a shortfall carried forward from previous valuation of RM2,476,000 and RM1,404,000 for the Group and for the Company respectively. The shortfall is being recognised over a period of two (2) financial years commencing financial year ended 31 December 2003.

17. RETIREMENT BENEFITS *(cont'd)*

Movements in the net liability/(asset) recognised in the balance sheets

	Group		Company	
	2003	2002	**2003**	2002
	RM'000	RM'000	**RM'000**	RM'000
Net liability at 1 January	14,000	11,935	7,626	6,714
Benefits paid	(1,259)	(973)	(992)	(701)
Expense recognised in the income statement	3,018	3,038	1,663	1,613
Net liability at 31 December	15,759	14,000	8,297	7,626

Expense recognised in the income statements

	Group 2003	Group 2002	Company 2003	Company 2002
Current service cost	932	954	398	445
Interest on obligation	1,051	1,011	563	557
Transition amount	1,035	1,073	702	611
	3,018	3,038	1,663	1,613

The expense is recognised in the following line items in the income statements

	Group 2003	Group 2002	Company 2003	Company 2002
Cost of sales	2,490	2,492	1,333	1,309
Administration expenses	319	350	231	218
Other operating expenses	209	196	99	86
	3,018	3,038	1,663	1,613

Liability for defined benefit obligations

Principal actuarial assumptions used at the balance sheet date (expressed as weighted averages):

	Group		Company	
	2003	2002	**2003**	2002
	%	%	**%**	%
Discount rate	7.00	7.00	7.00	7.00
Future salary increases	5.25	7.00	4.00	7.00

18. OPERATING PROFIT

	Note	Group 2003 RM'000	Group 2002 RM'000	Company 2003 RM'000	Company 2002 RM'000
Revenue – hotel and golf operations		239,027	219,114	46,697	55,761
– rental		13,123	13,171	–	–
– dividend income		–	–	24,250	12,850
– laundry services		1,069	1,262	–	–
		253,219	233,547	70,947	68,611
Cost of sales		(118,152)	(114,440)	(23,235)	(27,346)
Cost of services		(7,352)	(7,195)	–	–
		(125,504)	(121,635)	(23,235)	(27,346)
Administration expenses		(39,994)	(40,692)	(8,378)	(9,213)
Other operating expenses		(54,131)	(57,803)	(15,658)	(16,143)
Other operating income		286	278	–	–
Operating profit		33,876	13,695	23,676	15,909
Operating profit is arrived at after charging:					
Auditors' remuneration		135	136	32	32
Allowance for doubtful debts		82	29	–	–
Bad debts written off		20	54	–	6
Company's Directors					
– remuneration and meeting allowances		664	608	664	608
– fees		188	80	188	80
Depreciation	2	19,625	17,187	3,328	3,214
Exceptional items	22	–	3,292	–	–
Hire of equipment		238	240	–	–
Hotel properties written off	3	386	766	–	–
Loss on disposal of property, plant and equipment and hotel properties		1,032	1,898	797	58
Property, plant and equipment written off	2	1,093	1,023	–	525
Inventories written off		138	–	–	–
Retirement benefits charged	17	3,018	3,038	1,663	1,613
Rental of apartments		709	452	67	67
and after crediting:					
Allowance for doubtful debts written back		34	65	–	–
Gross dividends from subsidiaries		–	–	24,250	12,850
Realised gain on foreign exchange		238	179	–	–
Rental receivable from: – subsidiary		–	–	120	120
– others		821	820	600	600

The estimated monetary value of a Director's benefits-in-kind is RM21,000 (2002 – RM21,000).

19. EMPLOYEE INFORMATION

	Group		Company	
	2003	2002	**2003**	2002
	RM'000	RM'000	**RM'000**	RM'000
Other staff costs (emoluments of Directors and staff)	73,730	72,805	18,766	19,634
Employees Provident Fund	6,046	5,691	1,687	1,543
	79,776	78,496	20,453	21,177

The average number of employees of the Group and of the Company (including Directors) during the year was 2,884 (2002 – 2,928) and 672 (2002 – 705) respectively.

20. INTEREST EXPENSE

	Group		Company	
	2003	2002	**2003**	2002
	RM'000	RM'000	**RM'000**	RM'000
Interest payable				
Bank overdrafts	14	10	14	10
Revolving credits	3,381	3,770	1,596	1,213
Term loans	4,001	1,142	513	–
Subsidiaries	–	–	333	330
	7,396	4,922	2,456	1,553

21. INTEREST INCOME

	Group		Company	
	2003	2002	**2003**	2002
	RM'000	RM'000	**RM'000**	RM'000
Interest receivable				
Deposits placed with licensed banks and a licensed financial institution	64	61	36	24
Subsidiaries	–	–	816	710
	64	61	852	734

22. EXCEPTIONAL ITEMS

Group

In the previous year, the exceptional items of RM3,292,000 were in respect of:

a. additional allowance for doubtful debts of RM1,168,000 for loans to an associate in Myanmar, namely Traders Yangon Company Ltd,

b. development expenditure written down of RM1,693,000 pertaining to the redevelopment project of a subsidiary, which has been shelved until market conditions improve; and

c. net asset revaluation deficit of RM431,000 arising from the revaluation of the golf course and its related buildings of a newly acquired subsidiary.

The net asset revaluation deficit of RM431,000 comprised the following:

i. Revaluation deficit based on valuation performed for the purpose of acquisition of an additional 25% equity interest in the said subsidiary. In relation to this, the Group's share of deficit of RM8,875,000 (Note 2) had been debited to the income statement; and

ii. The said assets of the subsidiary were revalued in accordance with the Group's accounting policies. The surplus of RM8,444,000 (Note 2) was credited to the income statement to reverse the previous deficit charged.

