ORIENT-EXPRESS
HOTELS, TRAINS & CRUISES

2003 Annual Report

Orient-Express Hotels Ltd.

Contents

Above: Jacaranda Hill, the impressive new banqueting and conference center at Johannesburg's Westcliff Hotel, has proved a resounding success for both business and social events. Designed in the style of the city's Sir Herbert Baker homes, its floor-to-ceiling windows enable guests to make the most of its exceptionally green and tranquil setting. The center can accommodate functions of up to 150 guests, and features state-of-the-art business and catering facilities.

Orient-Express Hotels Ltd.

Orient-Express Hotels owns or part-owns 44 deluxe leisure properties in 21 countries, 39 of which it also manages. Thirty-five are hotels ranging across five continents, from the Hotel Cipriani in Venice to the Mount Nelson in Cape Town, the Copacabana Palace in Rio de Janeiro, the Observatory in Sydney and Charleston Place in Charleston, South Carolina. Restaurants include '21' Club in New York, Le Manoir aux Quat'Saisons in Oxfordshire, England and La Cabaña in Buenos Aires.

Four tourist trains include the legendary Venice Simplon-Orient-Express in Europe and the Eastern & Oriental Express in Asia. The company also part-owns and manages PeruRail in Peru, which operates the Cuzco-Machu Picchu train service used by nearly every tourist to Peru (there are no roads to the famous Inca ruins and otherwise it is a four-day hike). The *m.v. Road To Mandalay* provides luxury cruises on the Irrawaddy River in Myanmar.

The company started in 1976 as the leisure division of Sea Containers Ltd. and was later incorporated as Orient-Express Hotels Ltd., a Bermuda company. Orient-Express Hotels was floated on the New York Stock Exchange in August, 2000. Sea Containers presently owns 42% of the company.

Orient-Express Hotels seeks out unique properties that have expansion potential. It owns or part-owns its properties because it believes that equity returns are greater than simply management fee income. Increases in property values allow the company to increase funding against those assets and thus fuel expansion. The unique nature of the assets helps insulate against competition and therefore allows greater pricing flexibility.

The company avoids the use of a chain brand. Thus, none of its properties is branded "Orient-Express" (except the train and safari camps). Management believes that discriminating travelers will choose an individual property of fame in priority to a chain brand. In the few locations where the company competes with deluxe brand chains (Venice, Lisbon and Rio de Janeiro are examples), it achieves up to 40% higher average rates than the luxury brand hotels.

Financial highlights

	2003 $000	2002 $000	Change %
Revenue and other income	329,468	289,302	14
EBITDA*	69,130	67,041	3
Net earnings	23,609	25,294	(7)

*Earnings before interest, tax, depreciation and amortization.
See page 44 for a reconciliation of EBITDA to the company's earnings from operations before net finance costs and the company's net earnings.

Earnings per common share	$0.76	$0.82	(7)
Number of shares (million)	31.1	30.8	

Performance overview ($ millions)				
	2003	2002	2001	2000
Revenue and other income	**329.5**	289.3	261.3	276.4
EBITDA	**69.1**	67.0	69.1	84.1
Net Earnings	**23.6**	25.3	29.9	40.0

Front cover: The Ritz Madrid, dating from 1910, is one of Europe's finest belle époque buildings. This landmark enjoys an unrivalled location at the heart of the city, with three major art museums, including the Prado, on its doorstep, and the city's financial, shopping and entertainment districts nearby. One of Spain's major social hot spots, its guest list comprises luminaries from around the globe. It is well known for its lively bar, leafy courtyard restaurant and Sunday brunch.

Ristorante Villa Cipriani is a spectacular new restaurant at Reid's Palace in Madeira, created from the former Trattoria Villa Cliff. Both the layout and menu of the original dining area have been transformed, enabling guests to enjoy superlative Italian cuisine in this dramatic cliff-top location.

Directors

From left to right

Simon M.C. Sherwood
President of the company. Previously Senior Vice President – Leisure of Sea Containers Ltd. (1997-2000) and was originally appointed Vice President in 1991, prior to which he was Manager, Strategic Consulting of Boston Consulting Group (1986-1990).

Georg R. Rafael
Managing Director of Rafael Group S.A.M. Previously Vice Chairman – Executive Committee of Mandarin Oriental Hotels (2000-2002). Managing Director and founder of Rafael Hotels (1986-2000) and Joint Managing Director of Regent International Hotels (1972-1986).

J. Robert Lovejoy *
Senior Managing Director of Ripplewood Holdings LLC (a private equity investment firm). Prior to joining Ripplewood, Mr Lovejoy was Managing Director of Lazard Frères & Co. LLC and a General Partner of Lazard's predecessor partnership for over 15 years.

Above: The board of Orient-Express Hotels Ltd. photographed in the grounds of The Ritz, Madrid.

James B. Sherwood
Chairman of the company. Mr Sherwood is also a Director and President of Sea Containers Ltd.

Daniel J. O'Sullivan
Senior Vice President – Finance and Chief Financial Officer of Sea Containers Ltd.

John D. Campbell *
Senior Counsel (retired) of Appleby Spurling Hunter (attorneys). He was a Partner of the firm until 1999, and is also a Director of Sea Containers Ltd.

James B. Hurlock *
Interim CEO of Stolt-Nielsen Transportation Group Ltd. (a chemical transport services company). Mr Hurlock was a Partner of White & Case LLP (attorneys) where he was Chairman of the Management Committee (1980-2000), overseeing the firm's worldwide operations.

**Member of the Audit Committee*

Management team

Back row from left to right

Dean P. Andrews *Vice President – Hotels, North America*
Joined the company in 1997, having been previously with Omni Hotels (1981-1997) working in new hotel development and financial and asset management.

Nicholas R. Varian *Vice President – Trains and Cruises*
Joined Orient-Express Hotels in 1985 from P&O Steam Navigation Company and became Vice President responsible for train and cruise activities in 1989.

Paul White *Vice President – Hotels, Africa, Australia and South America*
Previously a manager of the company working on hotel financial and operational matters, having joined from Forte Hotels in 1991.

Simon M.C. Sherwood *President* (See details on facing page).

Adrian D. Constant *Vice President – Hotels, Europe*
Joined the company from Le Meridien Hotels in 2001, where he had responsibility for the development of its hotels in South America. He has also managed hotels in the Algarve, Malta, London and Madrid.

Roger V. Collins *Vice President – Technical Services*
An engineer his entire career, he has worked in the hotel industry since 1979 with Grand Metropolitan Hotels, Courage Inns and Taverns and Trusthouse Forte Hotels, joining Orient-Express Hotels in 1991.

Front row from left to right

Pippa Isbell *Vice President – Public Relations*
Joined the company in 1998 after selling the public relations consultancy she founded in 1987, which had clients such as Inter-Continental Hotels, Forte, Hilton International, Jarvis Hotels, and Millennium and Copthorne.

Edwin S. Hetherington *Secretary*
Also Vice President, General Counsel and Secretary of Sea Containers Ltd., having joined Orient-Express Hotels in 1980.

James G. Struthers *Vice President – Finance and Chief Financial Officer*
Joined the company in 2000. Previously Finance Director of Eurostar UK Ltd. (1997-99). Worked with Sea Containers Ltd. as Controller (1991-96), having qualified as a chartered accountant with KPMG in 1986, and is currently Vice President of Sea Containers Ltd.

Chairman's message

April 1, 2004

Dear Shareholder,

Your company achieved acceptable results in 2003 despite the challenges of the Iraq War, terrorist bombings, SARS and a weak business travel market. Net earnings were $23.6 million ($0.76 per common share) on revenue and other income of $329.5 million. This represents an earnings decline of 6.7% despite an increase of 14% in revenue compared with 2002. The revenue increase is, to a degree, artificial because it arises largely through translation of euro, pound, rand and Australian dollar revenues into US dollars when those currencies strengthened significantly against the US dollar. Our net earnings were considerably higher than several larger operators in our competitive "set", partially due to our lower reliance on the business travel market and lower exposure to the consequences of the SARS epidemic.

Our key financial indicators at year end were positive: a RevPAR for the year of $184, up 9% from $168 in 2002. EBITDA was $69.1 million compared with $67.0 million in 2002. Long-term debt to equity was slightly less than 1:1 at year end with current assets exceeding current liabilities. Year end cash was $81.3 million plus undrawn credit lines of $67.8 million, compared with 2002 year end cash of $37.9 million and undrawn credit lines of $22.8 million.

The company issued $52 million of new equity in 2003 in order to provide funding of the unfinanced component of investment in existing properties and acquisition of additional properties.

Examples of investment in existing properties in 2003 were the doubling of rooms at the Inn at Perry Cabin to 81; the completion of Jacaranda Hill, the new banqueting and meetings building at The Westcliff; the completion of La Cabaña, our new luxury restaurant in Buenos Aires; alteration of the New Orleans Grill at the Windsor Court; a new pool at Keswick Hall; the "Upstairs" dining room at '21' Club; addition of kitchen and restaurant facilities at Maroma; introduction of the Hiram Bingham deluxe tourist train on the Cuzco-Machu Picchu route of PeruRail; a new spa and alteration to "Darley's" restaurant at Lilianfels; a new bar at the Mount Nelson and a new restaurant and spa at La Residencia.

We sold the Quinta do Lago Hotel in Portugal in 2003 and acquired The Ritz in Madrid in partnership with the Omega Group.

In 2004 we are investing in the completion of the Hotel Caruso in Ravello which we expect to open in the spring of 2005, we will commence the capital improvements program for The Ritz in Madrid, we will open a new spa at the Hotel Cipriani in Venice and create a Raymond Blanc restaurant at Reid's Palace in Madeira. We closed the Bora Bora Lagoon Resort in French Polynesia in late 2003 for major upgrade and will reopen in 2004's second quarter. A new outdoor pool will be opened at Lilianfels in Australia's Blue Mountains in the second quarter. The second floor of the Splendido in Portofino is being rebuilt to introduce more suites. The Granary of the Hotel Cipriani is being altered to provide additional meeting rooms and improved banqueting facilities. We are restoring the old casino rooms at the Copacabana Palace in Rio de Janeiro to provide more banqueting capacity and will be expanding the spa facilities. We are rebuilding the pool and outdoor restaurant level of the Miraflores Park Hotel in Lima, as well as adding more guest elevators. This capital investment program is budgeted to cost approximately $36 million in 2004.

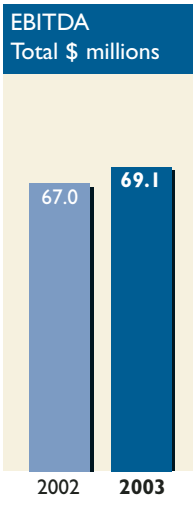
In terms of acquisitions in 2004, we have recently announced our $8 million investment in Pansea Hotels in Southeast Asia. Pansea currently has five unique properties in operation and a sixth under construction. The five are in Luang Prabang, Laos; Yangon, Myanmar (Burma); Koh Samui, Thailand; Jimbaran Beach in Bali and Angkor Wat in Cambodia. The hotel under construction is located in the Ubud Gorge in Bali. (Bali's tourism has now returned to pre-bombing levels.) Further Pansea properties are planned for Vietnam, Thailand and Myanmar. Our agreement with the Pansea shareholders provides for us to acquire 100% of the business over a three to five year period at a multiple of eight times EBITDA. We are separately seeking to acquire two city center hotels in Southeast Asia, which, together with the *Road To Mandalay* cruise ship and the Eastern & Oriental Express tourist train and Pansea, will give us an important presence in the region.

The owners of the Great South Pacific Express tourist train decided to suspend the

Right: Tree-lined avenues flanked by lotus pools lead to the majestic Pansea Yangon (Rangoon), situated in private grounds in the Embassy Quarter of Myanmar's (formerly Burma) capital city. Recently joining Orient-Express Hotels, following its investment in Pansea Hotels, this imposing teak mansion evokes the era of Kipling, with its colonial bar and bamboo furniture set out on verandas overlooking manicured lawns and flowering trees. Perfectly positioned for visits to the Shwedagon Pagoda and other major sights, the hotel is the ideal Yangon base for passengers taking the Road To Mandalay *cruise ship.*

EBITDA ($ millions)

		2003	2002	Change %
Owned hotels –	Europe	32.8	29.2	12.3
	North America	11.1	11.1	0.0
	Rest of the World	11.1	12.7	(12.6)
	Total owned hotels	55.0	53.0	3.8
Management and part-ownership interests		13.5	12.4	8.9
Restaurants		2.6	3.8	(32.0)
Total hotels and restaurants		71.1	69.2	2.7
Trains and cruises		5.9	8.3	(29.0)
Central overheads		(12.2)	(10.5)	(16.0)
Gain on sale of Quinta do Lago		4.3	–	–
Total EBITDA		69.1	67.0	3.0



service in 2003 because of declining international arrivals in Australia arising from SARS and terrorist fears. Discussions are in progress with a view to moving this train to a market with higher potential.

We are planning to rebuild our historic lake steamer on Lake Titicaca in Peru to provide more cabins for guests arriving on our Cuzco-Puno luxury train service.

We expect to conclude further acquisitions in Europe, South America and Australasia in 2004 and to commence a major development of our land resources in St Martin adjacent to La Samanna, extending into the Dutch side of the island where greater building density is allowed than on the French side.

Of course, investment brings higher depreciation cost and sale of equity brings temporary dilution of earnings per share until those funds can be fully employed in the business. I think the message I would like to convey is that your company today has greater upside potential than ever before as new capacity is filled and acquisitions generate their additional returns.

Our policy of owning assets rather than just managing them has created a fair market value which greatly exceeds book value.

Right: Orient-Express Magazine *was recently named "Most Effective Travel and Leisure Title" in Britain's prestigious Association of Publishing Agency Awards. The judges observed that the magazine is perfectly tailored to its readership and "exudes quiet opulence"– reflecting the style of Orient-Express trains and hotels.*

Changes in currency values against our reporting currency, the US dollar, have overall enhanced our reported earnings. For example, profits in euros translate into more US dollars than before. Of course, this exaggerates low season losses but, for the year as a whole, there is a benefit. Despite a stronger euro, our euro-based hotels reported increased profits in 2003 over 2002, however, the Venice Simplon-Orient-Express tourist train suffered from reduced American travelers. We think this was due more to the Iraq War having occurred in the peak booking period than the stronger euro. Bookings in 2004 seem to have bounced back to 2002 levels.

Our largest shareholder, Sea Containers Ltd., with 42% of our common shares (excluding common shares owned by a subsidiary), has indicated it does not intend to sell any shares in Orient-Express Hotels in the near term as it feels the shares are undervalued (I serve as President of Sea Containers).

Please read the reports of the President and Chief Financial Officer for more detail on the matters I have discussed above.