23. TAX EXPENSE

	Group		Company	
	2003	2002	**2003**	2002
	RM'000	RM'000	**RM'000**	RM'000
Current tax expense				
– current year provision	4,033	3,515	6,894	4,494
– over provision in prior years	(801)	(3,031)	(693)	(600)
	3,232	484	6,201	3,894
Deferred tax expense				
Origination and reversal of temporary differences	3,647	1,964	(543)	(144)
	3,647	1,964	(543)	(144)
Tax expense on share of results of associates	617	440	–	–
	7,496	2,888	5,658	3,750

23. TAX EXPENSE *(cont'd)*

Reconciliation of effective tax rate

	2003 %	2003 RM'000	2002 %	2002 RM'000
Group				
Profit before taxation		24,710		5,769
Income tax using Malaysian tax rates	28.0	6,919	28.0	1,615
Effect of using difference in tax rate for chargeable income of up to RM100,000 of certain subsidiaries	(0.1)	(16)	–	–
Non-deductible expenses	9.2	2,285	49.7	2,868
Losses not available for set-off	1.8	438	20.2	1,166
Other items	–	9	4.7	270
	38.9	9,635	102.6	5,919
Over provision in prior years – current tax expense	(3.2)	(801)	(52.5)	(3,031)
– deferred tax expense	(5.4)	(1,338)	–	–
Tax expense	30.3	7,496	50.1	2,888
Company				
Profit before taxation		22,072		15,090
Income tax using Malaysian tax rates	28.0	6,180	28.0	4,225
Non-deductible expenses	0.5	114	0.8	125
Other items	0.2	57	–	–
	28.7	6,351	28.8	4,350
Over provision in prior years – current tax expense	(3.1)	(693)	(4.0)	(600)
Tax expense	25.6	5,658	24.8	3,750

24. EARNINGS PER ORDINARY SHARE – GROUP

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the net profit of RM16,472,000 (2002 – RM3,269,000) attributable to ordinary shareholders and the number of ordinary shares outstanding during the year of 440,000,000 (2002 – 440,000,000).

25. DIVIDENDS

	Company	
	2003	2002
	RM'000	RM'000
Ordinary		
2003 – Interim dividends of 3.0% less tax at 28%		
(2002 – 3.0% less tax at 28%) paid in November 2003	9,504	9,504
2002 – Final dividends of 3.0% less tax at 28%		
(2001 – 3.0% less tax at 28%) paid in June 2003	9,504	9,504
	19,008	19,008

The Board has proposed a final dividend of 3.5% less tax at 28% totalling RM11,088,000 for the financial year ended 31 December 2003. The proposed final dividend has not been accounted for as it is pending shareholders' approval at the forthcoming Annual General Meeting, which is scheduled to be held on 21 May 2004. The final dividend, if approved by the shareholders shall be accounted for as an appropriation of unappropriated profits in the financial year ending 31 December 2004.

26. SEGMENTAL INFORMATION

Segment information is presented in respect of the Group's business segments. The Group's business activities are predominantly located in Malaysia.

Inter-segment pricing is determined based on negotiated terms.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Business Segments

The Group comprises the following main business segments:

Hotels, resorts and golf course	Hotel, beach resort and golf course business.
Investment properties	Rental from offices, shoplots and apartment and rental of car parks.
Others	Commercial laundry services and investment holding.

26. SEGMENTAL INFORMATION *(cont'd)*

	Hotels, resorts and golf course		Investment properties		Others		Eliminations		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	RM'000	RM'000	**RM'000**	RM'000	**RM'000**	RM'000	**RM'000**	RM'000	**RM'000**	RM'000
Business Segments										
Revenue from external customers	239,027	219,114	13,123	13,171	1,069	1,262	–	–	253,219	233,547
Inter-segment revenue	24,250	12,850	1,945	1,973	2,443	2,689	(28,638)	(17,512)	–	–
Total revenue	263,277	231,964	15,068	15,144	3,512	3,951	(28,638)	(17,512)	253,219	233,547
Operating profit	50,286	20,207	7,313	7,521	527	422	(24,250)	(14,455)	33,876	13,695
Interest expense	(8,018)	(5,712)	(50)	(2)	(478)	(240)	1,150	1,032	(7,396)	(4,922)
Interest income	866	734	318	341	29	12	(1,149)	(1,026)	64	61
Share of (losses)/profit of associates	(3,652)	(4,384)			1,818	1,319			(1,834)	(3,065)
Tax expense									(7,496)	(2,888)
Minority interest									(742)	388
Net profit for the year									16,472	3,269
Segment assets	1,346,607	1,303,908	380,628	376,029	10,699	10,420	(228,557)	(218,048)	1,509,377	1,472,309
Interests in associates	16,200	16,200	–	–	31,942	35,743	(1,440)	(2,642)	46,702	49,301
Total assets	1,362,807	1,320,108	380,628	376,029	42,641	46,163	(229,997)	(220,690)	1,556,079	1,521,610
Segment liabilities/ Total liabilities	482,278	440,468	58,358	53,659	87,516	87,252	(277,047)	(266,537)	351,105	314,842
Capital expenditure	46,169	69,378	4,790	2,470	53	231	–	–	51,012	72,079
Depreciation	19,346	16,523	119	109	160	555	–	–	19,625	17,187
Non-cash expenses other than depreciation	5,485	8,848	44	1	–	1,168	–	–	5,529	10,017

27. CONTINGENT LIABILITIES (UNSECURED)

Company

The Company had issued a Corporate Guarantee for an amount up to USD10.0 million to UFJ Bank Limited, Labuan for the revolving credit facility of USD10.0 million granted to a subsidiary, Madarac Corporation. As at 31 December 2003, the said facility utilised was USD4,930,000 (2002 – USD4,830,000).

28. COMMITMENTS

	Group		Company	
	2003	2002	**2003**	2002
	RM'000	RM'000	**RM'000**	RM'000
Capital commitments:				
Property, plant and equipment, hotel properties and investment properties				
Contracted but not provided for in the financial statements				
– Company and subsidiaries	1,839	34,194	–	1,160
Authorised but not contracted for				
– Company and subsidiaries	20,387	14,845	1,751	–
– Associates	18,600	18,600	–	–
	38,987	33,445	1,751	–
	40,826	67,639	1,751	1,160

29. HOLDING COMPANIES

The ultimate holding company is Shangri-La Asia Limited, a company incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited and the Singapore Exchange Securities Trading Limited.

The immediate holding company is Hoopersville Limited, a company incorporated in the British Virgin Islands.

30. RELATED PARTY TRANSACTIONS

The Group has related party relationships with its associates, its holding company, subsidiaries of its holding company and corporations in which certain Directors have indirect financial interests.

Significant transactions and balances with related corporations are as follows:

	Group		Company	
	2003	2002	**2003**	2002
	RM'000	RM'000	**RM'000**	RM'000
Transactions with subsidiaries				
Interest income receivable or received				
– Shangri-La Hotel (KL) Sdn Bhd	–	–	202	170
– Komtar Hotel Sdn Bhd	–	–	122	14
– Golden Sands Beach Resort Sdn Bhd	–	–	392	516
– UBN Tower Sdn Bhd	–	–	50	2
– Pantai Dalit Beach Resort Sdn Bhd	–	–	50	8
Rental income receivable or received				
– Pantai Emas Sdn Bhd	–	–	120	120
Interest expense payable or paid				
– Shangri-La Hotel (KL) Sdn Bhd	–	–	–	13
– UBN Holdings Sdn Bhd	–	–	303	304
– Pantai Emas Sdn Bhd	–	–	30	13
Laundry service fees payable or paid				
– Pantai Emas Sdn Bhd	–	–	1,055	1,246
Transactions with associates				
Loans granted to				
– Traders Yangon Company Ltd	–	17,260	–	–
– Shangri-La Yangon Company Ltd	303	281	–	–
Loan amounts due from				
– Traders Yangon Company Ltd	66,072	66,524	–	–
– Shangri-La Yangon Company Ltd	2,337	2,034	–	–
Transactions with a subsidiary of Shangri-La Asia Limited				
Shangri-La International Hotel Management Ltd ("SLIM")				
– Project consultancy fees paid	291	950	160	–
– Management, marketing and reservation fees paid or payable	7,164	7,452	1,468	2,045
Transactions with corporations in which Kuok Oon Kwong and Kuok Khoon Ho, Directors of the Company, have indirect financial interests				
Insurance premium paid or payable				
– Jerneh Insurance Bhd	2,007	2,176	564	513
– Jerneh Insurance (HK) Ltd	403	251	85	50
Project management fees paid				
– PPB Hartabina Sdn Bhd	226	163	59	–

Balances with associates and subsidiaries at balance sheet date are disclosed in Notes 6, 9 and 11 to the financial statements.

These transactions have been entered into in the normal course of business and have been established under negotiated terms.

31. FINANCIAL INSTRUMENTS

Financial Risk Management Objectives and Policies

Exposure to credit, interest rate, currency and liquidity risk arises in the normal course of the Group and the Company's business. In relation to this, the Group has formalised guidelines from its ultimate holding company with regards to its credit policy. The management reviews and manages this credit policy and other policies as summarised below.

Credit Risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit facilities. The credit evaluation includes reviewing financial statements and information regarding the directors and bankers of these companies. Past histories with the companies will be considered and if necessary, reference checks are made. New companies requiring credit facilities are required to place adequate interest free deposits or provide a bank guarantee. The Group and the Company also require each and every reservation by a corporate customer to be supported by a letter of authorisation signed by an authorised signatory.

At balance sheet date, there were significant concentrations of credit risk in respect of loans granted to associates in the Union of Myanmar (Note 6). The maximum exposure to credit risk for the Group and for the Company are represented by the carrying amount of each financial asset.

Liquidity Risk

The Group and the Company monitor and maintain a level of cash and cash equivalents deemed adequate by management to finance the Group and the Company's operations and to mitigate the effects of fluctuations in cash flows.

Interest Rate Risk

The borrowings of the Group and of the Company as at balance sheet date comprise short term borrowings, which are rolled over at short intervals of three (3) months and term loans, which are repayable over various periods not exceeding six (6) years.

The Group and the Company monitor the interest rates of borrowings offered by the financial institutions on a monthly basis. The interest expense incurred are compared against the approved budget and reported to the Board of Directors ("the Board") and ultimate holding company.

Interest bearing and interest earning advances to or from subsidiaries are at variable interest rates as determined by the management to be favourable to either party as compared to the prevailing commercial interest rate.

Excess funds are placed with licensed banks and a licensed financial institution for certain periods during which the interest rates are fixed. The management reviews the rates at regular intervals.

Foreign Currency Risk

The Group and the Company incur minimal foreign currency sales, purchases and borrowings that are denominated in a currency other than Ringgit Malaysia. Hence, the Board considers this risk to be insignificant. Furthermore, the main currency giving rise to this risk is primarily US dollars, which does not require hedging at present given the government's "peg" of the Ringgit Malaysia against the US dollars.

The Board estimates that, as at balance sheet date, the Group and the Company have minimal foreign currency transactions.