It remains for me to thank our 5,300 staff whose efforts produced a satisfactory 2003 despite the many adversities. We look forward to improved results in the future arising from our investments and stronger market demand.

Sincerely,

James B. Sherwood
Chairman & Founder

Hotels: Europe

The euro strengthened about 20% against the US dollar for 2003 compared with the prior year and this affects the dollar results of our European businesses. Same store RevPAR for 2003 was well up in dollars but was slightly down in local currency, reflecting the impact of the Iraq War on the key spring booking period.

The revenue decline was driven by a drop in occupancy (down 12%) partly offset by stronger rates (up 8% in local currency). Most of the rate increase is due to a shift in the mix of business as the demand drop has been greater in first time guests than in repeat high-end customers. Our policy has been to hold firm on rates so we expect revenue to recover quickly as demand rebounds.

Italy held up particularly well, as did the two properties we acquired in 2002 (La Residencia and Le Manoir aux Quat'Saisons), while Hôtel de la Cité suffered the most as US travelers shunned France.

At the time of writing, forward bookings for our European properties are slightly ahead of prior year. We expect the position to further improve as in 2003 bookings stalled for almost two months at the time of the Iraq War. Enquiries from the US are still slow, affected perhaps by the strong euro, but this is being more than offset by demand from the UK and continental Europe.

Italy

At the **Hotel Cipriani** and **Palazzo Vendramin** (103 keys) RevPAR declined 3% in local currency (up 17% in US dollars) which squeezed margins, but the hotel still managed to show a healthy increase in EBITDA, up $0.6 million. Over the last winter we have added the beautiful Casanova Spa overlooking the hotel's famous gardens where Casanova is reputed to have held many clandestine meetings. We have also created a new meeting and banqueting area in the upper level of one of the Granary buildings, with views across the water to St Mark's Square. Every investment we make adds to the splendor of this outstanding property and leaves the competition further behind.

The **Hotel Splendido** and **Splendido Mare** (82 keys) bucked the trend and actually showed 4% RevPAR growth in local currency (up 25% in US dollars). With EBITDA up $0.9 million for the year, we had no hesitation in moving ahead with improvements on the second floor to expand the small, existing rooms and incorporate redundant back of house areas into a new Presidential Suite and several spacious junior suites.

American guests have always been important in Florence and the **Villa San Michele** (45 keys) saw a 4% local currency RevPAR decline (up 15% in US dollars). However, US dollar EBITDA still increased in 2003 and bookings for the 2004 high season are 20% ahead of last year, helped by a wider choice of specialist packages, including the hotel's new cooking school and wine tours in Tuscany. Current permits allow for two additional keys and a spa in the garden – improvements that most likely will be made over the next couple of years.

After several years of frustration, we appear to have finally resolved our dispute over the refurbishment permits for the **Hotel Caruso** in Ravello. Heavy work has restarted and we expect to open in 2005. The Amalfi region is extremely popular with our guests but boasts only a handful of luxury hotels so rates are particularly high. The difficulties we have faced over refurbishing the Caruso are evidence of the high barriers to entry facing any potential new competitor in the area.

Portugal

Portugal fared worse than Italy with a same store RevPAR decline of 9% in 2003 and **Reid's Palace** (164 keys) in Madeira was no exception. The growth of low-cost airlines serving Europe from the UK has given a boost to many of our hotels (e.g. Italy and Mallorca) but Madeira has not yet benefited, although negotiations are underway. In order to lift the profile of Reid's Palace and broaden its appeal, a new spa will be added and a gourmet restaurant in partnership with Raymond Blanc, the famous chef who created Le Manoir aux Quat'Saisons. The hotel continues to generate a very attractive return, but EBITDA fell 5% in 2003 and we are anxious to reverse the trend.

Demand remained slow during 2003 at the **Lapa Palace** (109 keys) in Lisbon but is now recovering with bookings at twice the level of last year. The hotel is in excellent condition now that the refurbishment program is complete, so it is well positioned to benefit from any increase in demand for Lisbon. The property has great upside as it has space for 50 more keys but, given current conditions, it is unlikely that we will start any expansion during the next 18 months.

In October 2003, we sold **Hotel Quinta do Lago** (141 keys) in the Algarve. This property continued to rely heavily on golfers in spite of our efforts to attract new markets, but the hotel had no ownership or control over any golf course. As a result, it was vulnerable to the rapidly increasing cost of golf in the area and occupancy was down over 15% for 2003 up to date of sale. A Portuguese investor purchased the hotel from us for $40 million, equivalent to 16 times EBITDA, generating $4.2 million profit upon sale.

Spain

In April 2003, we acquired Madrid's most famous property, **The Ritz** (167 keys) in partnership with Omega, a major Spanish property company. Each partner owns 50% and Orient-Express Hotels has a long-term management contract. During 2003 we focused on strengthening the sales, marketing and promotion of the hotel. In 2004 we will start refurbishment of the property with improvements to the lobby and some of the rooms.

Our other Spanish hotel, **La Residencia** (62 keys) in Mallorca, a great favorite of UK guests, had an excellent year with RevPAR up 8% in local currency (29% in US dollars). We closed the hotel for a few months over the winter to allow for some major improvements, including a new entrance driveway, enlargement of the informal restaurant and improvement of many rooms (including some new suites). We also added a new spa. During 2003, we received permits to build up to 20 new suites which will allow gradual expansion of the hotel over the next few years. The Mallorcan authorities now strictly limit construction or expansion of hotels, so the special waiver that we have been granted adds considerable value to our property.

Other European hotels

Le Manoir aux Quat'Saisons (32 keys) in Oxfordshire, England, was another strong performer with EBITDA up $1 million for the year, mostly due to an excellent fourth quarter. The skill and flair of our partner Raymond Blanc and his team continue to win glowing accolades so we are very excited at the prospect of the new restaurant we are planning together for Reid's Palace in Madeira.

In sharp contrast, **Hôtel de la Cité** (61 keys) in Carcassonne, France, had a poor year with RevPAR down 20% in local currency (down 4% in US dollars). Most US travelers steered clear of France for political reasons and there was also a significant decline in UK visitors to the property. A major cost-reduction program allowed the hotel to generate EBITDA of $0.2 million, down from $0.5 million in 2002. Promotional resources have now been switched across to generate business in the domestic French market until international demand picks up, but 2004 is likely to be another difficult year.

Owned Hotels Europe

		2003	2002
EBITDA ($ millions)		**32.8**	29.2
Overall	Average daily rate ($)	**493**	376
	Rooms sold ('000)	**139**	157
	RevPAR ($)*	**280**	242
Same store**	RevPAR ($)	**284**	247
	RevPAR change (in US$)	**+15%**	
	RevPAR change (in local currency)	**-4%**	

** RevPAR = Revenue per available room (the rooms department revenue divided by the number of lettable hotel rooms for each night of operation). ** Comparison of the same units' operations, eg. excluding the effect of any acquisitions.*

Left: Guest rooms throughout the Lapa Palace in Lisbon have recently been redecorated in a style that reflects the mansion's origins as an aristocratic home. Several exceptional suites have been carefully restored with antique furniture that includes pieces from the palace's earliest days. Many rooms lead out on to balconies and terraces, overlooking the gardens that make the Lapa Palace Lisbon's greenest and most relaxing retreat.

Hotels: North America

(Including the Caribbean and Mexico)

Same store RevPAR in the region declined 2%, which combined with increased costs due to inflation and the strong euro at La Samanna, squeezed margins. We expanded two hotels, so overall revenue increased 13% and this extra capacity allowed us to maintain EBITDA flat at $11.1 million. Demand in the first quarter of 2004 was patchy but bookings from then onward look surprisingly strong, up over 20% at the time of writing. Hopefully this signals a return of both leisure and corporate demand.

USA

The **Windsor Court Hotel** (324 keys) is one of our hotels that is most reliant on corporate clients and RevPAR fell 4% for the year in line with the New Orleans market (down 5% according to Smith Travel Research). Citywide convention business, traditionally a key driver of demand, remains sluggish so it is becoming more important for the hotel to find and host smaller independent corporate meetings. In 2004 to create additional meeting space we plan to start construction of a dedicated meeting facility, which should be operational for 2006. In the meantime, we take some encouragement from the hotel's bookings which are up over 20% against 2003. The hotel restaurant was fully refurbished and has shown great promise since its reopening in October.

Charleston Place (442 keys) in Charleston, South Carolina, where we have an ownership interest and management contract, also had a slight RevPAR decline. The booking pattern remains short-term and quite price-sensitive but forward bookings are up about 5%, which is an excellent base, taking into account the major slowdown that occurred during the Iraq War last year when many groups canceled or postponed their meetings. The major room refurbishment program at the hotel was completed in 2003 so in 2004 our capital expenditure plan is limited to expansion of the highly profitable spa, some additional meeting space and improvement of the bar.

We have doubled the size of the **Inn at Perry Cabin** (81 keys) in St Michaels, Maryland, adding 40 spacious rooms, many of which are suites, all with excellent views across the bay. Fortunately, the hotel did not suffer any significant damage from *Hurricane Isabel* in September 2003, although it did cause a $0.2 million loss of business. 2004 will be a transition year, building demand to fill the increased capacity.

At **Keswick Hall** (48 keys), RevPAR increased 10% over 2003 mostly due to growth in demand for small meetings. The

outlook for 2004 is even more encouraging and the addition last winter of the new terrace restaurant has freed up much needed function space. EBITDA at Keswick improved $0.5 million in spite of 2003 being one of the worst years for US east coast golf clubs, due to the long, harsh winter and wet spring.

Mexico

Maroma Resort and Spa (58 keys) was closed for two months in the low season for construction of a dedicated spa, additional beachfront suites and expansion of the restaurant. We also improved the kitchens and added two tennis courts. Investing in the expansion and improvement of hotels tends to generate excellent returns and Maroma is no exception.

In 2003, RevPAR jumped from $194 to $238, generating EBITDA of $2.1 million, an increase of over $1 million compared with 2002.

In order to preserve the image and style of the hotel, the works are supervised by the original architect and owner, José-Luis Moreno, who continues to be our 25% minority partner in the business.

French West Indies

Demand held up well at **La Samanna** (81 keys), St Martin, with RevPAR up 3% in US dollars, but this was more than offset by $1 million increase in costs due to the strong euro. The hotel is particularly sensitive to currency fluctuations, as most revenue is derived from the US market but the operation is based in French territory. If current exchange rates prevail, there will also be an adverse cost impact in 2004.

We own 45 acres of land around La Samanna, straddling the French/Dutch border of the island, which we have plans to develop and sell over the next two-three years. Our initial design is for 150-200 smaller residential units on the Dutch side (currently used for staff accommodation) and about 40 large villas on the French side (currently unused). In addition to profits on sale there will be ongoing income from maintenance and club fees. If our projections are correct, this sort of development should become an important part of Orient-Express Hotels' business mix, as we have a sizeable land bank elsewhere, such as Keswick Hall (225 acres), the Inn at Perry Cabin (13½ acres), Bora Bora (14 acres) and we can acquire additional land at locations such as Maroma.

Left: The Inn at Perry Cabin was doubled in size to 81 rooms in 2003. The new buildings (left) are in the same style as the original inn (right). This hotel serves the Washington D.C., Baltimore and Philadelphia markets with strong meetings demand midweek and tourist demand at the weekends. St Michaels, Maryland is one of the earliest surviving American communities, having been founded in the 1640s.

Owned Hotels North America

		2003	2002
EBITDA ($ millions)		**11.1**	11.1
Overall	Average daily rate ($)	**314**	314
	Rooms sold ('000)	**131**	118
	RevPAR ($)	**200**	206
Same store	RevPAR ($)	**203**	206
	RevPAR change (in US$)	**-2%**	
	RevPAR change (in local currency)	**-2%**	

Hotels: Rest of the World

Many of the rest of the world properties were hurt by the SARS epidemic, as well as the general effect of the Iraq War. Our property in Bora Bora suffered badly as the Japanese stayed at home and our Australian hotels missed many regular US and European business travelers who canceled their Asia/Australia travel programs. Encouragingly, forward bookings are well ahead for 2004, particularly for the second quarter.

South America

EBITDA at the **Copacabana Palace** (225 keys) was $6.6 million, slightly ahead of 2002 ($6.5 million) as a decline in US guests was offset by growth from Europe. Banqueting at the hotel makes a large contribution and there are three large ballrooms at the rear of the building (the former casino) which will be refurbished and brought back into use. We are also developing designs for a spa to serve guests and local residents.

In Peru, the **Miraflores Park Hotel** (81 keys) in Lima and our two joint venture hotels, **Hotel Monasterio** (123 keys) in Cuzco and **Machu Picchu Sanctuary Lodge** (31 keys), all showed improvement over 2002, with solid RevPAR growth. Peru is becoming a very popular destination and bookings for 2004 are already up about 15% with most of the country's travel specialists predicting further growth.

Southern Africa

The Mount Nelson Hotel (226 keys) had a much better year with EBITDA up $1 million to over $4.5 million for the year. RevPAR increased 37% through a combination of price increases and a strengthening of the rand. The hotel now has a new bar beside the terrace and the lobby has been completely redecorated. The municipal authorities finally agreed to sell us Faure Street, which is adjacent to our hotel. As we own all of the houses on this section of the road, we can incorporate it into our property and redevelop it. Initially we will build a spa but it also gives potential for additional keys longer term.

The new conference and banqueting facility at **The Westcliff** (119 keys) in Johannesburg opened in May 2003. This allows us to attract groups and small meetings as well as to serve local functions and weddings. The Johannesburg market remains very competitive and it is proving very difficult to increase rates to the level we desire.

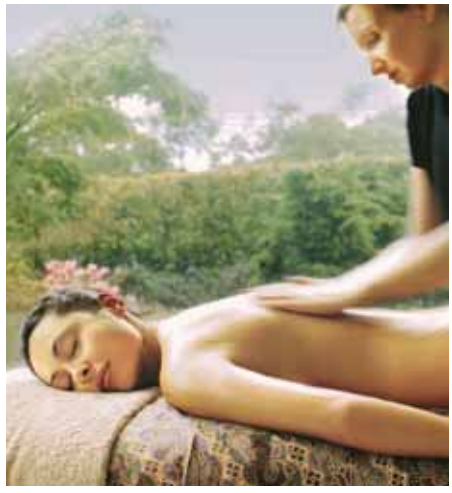
Orient-Express Safaris (39 keys), our three safari lodges in Botswana, had a terrible year, suffering from the Iraq War, SARS, the Kenya travel scare and the bankruptcy of some major US tour operators that usually supply good blocks of business. The properties made a small EBITDA loss ($0.5 million) but should bounce back well in 2004, as bookings are up over 50% compared with 2003.