31. FINANCIAL INSTRUMENTS *(cont'd)*

The following table shows information about the enterprise's exposure to interest rate risk.

Effective Interest Rates and Repricing Analysis

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or mature, whichever is earlier.

	2003					2002				
	Effective interest rate %	**Total RM'000**	**Within 1 year RM'000**	**1–5 years RM'000**	**After 5 years RM'000**	Effective interest rate %	Total RM'000	Within 1 year RM'000	1–5 years RM'000	After 5 years RM'000
Group										
Financial asset										
Deposits placed with licensed banks and a licensed financial institution	2.8	6,481	6,481	–	–	3.2	374	374	–	–
Financial liabilities										
Unsecured bank overdrafts	6.9	717	717	–	–	6.7	1,692	1,692	–	–
Unsecured revolving credits	3.6	81,934	81,934	–	–	4.0	96,254	96,254	–	–
Unsecured term loans	3.6	120,670	120,670	–	–	4.4	77,670	77,670	–	–
Company										
Financial assets										
Advances to subsidiaries	3.7	14,946	14,946	–	–	3.7	20,396	20,396	–	–
Deposits placed with a licensed financial institution	2.8	4,400	4,400	–	–	–	–	–	–	–
Financial liabilities										
Advances from subsidiaries	3.5	11,033	11,033	–	–	3.5	10,378	10,378	–	–
Unsecured bank overdrafts	–	–	–	–	–	6.4	68	68	–	–
Unsecured revolving credits	3.8	34,500	34,500	–	–	3.8	42,900	42,900	–	–
Unsecured term loan	3.5	30,000	30,000	–	–	–	–	–	–	–

Fair Values

Recognised Financial Instruments

In respect of cash and cash equivalents, trade and other receivables, trade and other payables and short term borrowings, the carrying amounts approximate fair values due to the relatively short term nature of these financial instruments.

In respect of term loan with variable interest rates, the carrying amounts approximate fair values as they are on floating rates and reprice to market interest rates for liabilities with similar risk portfolios.

32. ACQUISITION OF SUBSIDIARIES

The acquisition of Pantai Dalit Beach Resort Sdn Bhd ("PDBR"), which has two wholly-owned subsidiaries, namely Dalit Bay Golf & Country Club Berhad and Pantai Dalit Development Sdn Bhd was completed on 25 January 2002 in accordance with the provisions of the Conditional Shares Sale Agreement. As a result, the Company's effective equity interest in PDBR has increased from 50% to 75%, thus making PDBR a subsidiary of the Company in the previous year.

The acquisition was accounted for using the acquisition method of accounting. The acquisition of the additional 25% equity interest in PDBR resulted in a contribution of an additional net profit before exceptional item of RM213,000 to Group profit for the previous year. This contribution came from Shangri-La Rasa Ria Resort and Dalit Bay Golf & Country Club.

	2002 RM'000
Effect of acquisition	
Non current assets	
Property, plant and equipment	62,371
Hotel properties	112,261
Property development expenditure	11,368
	186,000
Current assets	4,540
Current liabilities	(38,624)
Long term borrowings	(25,670)
Net assets	126,246
Minority interests at date of acquisition	(31,562)
Group's share of net assets	94,684
Shares previously held and classified as associates	(63,122)
Negative goodwill	(2,874)
Consideration paid, satisfied in cash	28,688
Deposit paid in previous years	(2,869)
Bank overdrafts acquired	1,397
Net cash outflow arising from acquisition of subsidiaries	27,216

33. CHANGES IN ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENTS

Changes in Accounting Policies

In the current financial year, the Group and the Company adopted three new MASB Standards and are follows:

a. MASB 25, Income Taxes, which has been adopted retrospectively. Comparative figures have been adjusted to reflect the change in this accounting policy;

b. MASB 27, Borrowing Costs, which is applied retrospectively. Comparative figures have not been restated as the previous accounting policy was in line with the new accounting standard; and

c. MASB 29, Employee Benefits, which is applied retrospectively. Comparative figures have not been restated as the previous accounting policy was in line with the new accounting standard.

Effect of Adoption of MASB 25

The adoption of MASB 25 has resulted in the recognition of all taxable temporary differences. Previously, deferred tax liabilities were not provided if no liability was expected to arise in the foreseeable future and there were no indications that the timing differences would reverse thereafter. Deferred tax assets are now recognised when it is probable that taxable profits will be available against which the deferred tax asset can be utilised (previously only recognised where there was a reasonable expectation of realisation in the near future).

This change in accounting policy, which has been applied retrospectively, has been dealt with by way of a prior year adjustment and therefore restating comparatives and adjusting the opening balance of unappropriated profits at 1 January 2002 as disclosed in Note 34 and the statement of changes in equity respectively. The impact on the results and statement of changes in equity are as follows:

	Group		Company	
	2003	2002	**2003**	2002
	RM'000	RM'000	**RM'000**	RM'000
Results				
Net profit before change in accounting policy	20,119	5,232	16,957	11,483
Effect of adopting MASB 25	(3,647)	(1,963)	(543)	(143)
Net profit for the year	16,472	3,269	16,414	11,340
Statement of changes in equity				
Effect of adopting MASB 25				
– Asset Revaluation Reserve	–	(31,573)	–	(7,907)
– Unappropriated profits	(3,647)	(19,136)	(543)	(4,619)
	(3,647)	(50,709)	(543)	(12,526)

Effect of Adoption of MASB 29

The adoption of MASB 29 has not resulted in the change in the calculation of the net obligation of defined benefit scheme as the previous actuarial valuation method of accrued benefit valuation was the same as projected unit credit method. The most recent actuarial valuation at 31 December 2003 showed a shortfall carried forward from previous valuation of RM2,476,000 and RM1,404,000 for the Group and the Company respectively. The shortfall is being recognised over a period of two (2) years and an amount of RM1,238,000 and RM702,000 have already been recognised by the Group and the Company for the year ended 31 December 2003. The remaining shortfall for the Group and the Company as at 31 December 2003 are RM1,238,000 and RM702,000 respectively.