Owned Hotels Rest of the World

		2003	2002
EBITDA ($ millions)		11.1	12.7
Overall	Average daily rate ($)	228	186
	Rooms sold ('000)	160	176
	RevPAR ($)	107	96
Same store	RevPAR ($)	107	96
	RevPAR change (in US$)	+12%	
	RevPAR change (in local currency)	-5%	

Australasia

SARS badly hurt our Australian properties. Many US and European business travelers combine trips to Asia and Australia. Canceled trips to Asia due to SARS had a knock-on effect on demand in Sydney compounded by the virtual disappearance of Asian guests to the city. EBITDA at **The Observatory Hotel** (96 keys) was flat versus 2002, which is disappointing as both 2001 and 2002 were poor years. 2004 has got off to a good start but bookings tend to come in at the very last



Above: Lilianfels Blue Mountains Resort & Spa has expanded its well-being facilities to include four new treatment rooms and a refurbished 20 meter indoor heated pool. Saunas, steam rooms, spa baths and a gymnasium in the converted Cottage Suite complete the new look. An outdoor pool overlooking the Jamison Valley is due to open shortly, taking full advantage of the resort's location above the treetops of Australia's Blue Mountains National Park. Guests can alternate sessions in the treatment rooms with outdoor activities, including abseiling, aqua-aerobic classes, bushwalking, tennis, horseriding and golf. Lilianfels is just a short drive from Sydney – yet is a thoroughly rural retreat.

Left: Surrounded by groves of cashew nut trees, Pansea Koh Samui sits in spacious grounds with direct access to a quiet beach. Its palm-fringed swimming pool overlooks the ocean, where coral reefs offer excellent snorkeling and scuba diving. The hotel's location on a steep slope means that each of its 55 guest rooms has outstanding views. This attractive property includes a spa, indoor and alfresco dining and tennis courts.

Below: La Cabaña has been recreated in the fashionable Buenos Aires district of La Recoleta. This world-famous restaurant, founded in 1935, attracted the cream of international society before its closure in 1996. Now brought back to life by Orient-Express Hotels, the steakhouse is once again serving its impressive meats, alongside great Argentine red wines.

minute making it difficult to forecast or manage yield with any confidence.

Lilianfels (86 keys) in the Blue Mountains, about 90 minutes drive from Sydney, is now fully refurbished. The Sydney weekend getaway market learns fast of any disruptive construction projects and has avoided the hotel for the last couple of years. With the works now behind us we can focus on building demand both from the domestic and international markets.

Our other property in this region is **Bora Bora Lagoon Resort** (80 keys) in French Polynesia. The two key markets for the island were both well down – the US market due to the Iraq War and Japan due to SARS. At the same time, the strong euro increased our costs and a new hotel opened nearby. 2003 was an unsatisfactory year and the hotel EBITDA was a loss of $1.2 million. There is every reason to expect 2004 to be much better (bookings are up 80%) but the fundamental problem of Bora Bora is that there is more hotel capacity coming on-stream, encouraged by massive investment subsidies, yet access remains difficult. We are in discussion to try to improve flight arrival times and develop further airlift to the island.

Asia

Orient-Express Hotels was under-represented in Asia, an important inbound and growing outbound market. In February, 2004 this was resolved by making an investment in **Pansea**, a company specializing in small, luxury properties in the region. Under the terms of the deal, Orient-Express Hotels injects $8 million of capital to improve and expand Pansea, receiving in return the right to buy the balance of the company in three to five years' time at a price equivalent to 8x EBITDA.

Pansea operates five hotels in Southeast Asia, located in Luang Prabang, the ancient royal capital of Laos; Koh Samui on the Gulf of Siam in Thailand; Yangon (Rangoon), Burma, in the former palace of the Shan Province governor; Siem Reap, Cambodia, close to the famous temples of Angkor Wat; and Jimbaran Bay in Bali. Another property is under construction in Ubud, Bali and further openings are planned for the next few years. Therefore, in five years time, we expect to take on balance sheet at a reasonable price a thriving group of hotels in Asia.

Restaurants

'21' Club in New York had a poor start, not helped by the harsh weather in the first quarter of 2003. EBITDA was down $0.9 million for the full year, but business recovered steadily during 2003 and earnings were actually ahead in the fourth quarter. Should financial market activity rebound (particularly initial public offerings) '21' Club will benefit, as the related banquet activity is a key contributor to profits.

The new **La Cabaña** restaurant in Buenos Aires opened in October 2003 and is operating successfully. Historically the most famous steak restaurant in the city, La Cabaña fell on hard times as it was located in a section of Buenos Aires that deteriorated and became unpopular. Using many of the original features, the restaurant has been relocated to the up-market Recoleta district close to the best hotels. For 2003, the restaurant EBITDA was a loss of $0.5 million entirely due to the requirement to expense start-up costs (such as training costs prior to opening).

Our joint venture in London, **Harry's Bar**, a private dining club, reported a solid year with EBITDA actually ahead of 2002.

Restaurants ($ millions)	2003	2002
Revenue	17.6	18.1
EBITDA	2.6	3.8
Margin	15%	21%

Trains and Cruises

Our trains and cruises businesses were particularly badly affected by the global events of 2003. The Iraq War occurred right in the heart of the key booking period for our European trains and then SARS wiped out the season for Asia. The result was a drop of over $2 million in EBITDA. For 2004 we expect recovery back to the former level of profitability – bookings are already running well ahead of last year (up about $2 million).

The **Venice Simplon-Orient-Express** luxury overnight service between London, Paris and Venice was the worst affected. For many, travel on this train is the highlight of any holiday so they build their itinerary around it. Therefore, once the spring booking period was lost, it was very difficult to build up any last-minute demand. This train accounted for $1.7 million of earnings decline as EBITDA fell to $2.2 million in 2003 from $3.9 million in 2002.

For our UK day trains, it proved much easier to recoup demand, as most guests are from the UK and can travel at short notice. EBITDA of the **British Pullman** was slightly down ($0.2 million) but this was offset by a strong performance from the newer **Northern Belle** train (up $0.4 million) which operates services in the north of the UK.

During the outbreak of SARS, guests of the **Eastern & Oriental Express** (our Singapore-Bangkok service) were required by the authorities to wear face masks throughout the trip. We temporarily stopped the service but ran a handful of trips within Thailand to cater for the few tourists that still visited the area. Bookings have now recovered to normal levels. The **Road To Mandalay** cruise service in Myanmar (Burma) was also affected by SARS, but EBITDA dropped only slightly to $0.4 million from $0.5 million in 2002.

Early in 2003 the tax law in Peru was changed, correcting an anomaly that was costing **PeruRail**, our Peruvian joint venture, about $2 million in tax per annum. The year continued well as after a weak first quarter demand grew rapidly with a very strong end to the year. All indications are that the business will boom in 2004 as Peru is perceived as safe, interesting and accessible for the US market. Late in 2003, we launched the **Hiram Bingham** luxury train service between Cuzco and Machu Picchu, which takes guests in style for a day trip to the famous ruins.

Trains & Cruises EBITDA ($ millions)

	2003	2002
Owned train operations (Venice Simplon-Orient-Express, British Pullman and Northern Belle)	**3.5**	5.0
Management fees		
Eastern & Oriental Express	**0.1**	0.4
PeruRail	**3.5**	3.6
Road To Mandalay	**0.4**	0.5
Regional costs and other	**(1.5)**	(1.2)
Total	**6.0**	8.3

Right: An elegant new train, the Hiram Bingham, has been launched in the Peruvian Andes. Named after the explorer who discovered the lost sanctuary of Machu Picchu, it links this ancient Inca site with the city of Cuzco. The three-hour journey past dramatic scenery starts later in the morning than other services, and also returns several hours later in the evening, enabling passengers to experience Machu Picchu in peace when most other visitors have left. Brunch is served on the outbound journey and dinner en route home. Passengers may also choose to stay overnight at either end of the journey, in the company's Monasterio Hotel in Cuzco or in the Machu Picchu Sanctuary Lodge.

Outlook for 2004

The whole of the travel industry is "holding its breath" – excited by the prospect of a better 2004, but still nervous after suffering through three difficult years. At this time last year we were in the middle of a major slump in bookings during the Iraq War. We then faced SARS which wiped out most Asian leisure businesses and also took a bite out of Europe and Australia as demand outbound from Asia dried up. This year the picture is very different. Bookings are ahead and there is no reason to expect a dramatic slowdown, so demand should be much stronger than last year from the second quarter onwards.

As an owner/manager of high-quality hotels with high barriers to entry, Orient-Express Hotels is well positioned to benefit from any recovery. Since the year 2000, the company's same store EBITDA has declined by about $30 million, almost entirely due to a decline in occupancy (not rate). As demand picks up, our properties will fill again and margins should return to historic levels.

The last few years have been challenging but the company has never wavered from its strategy and we have taken advantage of the harder times to make some excellent acquisitions including in 2003 The Ritz in Madrid and in 2004 the Pansea transaction which will give us a leading position in Southeast Asia. Money has also been spent on improving hotels already in the portfolio and over $50 million has been spent in 2003 on expansion and refurbishment. All of these additions hold great promise for the future.

Simon M.C. Sherwood
President

Chief Financial Officer's report

EBITDA in 2003 was $69.1 million compared with $67 million in 2002. Depreciation increased by $5.7 million, primarily due to acquisitions, capital expenditure and a weaker US dollar, which had the effect of translating the local currency depreciation charge on assets owned outside of the US into a higher amount of US dollars. The net finance costs for the company decreased by $1.1 million. The effective tax rate was 14% (excluding the gain on the sale of the Quinta do Lago hotel of $4.3 million, which attracted no taxation) compared to 13% in the prior year.

In 2003 the net cash provided by operating activities was $33.2 million which was down by $2.1 million, principally due to the decline in net earnings.

The company invested $81.7 million in acquisitions and capital expenditure in 2003. The purchase of its 50% stake in The Ritz, Madrid, accounted for $23 million. The balance was capital expenditure on existing properties including approximately $15 million on maintenance capital expenditure. Finance of $21 million was raised against the total invested.

The company decided to raise funds to finance new investments and expansion of existing hotels. To this end, it issued equity in November and December 2003, selling 3.45 million Class A shares raising net proceeds of $52 million. We also decided to sell the Quinta do Lago hotel for $40 million and repaid $22 million of associated debt out of these proceeds. The Italian hotels were re-financed with a €135 million ($162 million) secured term loan on attractive terms. An amount of €110 million ($132 million) of this facility was drawn during the year, of which $85 million was used to repay the previous facility, giving a cash surplus of $47 million. Scheduled principal payments were $43 million and working capital facilities of $8 million were repaid.

The total cash flow for the year was a surplus of $43 million against a deficit of $20 million for 2002.

The company had cash of $81 million at December 31, 2003. In addition, there were $68 million available to draw from committed undrawn facilities, bringing the company's total cash availability to $149 million, giving it substantial resources to make acquisitions and expand existing hotels. At December 31, 2003, the company had debt net of cash of $473 million. Approximately 50% of the outstanding debt was drawn in euros and the balance primarily in US dollars, with an overall weighted average interest rate of 3.7%. All of the company's debt is floating rate and is secured by mortgages over the properties with performance covenants at the hotel level and limited covenants at the parent company level. They typically would be an EBITDA/interest ratio of at least 1.1 times and a minimum tangible net worth which the company meets comfortably. While this type of secured financing requires quite a high level of administration compared with a large group revolving credit facility, we believe that ultimately it offers the lowest cost of debt. None of the company's debt is guaranteed by Sea Containers, its former parent company, and none of the company's loan facilities has any cross-collateralization or cross-default with Sea Containers loans.

Upon the acquisition of hotels, the company will typically obtain finance of 65-70% of the purchase price. The company has good relationships with a number of substantial international lending banks which are comfortable lending against the type of

properties we acquire. This is a much less risky proposition for the banks than lending against a new-build hotel. We are confident that the company will be able to obtain attractive finance for its acquisitions in the future.

James G. Struthers
Vice President – Finance and
Chief Financial Officer

All owned hotels

		2003	2002
EBITDA ($ millions)		**69.1**	67.0
Overall	Average daily rate ($)	**340**	286
	Rooms sold ('000)	**430**	451
	RevPAR ($)	**184**	168
Same store	RevPAR ($)	**183**	168
	RevPAR change (in US$)	**9%**	
	RevPAR change (in local currency)	**-4%**	

Above: The Granaries of the Republic, recently acquired by Hotel Cipriani, have rapidly become established as one of Venice's most elegant and impressive banqueting venues. Positioned on the Giudecca waterfront, next to Cip's restaurant, these vast 19th-century chambers once stored merchandise from all over the world, but now host meetings, conferences and other special events. The Granaries' large doors open to a view of the Venetian lagoon, the Doge's Palace and St Mark's. Other new developments at the Cipriani include a spa, opening in spring 2004.

A selection of awards received in 2003

Hotel Cipriani
- Best Leisure Hotel in Europe
  Condé Nast Traveller (UK)
- Gold List
  Condé Nast Traveler (US)
- 4th favorite hotel in Europe
  Departures
- Best Restaurants of Italy
  Veronelli Guide

Hôtel de la Cité
- Gold List
  Condé Nast Traveler (US)
- Executive Chef Franck Putelat
  Bocuse d'Argent 2003
- 2003 Grand de Demain 17/20
  Gault Millau

Lapa Palace
- 11th in the European Overseas Leisure Hotel category
  Condé Nast Traveller (UK)

La Residencia
- 4th in the European Overseas Leisure Hotel category
  Condé Nast Traveller (UK)

Le Manoir aux Quat'Saisons
- Retained two Michelin Stars for the 19th consecutive year
  Michelin Guide
- 10th favorite Country Hotel
  Departures
- 12th UK Leisure Hotel
  Condé Nast Traveller (UK)

Reid's Palace
- Gold List (Reserve)
  Condé Nast Traveler (US)
- Greatest Grand Hotels in the World
  Forbes.com

Villa San Michele
- Top 10 romantic spots
  Hideaways
- Gold List
  Condé Nast Traveler (US)

Hotel Splendido
- World's Most Stylish Hotel
  The Sunday Times Travel Magazine
- Gold List
  Condé Nast Traveler (US)
- 2nd favorite Beach Hotel
  Departures

Hotel Ritz
- World's Best Business Hotel for Madrid
  Travel & Leisure Magazine
- Greatest Grand Hotels in the World
  Forbes.com
- Listed in World's Best Hotels
  Institutional Investor magazine

Windsor Court Hotel
- Gold List
  Condé Nast Traveler (US)
- Four Star Award 2003
  Mobil
- Pinnacle Award 2003
  Successful Meetings magazine
- Top 10 Big City Hotels in the USA & Canada
  Departures
- Four Diamond Award 2003
  AAA

Inn at Perry Cabin
- Gold List (Reserve)
  Condé Nast Traveler (US)
- Award of Excellence
  DiRoNA

Keswick Hall
- Gold List (Reserve)
  Condé Nast Traveler (US)
- Four Diamond Award 2003
  AAA
- Four Star Award 2003
  Mobil

Charleston Place
- Gold List
  Condé Nast Traveler (US)
- Best City Hotel – Readers' Choice Awards
  Southern Living Magazine
- Top International Hotels, Resorts & Spas survey
  Zagat 2003

'21' Club
- 2003 Eat Out Awards – The Upstairs at '21' won the "Critics' Pick" for The Two Towers Award for Best Sequel
  Time Out New York
- Grand Award
  Wine Spectator

Maroma Resort & Spa
- Awarded World's Best Beach for Romance
  Travel Channel US
- Gold List
  Condé Nast Traveler (US)
- 7th in World's Top 20 International Resort Hideaways
  Andrew Harper's Hideaway Report

La Samanna
- Gold List (Reserve)
  Condé Nast Traveler (US)
- 3rd in The World's Best Awards, The Caribbean, Bermuda & The Bahamas
  Travel & Leisure Magazine
- 3rd in the Atlantic/Caribbean Favorite Places
  Departures

Copacabana Palace
- 6th Best Americas/Caribbean Overseas Leisure Hotel
  Condé Nast Traveller (UK)
- Gold List
  Condé Nast Traveler (US)
- 5th favorite hotel in Mexico, Central & South America
  Departures
- Listed in Greatest Grand Hotels in the World
  Forbes.com

Hotel Monasterio
- Gold List
  Condé Nast Traveler (US)
- 6th in The World's Best Awards, Mexico and Central and South America
  Travel & Leisure Magazine
- 5th in Top 20 Best in The World Latin American Hotels
  Condé Nast Traveler (US)

Left: the Bar Car of the Venice Simplon-Orient-Express. This 17 car train consists of all First Class Orient-Express vehicles dating from the "Golden Age" of rail travel in the 1920s and 1930s. The train operates in conjunction with the British Pullman on our London-Paris-Venice route with occasional extensions to Istanbul, Rome and Prague.

Miraflores Park Hotel
- 15th in World's Best Awards, Mexico and Central and South America
  Travel & Leisure Magazine

Bora Bora Lagoon Resort
- Gold List
  Condé Nast Traveler (US)
- 4th favorite hotel in Australia & The South Pacific
  Departures
- 3rd in Top10 Honeymoon destinations
  Travel Channel
- Listed in top five hotels in Australia and South Pacific on the Platinum List
  Celebrated Living magazine

Mount Nelson Hotel
- Gold List – Best by location in Africa/Middle East
  Condé Nast Traveler (US)
- Voted 7th Top 10 African Best in The World
  Condé Nast Traveler (US)

The Westcliff
- 5 Star Diamond Award
  American Academy of Hospitality Sciences

The Observatory Hotel
- Australasia's leading hotel
  World Travel Awards
- Galileo Restaurant – Two Red Stars
  Australian Gourmet Traveller
- 6th Australasia and South Pacific Overseas Leisure Hotels
  Condé Nast Traveller (UK)

Lilianfels Blue Mountains Resort and Spa
- 17th Australasia and South Pacific Overseas Leisure Hotels
  Condé Nast Traveller (UK)

Orient-Express Magazine
- Most Effective Travel and Leisure Title
  The Association of Publishing Agencies' Customer Magazine Awards

Financial Review

Contents

This report contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. These include statements regarding earnings growth, investment plans and similar matters that are not historical facts. These statements are based on management's current expectations and are subject to a number of uncertainties and risks that could cause actual results to differ materially from those described in the forward-looking statements. Factors that may cause a difference include, but are not limited to, those mentioned in the report, unknown effects on the travel and leisure markets of terrorist activity and any police or military response, the unknown effects on those markets if a SARS epidemic or similar health-related event recurs, varying customer demand and competitive considerations, realization of bookings and reservations as actual revenue, inability to sustain price increases or to reduce costs, interest rate and currency value fluctuations, uncertainty of negotiating and completing proposed capital expenditures and acquisitions, adequate sources of capital and acceptability of finance terms, possible loss or amendment of planning permits and changes in construction schedules for expansion projects, shifting patterns of business travel and tourism and seasonality of demand, adverse local weather conditions, changing global and regional economic conditions, and legislative, regulatory and political developments. Further information regarding these and other factors is included in the filings by the company and Sea Containers Ltd. with the US Securities and Exchange Commission.

Report of Independent Auditors

Board of Directors and Shareholders
Orient-Express Hotels Ltd.
Hamilton, Bermuda

March 12, 2004

We have audited the accompanying consolidated balance sheets of Orient-Express Hotels Ltd. and subsidiaries (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. The consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Orient-Express Hotels Ltd. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 1 to the consolidated financial statements, effective January 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets".

Deloitte & Touche LLP

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Two World Financial Center
New York, New York 10281-1414
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www.deloitte.com

Price range of common shares and dividends (unaudited)

The Class A common shares of the Company are traded on the New York Stock Exchange under the symbol OEH. The Class B common shares of the Company are closely held and not listed. The following table presents the quarterly high and low sales prices of a Class A common share in 2002 and 2003 as reported for New York Stock Exchange composite transactions:

	2003		2002	
	High	**Low**	High	Low
	$	**$**	$	$
First quarter	**13.50**	**8.50**	20.90	16.00
Second quarter	**14.81**	**9.35**	20.80	16.70
Third quarter	**17.20**	**13.89**	17.71	12.20
Fourth quarter	**17.70**	**15.55**	14.50	12.00

The Company paid no cash dividends on its Class A and B common shares in 2002 and 2003. The Company paid its first quarterly cash dividend since its initial public offering in 2000 on January 20, 2004 at the rate of $0.025 per share.

Consolidated Balance Sheets

December 31,	2003	2002
	$000	$000
Assets		
Cash and cash equivalents	81,347	37,860
Accounts receivable, net of allowances of $976 and $592	43,223	46,234
Prepaid expenses and other	11,717	9,090
Inventories	26,115	22,838
Total current assets	162,402	116,022
Property, plant and equipment, net of accumulated depreciation of $127,772 and $101,238	822,257	757,402
Investments	146,495	85,159
Goodwill	29,529	29,529
Other assets	12,969	10,420
	1,173,652	998,532
Liabilities and Shareholders' Equity		
Working capital facilities	19,165	23,800
Accounts payable	23,754	20,271
Accrued liabilities	44,835	46,831
Deferred revenue	12,617	15,107
Current portion of long-term debt and capital leases	51,271	37,243
Total current liabilities	151,642	143,252
Long-term debt and obligations under capital leases	502,917	421,773
Deferred income taxes	2,846	3,330
	657,405	568,355
Minority interest	3,803	3,695
Shareholders' equity:		
Preferred shares $0.01 par value (30,000,000 shares authorized, issued nil)	–	–
Class A common shares $0.01 par value (120,000,000 shares authorized):		
Issued – 31,790,601 (2002 – 28,340,601)	318	283
Class B common shares $0.01 par value (120,000,000 shares authorized):		
Issued – 20,503,877 (2002 – 20,503,877)	205	205
Additional paid-in capital	278,821	226,963
Retained earnings	252,484	228,875
Accumulated other comprehensive loss net of income taxes	(19,203)	(29,663)
Less: reduction due to Class B common shares owned by a subsidiary – 18,044,478	(181)	(181)
Total shareholders' equity	512,444	426,482
Commitments and contingencies	–	–
	1,173,652	998,532

See notes to consolidated financial statements.

Statements of Consolidated Operations

December 31,	**2003**	2002	2001
	$000	$000	$000
Revenue	**315,863**	279,268	252,236
Other income:			
Earnings from unconsolidated companies	**9,355**	10,034	9,112
Gain on sale of hotel asset	**4,250**	–	–
	329,468	289,302	261,348
Expenses:			
Depreciation and amortization	**25,265**	19,546	16,356
Operating	**158,577**	136,198	120,008
Selling, general and administrative	**101,761**	86,063	72,246
Total expenses	**285,603**	241,807	208,610
Earnings from operations before net finance costs	**43,865**	47,495	52,738
Interest expense, net	**(19,892)**	(19,771)	(19,025)
Interest and related income	**2,673**	1,420	367
Net finance costs	**(17,219)**	(18,351)	(18,658)
Earnings before income taxes	**26,646**	29,144	34,080
Provision for income taxes	**3,037**	3,850	4,230
Net earnings	**23,609**	25,294	29,850
	$	$	$
Earnings per Class A and B common share:			
Basic and diluted	**0.76**	0.82	0.97

See notes to consolidated financial statements.

Statements of Consolidated Cash Flows

December 31,	**2003**	2002	2001
	$000	$000	$000
Cash flows from operating activities:			
Net earnings	**23,609**	25,294	29,850
Adjustment to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	**25,265**	19,546	16,356
Undistributed earnings of affiliates	**(2,275)**	(2,142)	(2,807)
Other non-cash items	**(234)**	2,919	(1,504)
Gain from sale of hotel asset	**(4,250)**	–	–
Change in assets and liabilities, net of effects from acquisition of subsidiaries:			
Decrease/(increase) in accounts receivable, prepaid expenses and other	**1,445**	320	(321)
Increase in inventories	**(1,172)**	(2,699)	(1,790)
(Decrease)/increase in accounts payable, accrued liabilities, deferred revenue and other liabilities	**(9,144)**	(7,919)	759
Total adjustments	**9,635**	10,025	10,693
Net cash provided by operating activities	**33,244**	35,319	40,543
Cash flows from investing activities:			
Capital expenditures	**(54,450)**	(56,857)	(37,630)
Acquisitions and investments, net of cash acquired	**(27,225)**	(62,094)	(39,986)
Proceeds from sale of fixed assets and other	**1,504**	–	814
Proceeds from sale of hotel asset	**39,604**	–	–
Net cash used in investing activities	**(40,567)**	(118,951)	(76,802)
Cash flows from financing activities:			
Net proceeds from working capital facilities and redrawable loans	**(7,715)**	15,036	1,317
Issuance of common shares (net)	**51,893**	–	–
Proceeds from long-term debt	**68,236**	84,134	129,254
Principal payments under long-term debt	**(64,080)**	(35,879)	(50,113)
Purchase and cancellation of common shares	–	–	(1,407)
Net cash provided by financing activities	**48,334**	63,291	79,051
Effect of exchange rate changes on cash	**2,476**	338	(818)
Net increase/(decrease) in cash and cash equivalents	**43,487**	(20,003)	41,974
Cash and cash equivalents at beginning of year	**37,860**	57,863	15,889
Cash and cash equivalents at end of year	**81,347**	37,860	57,863

See notes to consolidated financial statements.

Statements of Consolidated Shareholders' Equity

	Preferred Shares At Par Value $000	Class A Common Shares At Par Value $000	Class B Common Shares At Par Value $000	Additional Paid-in Capital $000	Retained Earnings $000	Accumulated Other Comprehensive Loss $000	Common Shares Held By A Subsidiary $000	Total Comprehensive Income $000
Balance, January 1, 2001	–	284	205	228,862	173,399	(23,852)	(181)	
Purchase and cancellation of Class A common shares		(1)		(1,899)	332			
Comprehensive income:								
Net earnings on common shares for the year					29,850			29,850
Other comprehensive loss						(13,079)		(13,079)
Cumulative effect of change in accounting principle						(1,333)		(1,333)
								15,438
Balance, December 31, 2001	–	283	205	226,963	203,581	(38,264)	(181)	
Comprehensive income:								
Net earnings on common shares for the year					25,294			25,294
Other comprehensive income						8,601		8,601
								33,895
Balance, December 31, 2002	–	283	205	226,963	228,875	(29,663)	(181)	
Issuance of Class A common shares in public offering, net of issuance costs		35		51,858				
Comprehensive income:								
Net earnings on common shares for the year					23,609			23,609
Other comprehensive income						10,460		10,460
								34,069
Balance, December 31, 2003	–	318	205	278,821	252,484	(19,203)	(181)	

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Summary of significant accounting policies and basis of presentation

(a) Business

In this report Orient-Express Hotels Ltd. is referred to as the "Company", and the Company and its subsidiaries are referred to collectively as "OEH". At December 31, 2003, Sea Containers Ltd., a Bermuda company ("SCL"), owned 42% of the equity shares in the Company.

At December 31, 2003, OEH owned or partially owned and managed 30 deluxe hotels and resorts located in the United States, Caribbean, Europe, southern Africa, South America, Australia and South Pacific, three restaurants in London, New York and Buenos Aires, five tourist trains in Europe, Southeast Asia and Peru, and a river cruiseship in Burma.

(b) Basis of presentation

The accompanying consolidated financial statements reflect the results of operations, financial position and cash flows of the Company and all its majority-owned subsidiaries. The consolidated financial statements have been prepared using the historical basis in the assets and liabilities and the historical results of operations directly attributable to OEH, and all intercompany accounts and transactions between the Company and its subsidiaries have been eliminated. Unconsolidated companies that are 20% to 50% owned are accounted for on an equity basis.

Cash and cash equivalents include all cash balances and highly liquid investments having original maturities of three months or less.

The consolidated financial statements include an allocation of certain general corporate administrative expenses from SCL and its subsidiaries which are provided under a shared services agreement with SCL. In the opinion of management, general corporate administrative expenses have been allocated to OEH on a reasonable and consistent basis using management's estimate of services provided by SCL and its subsidiaries. However, such allocations are not necessarily indicative of the level of expenses which might have been incurred had OEH been operating as a separate, stand-alone entity during the periods presented. Therefore, the financial information included herein may not necessarily reflect the consolidated results of operations, financial position and cash flows of OEH had OEH been a separate stand-alone entity for the years presented.

Certain items in 2002 and 2001 have been reclassified to conform to the current year's presentation.

"FASB" means Financial Accounting Standards Board and "APB" means Accounting Principles Board, the FASB's predecessor. "SFAS" means Statement of Financial Accounting Standards of the FASB, and "FIN" means an accounting interpretation of the FASB.

(c) Foreign currency translation

The functional currency for each of the Company's foreign subsidiaries is the applicable local currency. Foreign subsidiary income and expenses are translated into US dollars, the reporting currency of the Company, at the average rates of exchange prevailing during the year. The assets and liabilities are translated into US dollars at the rates of exchange on the balance sheet date and the related translation adjustments are included in accumulated other comprehensive income/(loss). No income taxes are provided on the translation adjustments as management does not expect that such gains or losses will be realized. Foreign currency transaction gains and losses are recognized in operations as they occur.

(d) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates include, among others, the allowance for doubtful accounts, inventories, depreciation and amortization, carrying value of assets including intangible assets, employee benefits, taxes and contingencies. Actual results may differ from those estimates.