33. CHANGES IN ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENTS *(cont'd)*

Realisation of Foreign Exchange Loss

This relates to realisation of foreign exchange loss of RM1,682,000 in the exchange fluctuation account arising from the translation of revolving credits of a subsidiary at the exchange rates at year end balance sheet dates in the prior years. As the revolving credits had been fully settled, such amount had therefore been realised. This has been dealt with by way of a prior year adjustment and is applied retrospectively against the unappropriated profits brought forward. The entire exchange fluctuation account of the Group of RM1,682,000 has been transferred to unappropriated profits as at 1 January 2002. Accordingly, unappropriated profits brought forward decreased by RM1,682,000.

34. COMPARATIVE FIGURES

The following comparatives have been restated to reflect the change in accounting policy and prior year adjustment as explained in Note 33.

	Group		Company	
	As restated RM'000	As previously reported RM'000	As restated RM'000	As previously reported RM'000
Balance sheet				
Interest in associates	49,301	49,812	–	–
Deferred tax assets	18,551	–	–	–
Reserves	698,592	752,175	513,747	526,273
Minority shareholders' interests	65,302	64,637	–	–
Deferred tax liabilities	74,501	6,417	16,372	3,846
Income statement				
Tax expense	2,888	764	3,750	3,607
Minority interest	388	227	–	–
Basic earnings per ordinary share (sen)	0.7	1.2	–	–
Statement of changes in equity				
Exchange fluctuation account	–	1,682	–	–
Asset Revaluation Reserve at: – 1 January 2002	442,465	473,288	150,237	158,144
– 31 December 2002	448,055	479,628	150,237	158,144
Unappropriated profits at: – 1 January 2002	220,123	238,978	120,842	125,318
– 31 December 2002	204,384	225,202	113,174	117,793

The following comparatives have been restated to conform with the current year's presentation and the reclassification of negative goodwill from reserves, which is now shown as a separate item on the face of balance sheet.

	Group		Company	
	As restated RM'000	As previously reported RM'000	As restated RM'000	As previously reported RM'000
Balance sheet				
Trade and other receivables	20,885	23,792	206,574	207,448
Tax recoverable	2,907	–	874	–
Reserves	698,592	752,175	–	–
Negative goodwill	2,874	–	–	–

group properties
as at 31 December 2003

Registered Owner	Description/Location	Tenure	Age of buildings (years)	Land area (sq. metres)	Net book value at 31.12.2003 (RM'000)
Shangri-La Hotel (KL) Sdn Bhd	Shangri-La Hotel Kuala Lumpur 29-storey, 701 room hotel located at 11 Jalan Sultan Ismail 50250 Kuala Lumpur	Freehold	18	16,229	332,913
Komtar Hotel Sdn Bhd	Shangri-La Hotel Penang 17-storey, 444 room hotel located at Magazine Road, 10300 Penang	Leasehold (Expires 2082)	17	4,800	100,224
Shangri-La Hotels (Malaysia) Berhad	Shangri-La's Rasa Sayang Resort 514 room resort comprising 11 inter-connected low-rise blocks not exceeding 5 storeys each and 3 inter-connected low-rise blocks of 8 storeys each located at 10th Mile, Batu Feringgi, 11100 Penang	Freehold	30	58,798	223,056
	Land Lot 402, Section 2 Town of Batu Feringgi North East District, Penang	Leasehold*	–	2,973	
	Industrial land on which the central laundry owned by Pantai Emas Sdn Bhd is situated on at No.6 (Plot 68), Pesara Kampung Jawa, Bayan Lepas 11900 Penang	Leasehold (Expires 2047)	–	3,737	764
Palm Beach Hotel Sdn Bhd	Land Lots 9, 10, 13, 15, 93, 316, 420, 591 & 592, Section 2 Town of Batu Feringgi North East District, Penang	Freehold	–	33,097	47,000

Note:
* This leasehold land expired on 19.2.2004. An application for the re-alienation of the said land has been submitted to the Land Office, and is pending approval.

group properties
as at 31 December 2003

Registered Owner	Description/Location	Tenure	Age of buildings (years)	Land area (sq. metres)	Net book value at 31.12.2003 (RM'000)
Golden Sands Beach Resort Sdn Bhd	Shangri-La's Golden Sands Resort 8-storey, 395 room resort located at 10th Mile, Batu Feringgi 11100 Penang	Freehold	25	19,359	110,298
	Land Lot 389, Section 2 Town of Batu Feringgi North East District, Penang	Leasehold (Expires 2050)	–	424	
Pantai Emas Sdn Bhd	Penang Laundry Services A central laundry located at No.6 (Plot 68), Pesara Kampung Jawa Bayan Lepas, 11900 Penang	Leasehold (Expires 2047)	13	3,737	1,632
UBN Tower Sdn Bhd	UBN Tower 36-storey commercial / office complex located at 10 Jalan P. Ramlee 50250 Kuala Lumpur	Freehold	18	3,696	182,280
UBN Holdings Sdn Bhd	UBN Apartments 24-storey apartment block comprising 126 units of apartments located at 1 Lorong P. Ramlee 50250 Kuala Lumpur (#*based on 59 units of unsold apartments*)	Freehold	18	3,120	30,989#
	Commercial land on which Shangri-La Hotel Kuala Lumpur is situated on at 11 Jalan Sultan Ismail 50250 Kuala Lumpur and UBN Tower at 10 Jalan P. Ramlee 50250 Kuala Lumpur	Freehold	–	19,925	155,000

group properties
as at 31 December 2003

Registered Owner	Description/Location	Tenure	Age of buildings (years)	Land area (sq. metres)	Net book value at 31.12.2003 (RM'000)
Pantai Dalit Beach Resort Sdn Bhd	Shangri-La's Rasa Ria Resort 330 room resort comprising 2 inter-connected low-rise blocks of 4 storeys each and 6 inter-connected low-rise blocks of 6 storeys each located at Pantai Dalit 89208 Tuaran, Sabah	Leasehold (Expires 2090)	7	67,999	107,892
	Land Undeveloped lands for future development located at Pantai Dalit, 89208 Tuaran, Sabah	Leasehold (Expires 2090)	–	880,981	9,173
	Lands on which Shangri-La's Rasa Ria Resort and Dalit Bay Golf & Country Club is situated on at Pantai Dalit 89208 Tuaran, Sabah	Leasehold (Expires 2090)	–	736,984	
Dalit Bay Golf & Country Club Berhad	Dalit Bay Golf & Country Club An 18-hole golf course and clubhouse located at Pantai Dalit 89208 Tuaran, Sabah	Leasehold (Expires 2090)	6	668,985	37,446

Note:
The last revaluation for the Group's Properties comprising freehold land, leasehold land, golf course, buildings and investment properties were carried out by a firm of independent professional valuers as at 31.12.2003 on an open market basis for existing use. Please refer to Notes 2, 3 and 4 of the Financial Statements set out on pages 62 to 67 for further details.

shareholding statistics
as at 31 March 2004

Class of Shares – Ordinary Shares of RM1.00 each fully paid
Voting Rights – One vote per share

DISTRIBUTION OF SHAREHOLDINGS

Size of Holdings	No. of Holders	%	No. of Shares	% of Issued Capital
Less than 100	71	0.64	1,491	0.00
100 – 1,000	4,241	38.30	4,187,441	0.95
1,001 – 10,000	5,820	52.57	23,443,866	5.33
10,001 – 100,000	838	7.57	23,414,309	5.32
100,001 to less than 5% of issued shares	100	0.90	53,890,300	12.25
5% and above of issued shares	2	0.02	335,062,593	76.15
	11,072	100.00	440,000,000	100.00

SUBSTANTIAL SHAREHOLDERS

Name of Substantial Shareholders		Direct Interest No. of Shares	Deemed Interest No. of Shares	% of Issued Capital
Hoopersville Limited		239,237,841	–	54.37
Shangri-La Asia Limited		–	239,237,841	54.37
Kerry Holdings Limited		–	239,237,841	54.37
Kerry Group Limited		–	239,237,841	54.37
Ikatan Perkasa Sdn Bhd		95,824,752	–	21.78
Landmarks Berhad		–	117,124,012	26.62
Eastnusa Holdings Sdn Bhd		–	117,124,012	26.62
Peremba Holdings Sdn Bhd		–	117,124,012	26.62
Peremba (Malaysia) Sdn Bhd		–	117,124,012	26.62
Tan Sri Mohd Razali bin Abdul Rahman		–	117,124,012	26.62
Datuk Hassan bin Abas		–	117,124,012	26.62
Abu Bakar bin Mohd Nor		–	117,124,012	26.62
Mahir Lumayan Sdn Bhd	(Note a)	–	117,124,012	26.62
Dato' Che Mohd Annuar bin Che Mohd Senawi	(Note b)	–	117,124,012	26.62
Dato' Dr Abdul Razak bin Abdul	(Note c)	–	117,124,012	26.62
Mohd Mahyudin bin Zainal	(Note d)	–	117,124,012	26.62

Notes:

a. The Company has received notification from Mahir Lumayan Sdn Bhd that it has deemed interest in Landmarks Berhad by virtue of a Shares Sale Agreement dated 25 March 2004 entered with Peremba Holdings Sdn Bhd and Eastnusa Holdings Sdn Bhd to acquire shares in Landmarks Berhad.

b. Deemed interested by virtue of his 51% shareholding in Mahir Lumayan Sdn Bhd.

c. Deemed interested by virtue of his 30% shareholding in Mahir Lumayan Sdn Bhd.

d. Deemed interested by virtue of his 19% shareholding in Mahir Lumayan Sdn Bhd.

DIRECTORS' INTERESTS IN SHARES

	Direct Interest	Deemed Interest	
In Shangri-La Hotels (Malaysia) Berhad	**No. of Shares**	**No. of Shares**	**% of Issued Capital**
Tan Sri Dato' Wan Sidek bin Wan Abd. Rahman	–	–	–
Kuok Oon Kwong	–	10,000	negligible
Rozina Mohd Amin	–	–	–
Tan Sri Datuk Asmat bin Kamaludin	–	–	–
Dato' Che Mohd Annuar bin Che Mohd Senawi	–	117,124,012	26.62
Dato' Seri Ismail Farouk Abdullah	19,000	–	negligible
Kuok Khoon Ho	–	10,000	negligible
Tan Sri Dato' Mohd Amin bin Osman	–	–	–
Mohamad Abdul Halim bin Ahmad	–	–	–
Dato' Dr Tan Tat Wai	–	–	–
Faisal bin Ismail (Alternate to Mohamad Abdul Halim bin Ahmad)	–	–	–