(e) Stock-based compensation

SFAS No. 123, "Accounting for Stock-Based Compensation", as amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure – An Amendment of FASB Statement No. 123", encourages but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25, "Accounting for Stock Issued to Employees", as amended, and related interpretations. Accordingly, compensation cost for share options is measured as the excess, if any, of the quoted market price of the Company's shares at the date of the grant over the amount an employee must pay to acquire the shares. The amount of compensation cost, if any, is charged to income over the vesting period.

Had compensation cost for the Company's stock option plan been determined based on fair values as of the dates of grant, OEH's net earnings and earnings per share would have been reported as follows:

Year ended December 31,	**2003**	2002	2001
	$000	$000	$000
Net earnings:			
As reported	**23,609**	25,294	29,850
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax	**(1,040)**	(382)	(382)
Pro forma	**22,569**	24,912	29,468
	$	$	$
Basic and diluted earnings per share:			
As reported	**0.76**	0.82	0.97
Pro forma	**0.72**	0.81	0.95

The pro forma figures in the preceding table may not be representative of pro forma amounts in future years.

(f) Revenue recognition

Hotel and restaurant revenues are recognized when the rooms are occupied and the services are performed. Tourist train and cruise revenues are recognized upon commencement of the journey. Deferred revenue consisting of deposits paid in advance is recognized as revenue when the services are performed for hotels and restaurants and upon commencement of tourist train and cruise journeys.

Revenues under management contracts are recognized based upon the attainment of certain financial results, primarily revenue and operating earnings, in each contract as defined.

(g) Earnings from unconsolidated companies

Earnings from unconsolidated companies include OEH's share of the net earnings of its equity investments as well as interest income related to loans and advances to the equity investees amounting to $7,080,000 in 2003 (2002 – $7,892,000, 2001 – $6,702,000).

(h) Marketing costs

Marketing costs, including website research and planning costs, are expensed as incurred and are reported in selling, general and administrative expenses. Marketing costs include costs of advertising and other marketing activities. These costs were $24,783,000 in 2003 (2002 – $20,091,000, 2001 – $18,300,000).

(i) Interest expense, net

OEH capitalizes interest during the construction of assets. Interest expense, net excludes interest which has been capitalized in the amount of $1,795,000 in 2003 (2002 – $1,271,000, 2001 – $882,000).

(j) Interest and related income

Interest and related income consists entirely of foreign exchange gains of $2,673,000 in 2003 (2002 – $1,420,000, 2001 – $367,000).

(k) Income taxes

Deferred income taxes result from temporary differences between the financial reporting and tax bases of assets and liabilities. Deferred taxes are recorded at enacted statutory rates and are adjusted as enacted rates change. Classification of deferred tax assets and liabilities corresponds with the classification of the underlying assets and liabilities giving rise to the temporary differences or the period of expected reversal, as applicable. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount that is more likely than not to be realized based on available evidence.

(l) Earnings per share

Basic earnings per share exclude dilution and are computed by dividing net earnings available to common shareholders by the weighted average number of Class A and B common shares outstanding for the period. The number of shares used in computing basic earnings per share was 31,139,000 for the year ended December 31, 2003 (2002 – 30,800,000, 2001 – 30,874,000). The number of shares used in computing diluted earnings per share was 31,152,000 for the year ended December 31, 2003 (2002 – 30,858,000, 2001 – 30,874,000). There was no material dilutive effect in each of the three years ended December 31, 2003.

(m) Inventories

Inventories include food, beverages, certain retail goods and train-related items. Inventories are valued at the lower of cost or market value under the first-in, first-out method.

(n) Property, plant and equipment, net

Property, plant and equipment, net are stated at cost less accumulated depreciation. The cost of significant renewals and betterments is capitalized and depreciated, while expenditures for normal maintenance and repairs are expensed as incurred.

Depreciation expense is computed using the straight-line method over the following estimated useful lives:

Description	Useful lives
Buildings	Up to 60 years and 10% residual value
Tourist trains	Up to 50 years
Furniture, fixtures and equipment	5-25 years
River cruiseship	25 years
Equipment under capital lease and leasehold improvements	Lesser of lease term or economic life

(o) Impairment of long-lived assets

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", OEH management reviews long-lived assets whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. In the event that an impairment occurs, the fair value of the related asset is estimated, and OEH records a charge to income calculated as the excess of the asset's carrying value over the estimated fair value.

(p) Investments

Investments include equity interests in, and advances to, unconsolidated companies.

(q) Goodwill

In accordance with the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets", as of January 1, 2002, goodwill must be evaluated annually to determine impairment. Goodwill is no longer amortized. For the year ended December 31, 2001, goodwill was amortized using the straight-line method over its estimated useful life. See Note 4.

(r) Concentration of credit risk

Due to the nature of the leisure industry, concentration of credit risk with respect to trade receivables is limited. OEH's customer base is comprised of numerous customers across different geographic areas.

(s) Derivative financial instruments

Effective January 1, 2001, OEH adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 137, No. 138 and No. 149. SFAS No. 133 requires OEH to record all derivatives on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded as a component of accumulated other comprehensive income/(loss) in shareholders' equity and are recognized in the statement of consolidated operations when the hedged item affects earnings. The ineffective portion of a hedging derivative's change in the fair value will be immediately recognized in earnings. If the derivative is not designated as a hedge for accounting purposes, the change in its fair value is recorded in earnings.

OEH management formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions. OEH links all hedges that are designated as fair value hedges to specific assets or liabilities on the balance sheet or to specific firm commitments. OEH links all hedges that are designated as cash flow hedges to forecasted transactions or to floating rate liabilities on the balance sheet. OEH management also assesses, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are

used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Should it be determined that a derivative is not highly effective as a hedge, OEH will discontinue hedge accounting prospectively.

The initial adoption of SFAS No. 133 resulted in an unrealized loss of $1,333,000 in accumulated other comprehensive income/(loss) as of January 1, 2001.

(t) Recent accounting pronouncements

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities", which amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. OEH adopted SFAS No. 149 on July 1, 2003, and adoption had no effect on OEH's financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", which establishes standards for how an issuer classifies and measures financial instruments with characteristics of both liabilities and equity. With the exception of certain financial measurement criteria deferred indefinitely by the FASB, SFAS No. 150 was adopted in fiscal 2003. The implementation of SFAS No. 150 had no effect on OEH's financial condition or results of operations.

In December 2003, the FASB issued a revised SFAS No. 132, "Employers' Disclosures about Pensions and Other Post-Retirement Benefits", which requires companies to provide additional information about plan assets, benefit obligations, cash flows, benefit costs and other relevant data. Revised SFAS No. 132 is effective for fiscal years beginning after June 15, 2004, with earlier adoption encouraged. OEH adopted revised SFAS No. 132 on December 31, 2003 and, accordingly, the additional information is included in the notes to the financial statements.

In November 2002, the FASB issued FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", which clarifies and elaborates on the requirement for entities to recognize a liability and provide disclosures relating to the fair value of the obligation undertaken in a guarantee. Under FIN No. 45, OEH will record a liability at the inception of a transaction representing the fair value of the guarantee and maintain the liability until it is relieved of the contingent obligation. FIN No. 45 requires the fair value of the guarantee to be recorded for all guarantees issued or modified after December 31, 2002. The recognition of this liability results in delayed recognition of revenue until the guarantee has been settled or expired. FIN No. 45 also provides for disclosure regarding existing guarantees. The adoption of FIN No. 45 did not have a material effect on OEH's financial position or results of operations. The disclosures required have been provided in the notes to the financial statements.

In December 2003, the FASB issued revised FIN No. 46, "Consolidation of Variable Interest Entities", that addresses the consolidation of certain types of entities including special purpose entities. Revised FIN No. 46 requires a variable interest entity to be consolidated if OEH's investment in the entity (regardless of the date it was created) will absorb a majority of the entity's expected losses and/or residual returns if they occur, and must be applied by March 31, 2004. OEH is evaluating the effect that adoption of revised FIN No. 46 will have on its financial position or results of operations and currently does not believe it will have to consolidate or disclose information about a variable interest entity.

2. Significant acquisitions and investments

(a) Acquisitions

2003 Acquisitions:

On April 25, 2003, OEH acquired a 50% interest in The Ritz in Madrid, Spain, through a 50%/50% joint venture with a Spanish real estate investment company. The purchase price was $135,000,000, and each joint venture partner contributed $22,000,000 with the balance financed by bank loans. Subsidiaries of the Company are obligated on $27,000,000 of these loans until the completion of various legal procedures in Spain when the debt would be entirely non-recourse to OEH. In addition, OEH became the exclusive long-term manager of the hotel. This investment is accounted for under the equity method of accounting. A portion of the purchase price was allocated to a trademark not subject to amortization. No goodwill was recognized in this transaction.

2002 Acquisitions:

In February 2002, OEH acquired the hotel La Residencia in Mallorca, Spain and the hotel Le Manoir aux Quat'Saisons in Oxfordshire, England for approximately $40,000,000 in total. The price was paid largely with bank mortgage finance.

In March 2002, OEH acquired for approximately $7,500,000 a 75% share interest in Maroma Resort and Spa near Cancún, Mexico. The purchase price was paid in cash, with $1,000,000 paid in March 2003.

2001 Acquisitions:

On April 27, 2001, OEH acquired the Bora Bora Lagoon Resort in French Polynesia, a hotel previously managed by OEH, for a cash price of approximately $19,600,000. OEH funded most of the purchase price with bank mortgage finance.

On January 17, 2001, OEH acquired the Miraflores Park Hotel in Lima, Peru. Because OEH's 50%/50% hotel joint venture in Peru had an option to purchase the hotel at cost which, if exercised, would have resulted in OEH becoming the exclusive long-term manager of the hotel, it was accounted for in 2001 as an equity investment by OEH. Because the option lapsed, the hotel has been accounted for as an acquisition with effect from December 31, 2001. The purchase price of approximately $17,000,000 was paid largely by the assumption of existing debt, with the balance paid in cash and the issuance of notes to the seller.

The purchase prices paid for these acquisitions in 2002 and 2001 approximated the fair value of the net tangible and identifiable intangible assets acquired, and any resulting goodwill was not material. They have been accounted for as purchases and, accordingly, the assets and liabilities of the acquired companies have been recorded at their fair value at the dates of acquisition. The operating results of the acquired companies have been included in OEH's consolidated statements of operations from the effective dates of acquisition. Pro forma data have not been presented as the revenues and net earnings resulting from these acquisitions would not have had a material impact in the year of acquisition.

(b) Dispositions

On November 6, 2003, OEH sold the Hotel Quinta do Lago in the

Algarve region of Portugal at a price of $40,000,000 paid in cash, which resulted in a gain of approximately $4,250,000 (or $0.14 per share). The operations of this hotel were not material to OEH's consolidated financial statements and, accordingly, pro forma data have not been presented.

(c) Investments

Investments represent equity interests of 50% or less and in which OEH exerts significant influence. OEH does not have effective control of these unconsolidated companies and, therefore, accounts for these investments using the equity method.

OEH's investments in and loans and advances to unconsolidated companies amounted to $146,495,000 at December 31, 2003 (2002 – $85,159,000). OEH's earnings from unconsolidated companies were $9,355,000 in 2003 (2002 – $10,034,000, 2001 – $9,112,000) and it received no dividends in 2003, 2002 or 2001. See Note 16.

Summarized financial data for unconsolidated companies are as follows:

December 31,	**2003**	2002
	$000	$000
Current assets	**42,172**	33,214
Property, plant and equipment, net	**279,298**	185,816
Other assets	**4,472**	4,129
Total assets	**325,942**	223,159
Current liabilities	**43,538**	28,864
Long-term debt	**144,251**	98,929
Other liabilities	**71,351**	69,270
Total shareholders' equity	**66,802**	26,096
Total liabilities and shareholders' equity	**325,942**	223,159

Year ended December 31,	**2003**	2002	2001
	$000	$000	$000
Revenue	**110,952**	91,823	88,720
Earnings from operations before net finance costs	**13,953**	10,837	12,644
Net loss	**(1,282)**	(3,002)	(2,396)

Included in unconsolidated companies is the Charleston Place Hotel to which OEH has made loans in addition to its equity investment. One of these loans has a conversion feature exercisable by OEH no sooner than 2020 and in limited circumstances before then, under which OEH may convert its loans into additional capital, thereby giving OEH a majority equity interest in the hotel.

Also included in unconsolidated companies are the Peru hotel and PeruRail joint ventures, under which OEH and the other 50% participant must contribute equally additional equity capital needed for the businesses. If the other participant does not meet this obligation, OEH has the right to dilute the other participant and obtain a majority equity interest in the affected joint venture company. OEH also has rights to purchase the other participant's interests, exercisable in limited circumstances such as its bankruptcy.

3. Property, plant and equipment, net

The major classes of property, plant and equipment are as follows:

December 31,	**2003**	2002
	$000	$000
Freehold and leased land and buildings	**678,683**	630,638
Machinery and equipment	**135,584**	123,716
Fixtures, fittings and office equipment	**119,191**	88,056
River cruiseship	**16,571**	16,230
	950,029	858,640
Less: accumulated depreciation	**(127,772)**	(101,238)
	822,257	757,402

The major classes of assets under capital leases are as follows:

December 31,	**2003**	2002
	$000	$000
Freehold and leased land and buildings	**14,080**	9,527
Machinery and equipment	**1,964**	2,039
Fixtures, fittings and office equipment	**4,229**	945
	20,273	12,511
Less: accumulated depreciation	**(1,626)**	(1,075)
	18,647	11,436

4. Goodwill

Effective January 1, 2002, OEH adopted the provisions of SFAS No. 141, "Business Combinations", and SFAS No. 142. These statements established financial accounting and reporting standards for acquired goodwill and other intangible assets. Specifically, the standards address how acquired intangible assets should be accounted for both at the time of acquisition and after they have been recognized in the financial statements. In accordance with SFAS No. 142, goodwill must be evaluated annually for impairment.

The goodwill impairment testing under SFAS No. 142 is performed in two steps, first, the determination of impairment based upon the fair value of a reporting unit as compared with its carrying value and, second, if there is an impairment, the measurement of the amount of impairment loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill. As of December 31, 2003 and 2002, OEH determined the carrying value of all its operating segments was less than their respective derived fair values, indicating that there was no impairment of the recorded goodwill and indefinite-lived intangible assets. To determine fair value, OEH relied on valuation models utilizing discounted cash flows.

The Company's goodwill consists of $700,000 related to the trains and cruises business segment and $28,829,000 related to the hotels and restaurants business segment. There was no change in the carrying amount of goodwill for the year ended December 31, 2003. During 2003 and 2002, there was no amortization expense due to the adoption of SFAS No. 142. If SFAS No. 142 had been applied to goodwill in 2001, full year net earnings would have increased by $894,000 ($0.03 per share).

5. Working capital facilities

Working capital facilities are comprised of the following, all repayable within one year:

December 31,	**2003** **$000**	2002 $000
Unsecured working capital facilities, with a weighted average interest rate of 7.43% and 5.81%, respectively	**19,165**	23,800

OEH had approximately $55,000,000 of working capital lines of credit at December 31, 2003 (2002 – $46,600,000) issued by various financial institutions and having various expiration dates, of which $35,800,000 was undrawn (2002 – $22,800,000).

6. Long-term debt and obligations under capital leases

(a) Long-term debt

Long-term debt consists of the following:

December 31,	**2003**	2002
	$000	$000
Loans from banks secured by property, plant and equipment payable over periods of 1 to 11 years, with a weighted average interest rate of 3.74% and 4.30%, respectively, primarily based on LIBOR	**530,003**	440,357
Loan secured by river cruiseship payable over 4 years, with a weighted average interest rate of 2.78% and 3.47%, based on LIBOR	**3,000**	4,000
Obligations under capital lease (see Note 6(b))	**21,185**	14,659
	554,188	459,016
Less: current portion	**51,271**	37,243
	502,917	421,773

Certain credit agreements of OEH have restrictive covenants, including a minimum consolidated net worth test and a minimum consolidated interest coverage test as defined under a bank-syndicated $154,000,000 loan facility borrowed during 2003 and secured by three of OEH's Italian hotels. At December 31, 2003, OEH was in compliance with all of its restrictive covenants. OEH does not currently have any covenants in any of its loan agreements which limit the payment of dividends.

At December 31, 2003, $19,088,000 of OEH's consolidated long-term debt under one loan agreement dating from before the Company's initial public offering in August 2000 was guaranteed by SCL (2002 – $110,854,000) and contained cross-default clauses to SCL debt. The agreement is being amended in March 2004 to remove the SCL guarantee and cross-default clauses. See Note 17.

The following is a summary of the aggregate maturities of consolidated long-term debt excluding obligations under capital leases at December 31, 2003:

Year ending December 31,	$000
2004	46,574
2005	61,336
2006	106,336
2007	96,441
2008	185,542
2009 and thereafter	36,774
	533,003

The interest rates on substantially all of OEH's long-term debt are adjusted regularly to reflect current market rates. Accordingly, the carrying amounts of OEH's long-term debt also approximate fair value.

Also, OEH has guaranteed, through 2011, $14,532,000 of the debt obligations of the PeruRail operations, an unconsolidated joint venture in which OEH has a 50% investment, and, through 2004, $4,417,000 of PeruRail contingent obligations relating to the performance of its governmental rail concessions. OEH has guaranteed, through 2014, $10,000,000 of the debt obligations of Peru OEH S.A., the unconsolidated owning company of two hotels in Peru in which OEH has a 50% investment. OEH has guaranteed, through 2005, $3,000,000 of the debt obligations of Charleston Center LLC, owner of the Charleston Place Hotel in which OEH has a 19.9% equity investment. All of these guarantees were in place before December 31, 2002.

(b) Obligations under capital leases

The following is a summary of future minimum lease payments under capital leases together with the present value of the minimum lease payments at December 31, 2003:

Year ending December 31,	$000
2004	6,346
2005	4,316
2006	2,766
2007	2,073
2008	1,986
2009 and thereafter	8,390
Minimum lease payments	25,877
Less: amount of interest contained in above payments	4,692
Present value of minimum lease payments	21,185
Less: current portion	4,697
	16,488

The amount of interest deducted from minimum lease payments to arrive at the present value is the interest contained in each of the leases.

7. Pension plan

Through December 31, 2002, a number of non-US OEH employees participated in a defined benefit pension plan of a subsidiary of SCL. As of January 1, 2003, an OEH subsidiary established a new defined benefit plan and the OEH employees formerly included in the SCL plan transferred to the new plan. Assets and liabilities in respect of services accrued prior to January 1, 2003 for these employees have been transferred during 2004 to the new plan based on actuarial valuations. Benefits are based primarily on years of service and employee compensation near retirement. Plan assets consist primarily of common stocks, mutual funds, government securities and corporate debt securities held through separate trustee-administered funds.

The significant weighted-average assumptions used to determine net periodic costs during the year are as follows:

Year ended December 31,	**2003**	2002	2001
Discount rate	**5.4%**	5.6%	6.0%
Assumed rates of compensation increases	**3.0%**	2.6%	3.5%
Expected long-term rate of return on plan assets	**7.0%**	6.5%	6.5%

The significant weighted-average assumptions used to determine benefit obligations at year end are as follows:

Year ended December 31,	**2003**	2002
Discount rate	**5.6%**	6.0%
Assumed rate of compensation increases	**3.0%**	2.7%

The discount rate essentially represents the rate of return on high quality corporate bonds at the end of the year in the country in which the assets are held.

In determining the expected long-term rate of return on assets, management has evaluated information from OEH's actuaries and financial advisors, including their review of anticipated future long-term performance of individual asset classes and the asset allocation strategy given the anticipated requirements of the plan to determine the average rate of earnings expected on the funds invested. The returns projected are based on broad equity and bond indices, including fixed interest rate UK gilts of long-term duration. OEH's expected long-term rate of return is based on an asset allocation of 60% in equity investments, with an expected long-term rate of return of 7%, and 40% in fixed income investments, with an expected long-term rate of return of 7%.

The weighted-average asset allocations of OEH's pension plan as of December 31, 2003 and 2002 by asset category as a percentage of plan assets are as follows:

Year ended December 31,	**2003**	2002
Asset Category:		
Equity securities	**61.2%**	61.1%
Fixed income investments	**38.8%**	38.9%
Total	**100.0%**	100.0%

The changes in the benefit obligation, the plan assets and the funded status for the plan were as follows:

Year ended December 31,	**2003**	2002
	$000	$000
Change in benefit obligation:		
Benefit obligation at beginning of year	**5,158**	4,574
Service cost	**520**	425
Interest cost	**353**	270
Plan participants' contributions	**228**	266
Actuarial loss/(gain)	**38**	(137)
Benefits paid	**–**	(623)
Foreign currency translation	**680**	383
Benefit obligation at end of year	**6,977**	5,158
Change in plan assets:		
Fair value of plan assets at beginning of year	**3,613**	3,922
Actual return on plan assets	**579**	(915)
Employer contributions	**848**	690
Plan participants' contributions	**228**	266
Benefits paid	**–**	(623)
Foreign currency translation	**555**	273
Fair value of plan assets at end of year	**5,823**	3,613
Funded status	**(1,154)**	(1,545)
Unrecognized net actuarial loss	**3,360**	2,750
Unrecognized prior service cost	**–**	9
Net amount recognized	**2,206**	1,214

Amounts recognized in the consolidated balance sheets consist of the following:

Year ended December 31,	**2003**	2002
	$000	$000
Prepaid benefit cost	**362**	-
Accrued benefit cost	**(460)**	(940)
Intangible assets	**–**	9
Accumulated other comprehensive loss	**2,304**	2,145
Net amount recognized	**2,206**	1,214

The accumulated benefit obligation for all pension plans was approximately $5,809,000 as of December 31, 2003 (2002 – $4,550,000). The portion of the assets and liabilities in respect of services of OEH employees accrued prior to January 1, 2003 under the SCL defined benefit pension plan has an accumulated benefit obligation which is in excess of plan assets. The following table details certain information with respect to this plan as follows:

Year ended December 31,	**2003**	2002
	$000	$000
Project benefit obligation	**6,057**	5,158
Accumulated benefit obligation	**5,218**	4,550
Fair value of plan assets	**4,758**	3,613

7. Pension plan (continued)

The components of net periodic benefit cost for the OEH employees covered under the plan consisted of the following:

Year ended December 31,	**2003**	2002	2001
	$000	$000	$000
Service cost	**520**	425	373
Interest cost on projected benefit obligation	**353**	270	255
Expected return on assets	**(274)**	(264)	(291)
Net amortization and deferrals	**92**	95	13
Net periodic benefit cost	**691**	526	350

Additional information about OEH's pension plan is as follows:

Year ended December 31,	**2003**	2000
	$000	$000
Increase in minimum pension liability in other comprehensive income	**159**	2,145

OEH expects to contribute $954,000 to its pension plan in 2004. At December 31, 2003, there were no members receiving benefits from the plan. The following benefit payments, which reflect assumed future service, are expected to be paid:

Year ending December 31,	$000
2004	-
2005	7
2006	66
2007	68
2008	72
2009-2013	1,001
	1,214

8. Income taxes

The provision for income taxes consists of the following:

	Year ended December 31, 2003			Year ended December 31, 2002			Year ended December 31, 2001		
	Current	**Deferred**	**Total**	Current	Deferred	Total	Current	Deferred	Total
	$000	**$000**	**$000**	$000	$000	$000	$000	$000	$000
United States	**(294)**	**(146)**	**(440)**	777	1,204	1,981	1,692	1,450	3,142
Other	**3,831**	**(354)**	**3,477**	3,389	(1,520)	1,869	3,576	(2,488)	1,088
	3,537	**(500)**	**3,037**	4,166	(316)	3,850	5,268	(1,038)	4,230

The Company is incorporated in Bermuda, which does not impose an income tax. OEH's effective tax rate is entirely due to income taxes imposed by jurisdictions in which OEH conducts business other than Bermuda.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following represents OEH's net deferred tax liabilities:

December 31,	**2003**	2002
	$000	$000
Gross deferred tax assets (operating loss carryforwards)	**71,467**	58,145
Less: valuation allowance	**(39,886)**	(37,198)
Net deferred tax assets	**31,581**	20,947
Deferred tax liabilities	**(34,427)**	(24,277)
Net deferred tax liabilities	**(2,846)**	(3,330)

The deferred tax assets consist primarily of tax loss carryforwards. In addition, during 2003 OEH recognized a deferred tax asset of $691,000 (2002 – $645,000). This amount represents the future tax benefits of accrued pension costs recognized in other comprehensive income pursuant to SFAS No. 87, "Employers' Accounting for Pensions". The deferred tax liabilities consist primarily of differences between the tax basis of depreciable assets and the adjusted basis as reflected in the financial statements.

OEH has prepared these financial statements pursuant to a tax sharing agreement with SCL and its subsidiaries. In accordance with that agreement, prior to August 10, 2000, the date of the Company's initial public offering, OEH utilized/relinquished losses with certain SCL subsidiaries. After that date, OEH may no longer utilize/relinquish losses with SCL and its subsidiaries. The following represents the net liability that exists from OEH to SCL and its subsidiaries:

Year ended December 31,	**2003**	2002	2001
	$000	$000	$000
Tax sharing agreement	**(1,973)**	(1,973)	(1,973)

9. Supplemental cash flow information

Year ended December 31,	**2003**	2002	2001
	$000	$000	$000
Cash paid for:			
Interest	**19,714**	19,920	20,308
Income taxes	**3,411**	5,097	6,400

Non-cash investing and financing activities:

In conjunction with the acquisitions in 2003, 2002 and 2001 (see Note 2(a)), liabilities were assumed as follows:

Year ended December 31,	**2003**	2002	2001
	$000	$000	$000
Fair value of assets acquired	**50,611**	73,166	51,769
Cash paid for acquisitions	**(22,000)**	(47,500)	(36,600)
Liabilities assumed	**28,611**	25,666	15,169

10. Shareholders' equity

(a) Public offering

In November and December 2003, the Company completed a registered public offering in the United States through underwriters of 3,450,000 newly-issued Class A common shares. Net proceeds amounted to $51,893,000.

(b) Dual common share capitalization

The Company has been capitalized with Class A common shares, of which there are 120,000,000 authorized, and Class B common shares, of which there are 120,000,000 authorized, each convertible at any time into one Class A common share. In general, holders of Class A and Class B common shares vote together as a single class, with holders of Class B shares having one vote per share and holders of Class A shares having one-tenth of one vote per share. In all other substantial respects, the Class A and Class B common shares are the same.

(c) Shareholder rights agreement

The Company has in place a shareholder rights agreement which will be implemented not earlier than the tenth day following the first to occur of (i) the public announcement of the acquisition by a person (other than a subsidiary of the Company, SCL or a subsidiary of SCL) of shares carrying 20% or more of the total voting rights which may be cast at any general meeting of the Company and (ii) the commencement or announcement of a tender offer or exchange offer by a person for shares carrying 30% or more of the total voting rights that may be cast at any general meeting of the Company. At that time, the rights will detach from the Class A and Class B common shares, and the holders of the rights will be entitled to purchase, for each right held, one one-hundredth of a series A junior participating preferred share of the Company at an exercise price of $142 (the "Purchase Price") for each one one-hundredth of such junior preferred share, subject to adjustment in certain events. From and after the date on which any person acquires beneficial ownership of shares carrying 20% or more of the total voting rights which may be cast at any general meeting of the Company, each holder of a right (other than the acquiring person) will be entitled upon exercise to receive, at the then current Purchase Price and in lieu of the junior preferred shares, that number of Class A or Class B common shares (depending on whether the right was previously attached to a Class A or B share) having a market value of twice the Purchase Price. If the Company is acquired or 50% or more of its consolidated assets or earning power is sold, each holder of a right will be entitled to receive, upon exercise at the then current Purchase Price, that amount of common equity of the acquiring company which at the time of such transaction would have a market value of two times the Purchase Price. Also, the Company's board of directors may exchange all or some of the rights for Class A and Class B common shares (depending on whether the right was previously attached to a Class A or B share) if any person acquires 20% beneficial ownership as described above, but less than 50% beneficial ownership. The rights will

expire on June 1, 2010 but may be redeemed at a price of $0.05 per right at any time prior to the tenth day following the date on which a person acquires beneficial ownership of shares carrying 20% or more of the total voting rights which may be cast at any general meeting of the Company.

(d) Acquired shares

Included in shareholders' equity is a reduction for 18,044,478 Class B common shares of the Company that a subsidiary of the Company acquired on July 22, 2002 for $180,445 from SCL under an Amended and Restated Share Owning Subsidiaries Restructuring Agreement originally dated July 21, 2000. Consistent with the overall presentation of the capital structure in the financial statements, the Company has given effect to the terms and conditions of that agreement as if the agreement had been consummated from the beginning of the earliest year presented. As a result, a total of 18,044,478 Class B common shares are deemed to be owned by the Company subsidiary at December 31, 2003 and 2002. Under applicable Bermuda law, these shares are outstanding and may be voted although in computing earnings per share these shares are treated as a reduction to outstanding shares.