In Shangri-La Asia Limited (Ordinary Shares of HKD1.00 each)	**No. of Shares**	**No. of Shares**	**% of Issued Capital**
Tan Sri Dato' Wan Sidek bin Wan Abd. Rahman	–	–	–
Kuok Oon Kwong	151,379	2,834,815	0.13
Rozina Mohd Amin	–	–	–
Tan Sri Datuk Asmat bin Kamaludin	–	–	–
Dato' Che Mohd Annuar bin Che Mohd Senawi	–	–	–
Dato' Seri Ismail Farouk Abdullah	–	–	–
Kuok Khoon Ho	3,510	3,219,965	0.14
Tan Sri Dato' Mohd Amin bin Osman	15,900	–	negligible
Mohamad Abdul Halim bin Ahmad	–	–	–
Dato' Dr Tan Tat Wai	–	–	–
Faisal bin Ismail (Alternate to Mohamad Abdul Halim bin Ahmad)	–	–	–

Share Option in Shangri-La Asia Limited	**No. of Ordinary Shares of HKD1.00 each granted under the option**
Kuok Oon Kwong	300,000
Rozina Mohd Amin	60,000
Kuok Khoon Ho	2,936,768

THE THIRTY LARGEST SHAREHOLDERS (As per Record of Depositors)

Name of Shareholders	No. of Shares Held	% of Issued Capital
1. Hoopersville Limited	239,237,841	54.37
2. Mayban Trustees Berhad for Ikatan Perkasa Sdn Bhd	95,824,752	21.78
3. Mayban Trustees Berhad for Fokus Asas Sdn Bhd	13,130,173	2.98
4. Perdana Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Fokus Asas Sdn Bhd	8,000,000	1.82
5. Ophir Holdings Berhad	3,300,000	0.75
6. Permodalan Nasional Berhad	2,160,000	0.49
7. Lim Yan Pok	1,700,000	0.39
8. Lembaga Tabung Angkatan Tentera	1,510,000	0.34
9. Robert Yong Kuen Loke	1,324,400	0.30
10. Key Development Sdn Bhd	1,140,000	0.26
11. Toh Kam Choy	1,002,000	0.23
12. Asia Life (M) Berhad	615,000	0.14
13. Lim Kian Huat	564,700	0.13
14. Mayban Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Chong Chee Leong	539,000	0.12
15. Bidor Tahan Estates Sdn Bhd	516,000	0.12
16. Migan Sdn Bhd	514,000	0.12
17. GTY Holdings Sdn Bhd	501,000	0.11
18. Gan Tee Kian	496,000	0.11
19. Kenanga Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Ting Sing Ning	480,000	0.11
20. Mayban Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Ong Po Sang	430,700	0.10
21. Gan Hway Ying	407,000	0.09
22. Gan Hway Lee	405,000	0.09
23. DB (Malaysia) Nominee (Asing) Sdn Bhd BNP Paribas Nominees Singapore Pte Ltd for Devonshire Assets Limited	399,000	0.09
24. Gemas Bahru Estates Sdn Bhd	350,000	0.08
25. Ying Holding Sdn Bhd	325,000	0.07
26. Ng Yee Sin	302,000	0.07
27. HDM Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Chin Chun Yean	300,000	0.07
28. Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Low Ah Kou	297,000	0.07
29. Yeo Khee Huat	289,000	0.07
30. Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Su Hing Leh	284,000	0.06
	376,343,566	85.53

TO : ALL SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the Thirty-Third Annual General Meeting of the Company will be held at Sabah Room, B2 Level, Shangri-La Hotel Kuala Lumpur, 11 Jalan Sultan Ismail, 50250 Kuala Lumpur on Friday, 21 May 2004 at 10.00 a.m. for the following purposes:

1. To receive and adopt the Directors' Report and Audited Financial Statements for the year ended 31 December 2003 and the Auditors' Report thereon. Resolution 1
2. To approve the payment of a Final dividend of 3.5% less tax of 28% for the year ended 31 December 2003 as recommended by the Directors. Resolution 2
3. To approve the proposed increase and payment of Directors' fees from RM80,000 to RM188,000 for the year ended 31 December 2003. Resolution 3
4. To re-elect the following Directors, each of whom are retiring by rotation pursuant to Article 95 of the Company's Articles of Association.
   - i. Tan Sri Datuk Asmat bin Kamaludin Resolution 4
   - ii. Dato' Seri Ismail Farouk Abdullah Resolution 5
   - iii. Kuok Khoon Ho Resolution 6
5. To re-appoint Tan Sri Dato' Mohd Amin bin Osman as a Director of the Company pursuant to Section 129(6) of the Companies Act, 1965 to hold office until the next Annual General Meeting of the Company. Resolution 7
6. To re-appoint Messrs KPMG as Auditors of the Company to hold office until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration. Resolution 8
7. To transact any other business for which due notice shall have been given.

By Order of the Board

Rozina Mohd Amin
Company Secretary

Kuala Lumpur
29 April 2004

Notes:

a. A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member of the Company. The Form of Proxy must be deposited at the Registered Office of the Company, not less than 48 hours before the time set for the meeting or any adjournment thereof.

b. The proposed Final dividend, if approved, will be paid on Friday, 18 June 2004 to shareholders whose names appear in the Record of Depositors on Friday, 28 May 2004.

c. Explanatory Note to Resolution 3
The proposed Ordinary Resolution 3, if passed, will effect an increase in the fees payable to the Non-Executive Board Chairman from RM10,000 per annum to RM25,000 per annum and the fees payable to each of the other Non-Executive Directors from RM10,000 per annum to RM20,000 per annum. Further, the Chairman and each member of the Audit Committee will be paid RM8,000 per annum and RM5,000 per annum respectively in addition to the fees that will be paid to them for their Board representation as Non-Executive Directors of the Company.