(e) Preferred shares

The Company has 30,000,000 authorized preferred shares, par value $0.01 each, 500,000 of which have been reserved for issuance as series A junior participating preferred shares upon exercise of preferred share purchase rights held by Class A and B common shareholders in connection with the shareholder rights agreement. See Note 10(c).

11. Employee stock option plan

Under the Company's 2000 stock option plan, options to purchase up to 750,000 Class A and B common shares may be awarded to employees of OEH at fair market value at the date of grant. Options are exercisable three years after award and must be exercised 10 years from the date of grant. At December 31, 2003, 676,000 Class A common shares were reserved for issuance pursuant to options awarded to 48 persons.

No charges or credits are made to income with respect to options awarded or exercised under the plan since all options to employees are awarded at market value at date of grant.

Transactions under the plan have been as follows:

	Year ended December 31, 2003		Year ended December 31, 2002		Year ended December 31, 2001	
	Shares	**Option price**	Shares	Option price	Shares	Option price
Outstanding at beginning of period	**573,000**	**$13.00-$19.00**	546,500	$19.00	547,000	$19.00
Granted	**103,000**	**$13.40-$17.09**	301,500	$13.00-$13.06	23,000	$19.00
Terminated	**–**		(275,000)	$19.00	(23,500)	$19.00
Exercised	**–**		–		–	
Outstanding at end of period	**676,000**	**$13.00-$19.00**	573,000	$13.00-$19.00	546,500	$19.00
Exercisable at end of period	**260,000**	**$19.00**	–		–	

The options outstanding at December 31, 2003, were as follows:

	Number of Shares		Weighted Average of		
Range of Exercise Prices	Outstanding at 12/31/2003	Exercisable at 12/31/2003	Remaining Contractual Lives	Exercise Prices for Outstanding Options	Exercise Prices for Exercisable Options
$13.00	30,000	–	8.8	$13.00	–
$13.06	271,500	–	8.8	$13.06	–
$13.40	100,000	–	9.4	$13.40	–
$17.09	3,000	–	9.8	$17.09	–
$19.00	11,500	–	7.2	$19.00	–
$19.00	260,000	260,000	6.6	$19.00	$19.00
	676,000	260,000			

As discussed in Note 1(e), OEH accounts for its stock-based compensation plan under APB Opinion No. 25. Accordingly, no compensation cost has been recognized for the stock options with exercise prices equal to the market price of the stock on the date of grant. Estimates of fair values of stock options on the grant dates in the Black-Scholes option pricing model are based on the following assumptions:

As of and for year ended December 31,	**2003**	2002	2001
Expected price volatility range	**51.68%**	40.34%	53.129%
Risk-free interest rate range	**2.25%**	2.78%	4.62%
Expected dividends	**None**	None	None
Expected life of stock options	**5 years**	5 years	5 years
Weighted average fair value	**$6.27**	$5.64	$8.92

12. Commitments and contingencies

Outstanding contracts to purchase fixed assets were approximately $11,200,000 at December 31, 2003 (2002 – $10,100,000).

Future rental payments under operating leases in respect of equipment rentals and leased premises are payable as follows:

Year ending December 31,	$000
2004	682
2005	485
2006	240
2007	59
2008	11
	1,477

Rental expense for the year ended December 31, 2003 amounted to $1,366,000 (2002 – $1,108,000, 2001 – $1,208,000).

13. Derivative financial instruments

(a) Interest rate risk management

OEH is exposed to interest rate risk on its floating rate debt and management tries to manage the impact of interest rate changes on earnings and cash flows. OEH's policy is to enter into interest rate swap and interest rate cap agreements from time to time to hedge the variability in interest rate cash flows due to interest rate risk on floating rate debt. These swaps convert the floating rate interest payments on a portion of the outstanding debt into fixed payments. OEH had four interest rate cap agreements outstanding at December 31, 2003 (2002 – six) and the fair value of these derivatives at that date was $521,000 (2002 – $290,000). OEH had one interest rate swap agreement outstanding at December 31, 2001 for the equivalent of €117,000,000 ($103,660,000) which expired in September 2002. At December 31, 2001, the fair value of the derivative was $1,756,000. This swap had been designated as a cash flow hedge for accounting purposes. As of December 31, 2003, OEH had no interest rate swap agreements.

During the year ended December 31, 2003, OEH recognized a credit of $102,000 (2002 – a charge of $10,000, 2001 – a charge of $1,756,000) in other comprehensive income/(loss) representing the effective portion of the hedges, and no ineffectiveness was recognized during 2003, 2002 and 2001. OEH reclassified $10,000 out of other comprehensive income/(loss) and into earnings in 2003 (2002 – $1,756,000). Amounts accumulated in other comprehensive income/(loss) will be reclassified into earnings as the hedged interest cash flows are accrued.

(b) Foreign exchange risk management

From time to time, OEH utilizes foreign currency forward contracts to reduce exposure to exchange rate risks primarily associated with OEH's international transactions. These contracts establish the exchange rates at which OEH will purchase or sell at a future date the contracted amount of currencies for specified foreign currencies. OEH utilizes forward contracts which are short-term in nature and receives or pays the difference between the contracted forward rate and the exchange rate at the settlement date. No contracts were outstanding at December 31, 2003 and 2002.

14. Other comprehensive income/(loss)

The accumulated balances for each component of other comprehensive loss are as follows:

Year ended December 31,	**2003**	2002
	$000	$000
Foreign currency translation adjustments	**(17,682)**	(28,147)
Derivative financial instruments	**92**	(10)
Minimum pension liability, net of tax	**(1,613)**	(1,506)
	(19,203)	(29,663)

The components of other comprehensive income/(loss) are as follows:

Year ended December 31,	**2003**	2002	2001
	$000	$000	$000
Net earnings on common shares	**23,609**	25,294	29,850
Foreign currency translation adjustments	**10,465**	8,361	(12,656)
Cumulative effect of change in accounting principles (SFAS 133)	**–**	–	(1,333)
Change in fair value of derivatives	**102**	(10)	(423)
Reclassification adjustment for losses included in net earnings	**–**	1,756	–
Additional minimum pension liability, net of tax	**(107)**	(1,506)	–
Comprehensive income	**34,069**	33,895	15,438

15. Information concerning financial reporting for segments and operations in different geographical areas

OEH's segment information has been prepared in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". OEH's operations are organized along service lines as two segments, (i) hotels and restaurants and (ii) tourist trains and cruises, and are grouped into various geographical segments. Hotels at December 31, 2003 are located in the United States, Caribbean, Mexico, Europe, southern Africa, South America, Australia and South Pacific, restaurants are located in London, New York and Buenos Aires, tourist trains operate in Europe, Southeast Asia and Peru, and a river cruiseship operates in Burma. Segment performance is evaluated based upon net earnings from operations before net finance costs, taxes and depreciation and amortization excluding the effects of changes in accounting principles and gains on sale of assets. Segment information is presented in accordance with the accounting policies described in Note 1.

Financial information regarding these business segments is as follows, with net finance costs being net of capitalized interest and interest and related income:

Year ended December 31,		**2003**	2002	2001
		$000	$000	$000
Revenue and Earnings from unconsolidated companies:				
Hotels and restaurants				
Owned hotels	– Europe	**115,884**	99,939	79,841
	– North America	**66,564**	58,801	59,240
	– Rest of World	**62,989**	54,725	52,655
Hotel management/part ownership interests		**13,474**	12,414	10,893
Restaurants		**17,595**	18,115	17,833
		276,506	243,994	220,462
Tourist trains and cruises		**48,712**	45,308	40,886
		325,218	289,302	261,348
Earnings from unconsolidated companies:				
Hotels and restaurants				
Hotel management/part ownership interests		**6,979**	7,310	5,969
Restaurants		**85**	(125)	29
		7,064	7,185	5,998
Tourist trains and cruises		**2,291**	2,849	3,114
		9,355	10,034	9,112
Depreciation and amortization:				
Hotels and restaurants				
Owned hotels	– Europe	**8,420**	6,543	5,375
	– North America	**6,249**	4,433	3,689
	– Rest of World	**6,888**	5,481	4,168
Restaurants		**595**	512	810
		22,152	16,969	14,042
Tourist trains and cruises		**3,113**	2,577	2,314
		25,265	19,546	16,356

Year ended December 31,		**2003**	2002	2001
		$000	$000	$000
Earnings from operations before net finance costs:				
Hotels and restaurants				
Owned hotels	– Europe	**24,369**	22,627	21,510
	– North America	**4,848**	6,716	10,905
	– Rest of World	**4,189**	7,215	10,698
Hotel management/part ownership interests		**13,474**	12,408	10,893
Restaurants		**2,021**	3,267	3,195
		48,901	52,233	57,201
Tourist trains and cruises		**2,871**	5,771	5,012
Gain on sale of hotel asset		**4,250**	–	–
		56,022	58,004	62,213
Central selling, general and administrative costs		**(12,157)**	(10,509)	(9,475)
		43,865	47,495	52,738
Net finance costs		**(17,219)**	(18,351)	(18,658)
Earnings before income taxes		**26,646**	29,144	34,080
Provision for income taxes		**3,037**	3,850	4,230
Net earnings		**23,609**	25,294	29,850
Capital expenditure:				
Hotels and restaurants				
Owned hotels	– Europe	**16,827**	16,712	19,846
	– North America	**19,928**	23,601	6,923
	– Rest of World	**13,213**	12,350	7,392
Restaurants		**801**	2,313	1,173
		50,769	54,976	35,334
Tourist trains and cruises		**3,681**	1,881	2,296
		54,450	56,857	37,630
Identifiable assets:				
Hotels and restaurants				
Owned hotels	– Europe	**411,818**	325,566	
	– North America	**235,155**	213,886	
	– Rest of World	**316,759**	259,952	
Hotel management/part ownership interests		**81,159**	72,904	
Restaurants		**37,543**	29,796	
		1,082,434	902,104	
Tourist trains and cruises		**91,218**	96,428	
		1,173,652	998,532	

Financial information regarding geographic areas based on the location of properties is as follows:

Year ended December 31,	**2003**	2002	2001
	$000	$000	$000
Revenue:			
Europe	**157,632**	137,179	112,017
North America	**87,341**	80,873	80,669
Rest of World	**70,890**	61,216	59,550
	315,863	279,268	252,236
Long-lived assets at book value:			
Europe	**412,246**	334,008	
North America	**276,070**	285,772	
Rest of World	**309,965**	252,310	
	988,281	872,090	

16. Related party transactions

For the year ended December 31, 2003, OEH incurred net amounts of $4,631,000 (2002 – $5,899,000, 2001 – $5,508,000) to SCL and its subsidiaries for the provision of various services, including financial, legal, accounting, corporate executive, public company, human resources administration, insurance, pension benefits, office facilities, and system and computer services. SCL owned a 42% equity interest in the Company at December 31, 2003. These were provided under a shared services agreement between OEH and SCL on the basis of a fee plus reimbursements equivalent to the direct and indirect costs of providing the services. The agreement had an initial term of one year and is automatically renewed annually unless terminated by SCL or OEH. These amounts have been included in selling, general and administrative expenses, and the unpaid net amount of $4,924,000 at December 31, 2003 (2002 – $4,082,000) is included in accounts payable.

SCL guaranteed a bank loan to OEH in an outstanding principal amount of $19,088,000 at December 31, 2003 (2002 – $112,854,000). This guarantee predated the Company's initial public offering in August 2000 and is being cancelled in March 2004 (see Note 17).

OEH manages under a long-term contract the Charleston Place Hotel and has made loans to the hotel-owning company. For the year ended December 31, 2003, OEH earned $3,917,000 (2002 – $4,087,000, 2001 – $3,876,000) in management fees and $7,080,000 (2002 – $7,892,000, 2001 – $6,702,000) in interest income on partnership and other loans. OEH owns a 19.9% equity interest in this hotel. At December 31, 2003, the loans aggregated $59,344,000 (2002 – $57,808,000) with an indefinite maturity date and interest at either a fixed rate of 12% p.a. or a spread over LIBOR.

For the year ended December 31, 2003, OEH charged $90,000 (2002 – $160,000) for services provided to the group of four restaurants in England in which it had a 50% interest before disposing of that interest in 2003.

OEH manages under long-term contracts the Hotel Monasterio and the Machu Picchu Sanctuary Lodge owned by its 50%/50% joint venture with local Peruvian interests, as well as the 50%-owned PeruRail operation, and provides loans to these joint ventures. In 2003, OEH earned management fees of $1,940,000 (2002 – $1,167,000, 2001 – $1,097,000) and loan interest of $297,000 (2002 – $330,000, 2001 – $516,000) from the joint ventures. At December 31, 2003, loans to the hotels aggregated $2,000,000, bear interest at a spread over LIBOR and come due in 2005. At the same date, OEH had a $750,000 subordinated loan to the PeruRail operation with an indefinite maturity date and interest also at a spread over LIBOR. OEH manages under a long-term contract The Ritz in Madrid, Spain, in which OEH acquired a 50% interest in April 2003 (see Note 2). In 2003, OEH earned $1,069,000 in management fees.

OEH has granted since 1989 to James Sherwood, Chairman and a director of the Company, a right of first refusal to purchase the Hotel Cipriani in Venice, Italy in the event OEH proposes to sell it. The purchase price would be the offered sale price in the case of a cash sale or the fair market value of the hotel, as determined by an independent valuer, in the case of a non-cash sale.

17. Subsequent events

On January 20, 2004, the Company paid its first quarterly cash dividend at the rate of $0.025 per Class A and Class B common share.

On February 2, 2004, OEH announced it was making an $8,000,000 investment in the Pansea group of five deluxe hotels in Southeast Asia. The transaction has been structured as a loan to the group holding company, convertible after three years into about 25% of the company's shares. OEH also paid $1,400,000 for options exercisable after three or five years to acquire all of the holding company's shares, and the existing shareholders have the right to sell their shares to OEH after five years. OEH will not manage the hotels but will market them along with its other properties.

Prior to the Company's initial public offering when it was a wholly-owned subsidiary of SCL, SCL guaranteed a bank loan to two Company subsidiaries. The loan agreement contained cross-default provisions such that a default by SCL in certain circumstances would trigger a default of the loan. At December 31, 2003, $19,088,000 was outstanding under this loan. In March 2004, the Company, the lending bank and SCL were entering into an amendment of the loan agreement substituting the Company as the guarantor instead of SCL and making the cross-default provisions apply to the Company instead of SCL.

Five-year performance

Year ended December 31,	**2003**	2002	2001	2000	1999
	$000	$000	$000	$000	$000
Revenue and earnings from unconsolidated companies	**325,218**	289,302	261,348	276,395	249,082
Gain on sale of assets and other	**4,250***	–	–	–	3,800*
Net earnings on Class A and Class B common shares	**23,609**	25,294	29,850	39,965	35,008**
	$	$	$	$	$
Net earnings per Class A and Class B common share					
Basic and diluted	**0.76**	0.82	0.97	1.43	1.35**
	$000	$000	$000	$000	$000
Total assets	**1,173,652**	998,532	836,251	725,876	661,866
Long-term obligations	**554,188**	459,016	362,871	276,773	309,940
Shareholders' equity	**512,444**	426,482	392,587	378,717	292,313

* The gain in 2003 related to the sale of the Hotel Quinta do Lago in Portugal and, in 1999, the sale of the Windermere Island Club in the Bahamas. Also included in 1999 was a special payment relating to the buy-out of OEH's right to an early termination fee under its former management contract for the Bora Bora Lagoon Resort.

** Year ended December 31, 1999 includes the cumulative effect of change in accounting principle of $2,987,000 ($0.12 per share).

Summary of quarterly earnings (unaudited)

	Quarter ended			
	December 31	September 30	June 30	March 31
	$000	$000	$000	$000
2003				
Revenue	77,708	88,492	89,254	60,409
Earnings from unconsolidated companies	2,901	2,641	2,668	1,145
Gain on sale of hotel asset	4,250	–	–	–
	84,859	91,133	91,922	61,554
Earnings before net finance costs	11,719	14,338	15,942	1,866
Net finance costs	(2,919)	(4,600)	(4,729)	(4,971)
Earnings/(losses) before income taxes	8,800	9,738	11,213	(3,105)
Provision for/(benefit from) income taxes	182	1,558	1,794	(497)
Net earnings/(losses) on Class A and B common shares	8,618	8,180	9,419	(2,608)
	$	$	$	$
Net earnings/(losses) per Class A and B common share:				
Basic and diluted	0.27	0.27	0.31	(0.08)
2002	$000	$000	$000	$000
Revenue	70,252	80,602	76,725	51,689
Earnings from unconsolidated companies	3,198	2,486	2,369	1,981
	73,450	83,088	79,094	53,670
Earnings before net finance costs	8,468	15,791	17,901	5,335
Net finance costs	(3,669)	(5,315)	(4,544)	(4,823)
Earnings before income taxes	4,799	10,476	13,357	512
Provision for income taxes	622	1,363	1,793	72
Net earnings on Class A and B common shares	4,177	9,113	11,564	440
	$	$	$	$
Net earnings per Class A and B common share:				
Basic and diluted	0.14	0.30	0.38	0.01

Summary of earnings by operating unit and region (unaudited)

The revenue and other income and the earnings before interest, tax, depreciation and amortization (EBITDA) of the Company's consolidated operations for the years 2003, 2002, and 2001 are analyzed as follows:

Year ended December 31,	**2003**	2002	2001
	$m	$m	$m
Revenue and other income:			
Owned Hotels:			
Europe	**115.9**	99.9	79.8
North America	**66.6**	58.8	59.2
Rest of the World	**63.0**	54.8	52.7
Hotel management interests	**13.5**	12.4	10.9
Restaurants	**17.6**	18.1	17.8
Tourist trains and cruises	**48.7**	45.3	40.9
Gain on sale of hotel asset	**4.2**	–	–
Total	**329.5**	289.3	261.3
EBITDA:			
Owned Hotels:			
Europe	**32.8**	29.2	26.9
North America	**11.1**	11.1	14.6
Rest of the World	**11.1**	12.7	14.9
Hotel management interests	**13.5**	12.4	10.9
Restaurants	**2.6**	3.8	4.0
Tourist trains and cruises	**6.0**	8.3	7.3
Central overheads	**(12.2)**	(10.5)	(9.5)
Gain on sale of hotel asset	**4.2**	–	–
Total EBITDA	**69.1**	67.0	69.1

Management believes that EBITDA is a useful measure of operating performance, to help determine the ability to incur capital expenditure or service indebtedness, because it is not affected by non-operating factors such as leverage and the historic cost of assets. EBITDA is also a financial measure commonly used in the hotel and leisure industry. However, EBITDA does not represent cash flow from operations as defined by US generally accepted accounting principles, is not necessarily indicative of cash available to fund all cash flow needs and should not be considered as an alternative to earnings from operations before net finance costs under US generally accepted accounting principles for purposes of evaluating results of operations.

The following table reconciles EBITDA as defined with the Company's earnings from operations before net finance costs and with net earnings, as derived from the audited financial information for the years ended December 31, 2003, 2002 and 2001:

Year ended December 31,	**2003**	2002	2001
	$m	$m	$m
EBITDA	**69.1**	67.0	69.1
Depreciation and amortization	**25.2**	19.5	16.4
Earnings from operations before net finance costs	**43.9**	47.5	52.7
Net finance costs	**17.2**	18.4	18.7
Provision for income taxes	**3.0**	3.9	4.2
Net earnings	**23.7**	25.2	29.8

Summary of operating information for owned hotels (unaudited)

Average Daily Rate ($)	Year ended December 31,	**2003**	2002
	Europe	**493**	376
	North America	**314**	314
	Rest of World	**228**	186
	Worldwide	**340**	286

Rooms Sold ('000)	Year ended December 31,	**2003**	2002
	Europe	**139**	157
	North America	**131**	118
	Rest of World	**160**	176
	Worldwide	**430**	451

RevPAR ($)	Year ended December 31,	**2003**	2002
	Europe	**280**	242
	North America	**200**	206
	Rest of World	**107**	96
	Worldwide	**184**	168

				Change %	
					Local
Comparable/Same Store RevPAR ($)	Year ended December 31,	**2003**	2002	$	Currency
	Europe	**284**	247	15	(4)
	North America	**203**	206	(2)	(2)
	Rest of World	**107**	96	12	(5)
	Worldwide	**183**	168	9	(4)

Shareholder and investor information

Registered office
Orient-Express Hotels Ltd.
22 Victoria Street
P.O. Box HM 1179
Hamilton HM EX
Bermuda
Tel: +1 (441) 295-2244
Fax: +1 (441) 292-8666

Correspondence
Orient-Express Services Ltd.
20 Upper Ground
London SE1 9PF
England
Tel: +44 (0)20 7805 5060
Fax: +44 (0)20 7805 5908
(delete first 0 if dialling from outside the UK)

Website
http://www.orient-express.com

Stock exchange listing
Orient-Express Hotels Ltd. Class A common shares are listed on the New York Stock Exchange under the trading symbol OEH.

Share transfer agent and registrar
EquiServe Trust Company N.A.
P.O. Box 43023
Providence, Rhode Island 02940-3010
Tel: +1 (781) 575-3170
Website: http://www.equiserve.com

Shareholders are encouraged to contact the Transfer Agent directly regarding any change in certificate registration, change of mailing address, lost or stolen certificates, consolidation of multiple accounts, elimination of duplicate mailings and related shareholder service matters. Shareholders may also access their accounts and other information directly through EquiServe's website.

Co-registrar of shares
The Bank of Bermuda
6 Front Street
Hamilton HM 11
Bermuda

Auditors
Deloitte & Touche LLP
Two World Financial Center
New York, New York 10281

Annual general meeting
The annual general meeting of shareholders will be held at the registered office of the company at 22 Victoria Street, Hamilton, Bermuda, on June 7, 2004, at 2:30pm.

Shareholder information
Copies of SEC Form 10-K annual reports, SEC Form 10-Q quarterly reports and other published financial information are available on the company's website or may be obtained upon request to:
Orient-Express Hotels Inc.
1155 Avenue of the Americas
New York, New York 10036
Tel: +1 (212) 302-5055
Fax: +1 (212) 302-5073

Investor relations
Shareholders, securities analysts, portfolio managers and representatives of financial institutions seeking financial information may contact:

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Bora Bora Lagoon Resort
Bora Bora, French Polynesia
www.boraboralagoonresort.orient-express.com
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Fax: +689 60 40 01

British Pullman
South of England
www.orient-express.com
UK telephone: +44 (0)845 077 2222
Fax: +44 (0)20 7805 5908
US telephone: +1 401 351 7518
Fax: +1 401 351 7220

Charleston Place
Charleston, South Carolina
www.charlestonplacehotel.com
Telephone: +1 843 722 4900
Fax: +1 843 722 0728

Copacabana Palace
Rio de Janeiro, Brazil
www.copacabanapalace.orient-express.com
Telephone: +55 21 2548 7070
Fax: +55 21 2235 7330

Eastern & Oriental Express
Southeast Asia
www.orient-express.com
UK telephone: +44 (0)845 077 2222
Fax: +44 (0)20 7805 5908
US telephone: +1 401 351 7518
Fax: +1 401 351 7220

Harry's Bar
London, England
(A private club)

Hotel Caruso
Ravello, Italy
Currently under redevelopment

Hotel Cipriani & Palazzo Vendramin
Venice, Italy
www.cipriani.orient-express.com
Telephone: +39 0 41 520 7744
Fax: +39 0 41 520 7745

Hôtel de la Cité
Carcassonne, France
www.hoteldelacite.com
Telephone: +33 4 68 71 98 71
Fax: +33 4 68 71 50 15

Hotel Monasterio
Cuzco, Peru
www.monasterio.orient-express.com
Telephone: +51 84 24 1777
Fax: +51 84 23 7111

Hotel Splendido & Splendido Mare
Portofino, Italy
www.splendido.orient-express.com
Telephone: +39 0 185 267 801
Fax: +39 0 185 267 806

Keswick Hall
Monticello, Virginia
www.keswick.com
Telephone: +1 434 979 3440
Fax: +1 434 977 4171

La Cabaña
Buenos Aires, Argentina
www.lacabanabuenosaires.com.ar
Telephone: +54 11 4814 0001
Fax: +54 11 4814 0002

Lapa Palace
Lisbon, Portugal
www.lapapalace.com
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Fax: +351 21 395 0665

La Residencia
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www.hotel-laresidencia.com
Telephone: +34 971 63 60 46
Fax: +34 971 63 93 70

La Samanna
St Martin, French West Indies
www.lasamanna.orient-express.com
Telephone: +212 575 7030
Fax: +212 575 7039

Le Manoir aux Quat'Saisons
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www.manoir.com
Telephone: +44 (0)1844 278881
Fax: +44 (0)1844 278847

Lilianfels Blue Mountains
Katoomba, Australia
www.lilianfels.orient-express.com
Telephone: +61 2 4780 1200
Fax: +61 2 4780 1300

Machu Picchu Sanctuary Lodge
Machu Picchu, Peru
www.monasterio.orient-express.com
Telephone: +51 84 21 1039
Fax: +51 84 21 1053

Maroma Resort and Spa
Riviera Maya, Mexico
www.maromahotel.com
Telephone: +52 998 872 8200
Fax: +52 998 872 8220

Miraflores Park Hotel
Lima, Peru
www.mira-park.com
Telephone: +51 1 242 3000
Fax: +51 1 242 3393

Mount Nelson Hotel
Cape Town, South Africa
www.mountnelsonhotel.orient-express.com
Telephone: +27 21 483 1737
Fax: +27 21 483 1947

Northern Belle
North of England
www.orient-express.com
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Fax: +1 401 351 7220

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Fax: +44 (0)20 7805 5911

Orient-Express Safaris
Eagle Island Camp, Khwai River Lodge,
Savute Elephant Camp,
Botswana, Southern Africa
www.orient-express-safaris.co.za
Telephone: +27 11 481 6052
Fax: +27 11 481 6065

Pansea Hotels
Angkor Wat, Bali, Koh Samui,
Luang Prabang, Yangon,
Southeast Asia
www.pansea.com

PeruRail
Cuzco, Peru
www.perurail.com
Telephone: +51 84 238 722
Fax: +51 84 221 114

Reid's Palace
Funchal, Madeira, Portugal
www.reidspalace.orient-express.com
Telephone: +351 291 71 7171
Fax: +351 291 71 7177

Road To Mandalay
Mandalay, Myanmar
www.orient-express.com
UK telephone: +44 (0)845 077 2222
Fax: +44 (0)20 7805 5908
US telephone: +1 401 351 7518
Fax: +1 401 351 7220

The Inn at Perry Cabin
St Michaels, Maryland
www.perrycabin.com
Telephone: +1 410 745 2200
Fax: +1 410 745 3348

The Observatory Hotel
Sydney, Australia
www.observatoryhotel.com
Telephone: +61 2 9256 2222
Fax: +61 2 9256 2233

The Orient-Express Gift Collection
London, England
www.orient-expresscollection.com
Telephone: +44 (0)20 7805 5019
Fax: +44 (0)20 7805 5909

The Ritz
Madrid, Spain
www.ritzmadrid.com
Telephone: +34 91 701 67 67
Fax: +34 91 701 67 76

The Westcliff
Johannesburg, South Africa
www.westcliffhotel.orient-express.com
Telephone: +27 11 646 2400
Fax: +27 11 646 3500

'21' Club
New York, New York
www.21club.com
Telephone: +1 212 582 7200
Fax: +1 212 581 7138

Venice Simplon-Orient-Express
London, Paris, Venice
www.orient-express.com
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Fax: +44 (0)20 7805 5908
US telephone: +1 401 351 7518
Fax: +1 401 351 7220

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Florence, Italy
www.villasanmichele.orient-express.com
Telephone: +39 0 55 567 8200
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Windsor Court Hotel
New Orleans, Louisiana
www.windsorcourthotel.com
Telephone: +1 888 596 0955
Fax: +1 504 596 4513

Orient-Express Hotels Ltd.

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Venice, Italy

Palazzo Vendramin
Venice, Italy

Hotel Splendido
Portofino, Italy

Hotel Splendido Mare
Portofino, Italy

Villa San Michele
Florence, Italy

Hotel Caruso
Ravello, Italy

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Madrid, Spain

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Deià, Mallorca, Spain

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Lisbon, Portugal

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Madeira, Portugal

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Harry's Bar
London, England

Le Manoir aux Quat'Saisons
Chef-Proprietor Raymond Blanc
Oxfordshire, England

'21' Club
New York, New York

Inn at Perry Cabin
St Michaels, Maryland

Keswick Hall
Charlottesville, Virginia

Windsor Court Hotel
New Orleans, Louisiana

Charleston Place
Charleston, South Carolina

Maroma Resort and Spa
Riviera Maya, Mexico

La Samanna
St Martin, French West Indies

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Cape Town, South Africa

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Johannesburg, South Africa

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Botswana

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Khwai River Lodge
Botswana

Orient-Express Safaris
Savute Elephant Camp
Botswana

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Sydney, Australia

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Katoomba, New South Wales, Australia

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Southeast Asia

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Buenos Aires, Argentina

Miraflores Park Hotel
Lima, Peru

Hotel Monasterio
Cuzco, Peru

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Machu Picchu, Peru

Bora Bora Lagoon Resort
Bora Bora, French Polynesia

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South of England

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North of England

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Southeast Asia

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Irrawaddy River, Burma
(Myanmar)

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