Arising from the above, the total fees payable to Non-Executive Directors of the Company for the year ended 31 December 2003 would increase by RM108,000 to RM188,000. No Directors' fees are paid to Executive Directors.

1. Directors who are seeking re-election or re-appointment at the Thirty-Third Annual General Meeting of the Company

   Directors retiring by rotation and seeking re-election pursuant to Article 95 of the Company's Articles of Association:
   - Tan Sri Datuk Asmat bin Kamaludin
   - Dato' Seri Ismail Farouk Abdullah
   - Kuok Khoon Ho

   Director seeking re-appointment under Section 129(6) of the Companies Act, 1965:
   - Tan Sri Dato' Mohd Amin bin Osman

   The profiles of the above Directors are set out on pages 23 to 26 of this annual report.

2. Details of Attendance of Directors at Board Meetings

   A total of 5 Board Meetings were held during the financial year ended 31 December 2003. Details of attendance of Directors at the Board Meetings are set out below.

Name of Director	Total Attendance
Tan Sri Dato' Wan Sidek bin Wan Abd. Rahman	5 / 5
Kuok Oon Kwong	5 / 5
Rozina Mohd Amin	5 / 5
Tan Sri Datuk Asmat bin Kamaludin	5 / 5
Dato' Che Mohd Annuar bin Che Mohd Senawi	5 / 5
Dato' Seri Ismail Farouk Abdullah	5 / 5
Kuok Khoon Ho	5 / 5
Tan Sri Dato' Mohd Amin bin Osman	5 / 5
Mohamad Abdul Halim bin Ahmad	3 / 5
Dato' Dr Tan Tat Wai	5 / 5

3. Date, Time and Place of the Thirty-Third Annual General Meeting of the Company

Date	Friday, 21 May 2004
Time	10.00 a.m.
Place	Sabah Room, B2 Level Shangri-La Hotel Kuala Lumpur 11 Jalan Sultan Ismail 50250 Kuala Lumpur

notes

Shangri-La Hotels (Malaysia) Berhad
(10889–U)

form of proxy

No. of shares held ______

I/We ______

of ______

being a member of SHANGRI-LA HOTELS (MALAYSIA) BERHAD hereby,

appoint ______

of ______

or failing him ______

of ______

as my/our proxy, to vote for me/us on my/our behalf at the Thirty-Third Annual General Meeting of the Company to be held at Sabah Room, B2 Level, Shangri-La Hotel Kuala Lumpur on Friday, 21 May 2004 at 10.00 a.m. and at any adjournment thereof in the following manner:

		For	**Against**
Resolution 1	Adoption of Reports and Financial Statements		
Resolution 2	Approval of Final Dividend		
Resolution 3	Approval of Proposed Increase and Payment of Directors' Fees		
Resolution 4	Re-election of Tan Sri Datuk Asmat bin Kamaludin retiring pursuant to Article 95		
Resolution 5	Re-election of Dato' Seri Ismail Farouk Abdullah retiring pursuant to Article 95		
Resolution 6	Re-election of Kuok Khoon Ho retiring pursuant to Article 95		
Resolution 7	Re-appointment of Tan Sri Dato' Mohd Amin bin Osman as a Director pursuant to Section 129(6) of the Companies Act, 1965		
Resolution 8	Re-appointment of Messrs KPMG as Auditors		

Please indicate with an "X" where appropriate against each resolution how you wish your proxy to vote. If no specific direction to voting is given, the proxy will vote or abstain at his discretion.

Dated this ______ day of ______ 2004 Signature ______

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member of the Company.
2. The Form of Proxy must be signed by the appointer or his attorney duly authorised in writing or, if the member is a corporation, must be executed under its common seal or by its attorney or officer duly authorised in writing.
3. The Form of Proxy must be deposited at the Registered Office of the Company at 13th Floor, UBN Tower, 10 Jalan P. Ramlee, 50250 Kuala Lumpur, not less than 48 hours before the time set for the meeting or any adjournment thereof.

fold here

stamp

Shangri-La Hotels (Malaysia) Berhad (10889-U)
13th Floor, UBN Tower
10 Jalan P. Ramlee
50250 Kuala Lumpur

fold here

directory of group hotels & resorts

Kuala Lumpur

Shangri-La Hotel Kuala Lumpur
11 Jalan Sultan Ismail
50250 Kuala Lumpur
Tel (+60-3) 2032 2388
Fax (+60-3) 2070 1514
E-Mail slkl@shangri-la.com

Penang

Shangri-La Hotel Penang
Magazine Road
10300 Penang
Tel (+60-4) 262 2622
Fax (+60-4) 262 6526
E-Mail slp@shangri-la.com

Shangri-La's Rasa Sayang Resort
10th Mile Batu Feringgi Beach
11100 Penang
Tel (+60-4) 881 1811
Fax (+60-4) 881 1984
E-Mail rsr@shangri-la.com

Shangri-La's Golden Sands Resort
10th Mile Batu Feringgi Beach
11100 Penang
Tel (+60-4) 886 1911
Fax (+60-4) 881 1880
E-Mail gsh@shangri-la.com

Sabah

Shangri-La's Rasa Ria Resort
Pantai Dalit, P.O. Box 600
89208 Tuaran, Sabah
Tel (+60-88) 792 888
Fax (+60-88) 792 777
E-Mail rrr@shangri-la.com

Dalit Bay Golf & Country Club
Pantai Dalit, P.O. Box 600
89208 Tuaran, Sabah
Tel (+60-88) 791 188
Fax (+60-88) 792 128
E-Mail dalitbay@tm.net.my

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(10889-U)

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