SHANGRI-LA ASIA LIMITED

(Incorporated in Bermuda with limited liability)

香格里拉(亞洲)有限公司

Interim Report 2005 中期報告

CORPORATE INFORMATION

As at 26 August 2005

Board of Directors

Executive Directors
Mr KUOK Khoon Loong, Edward *(Chairman)*
Mr YE Longfei *(Deputy Chairman)*
Mr Giovanni ANGELINI
Mr LUI Man Shing
Mr NG Si Fong, Alan

Non-Executive Directors
Madam KUOK Oon Kwong
Mr HO Kian Guan
Mr LEE Yong Sun
Mr Roberto V. ONGPIN
Mr Alexander Reid HAMILTON*
Mr TOW Heng Tan*
Mr Timothy David DATTELS*
Mr HO Kian Hock
(Alternate to Mr HO Kian Guan)

* *Independent Non-Executive Directors*

Remuneration Committee

Mr KUOK Khoon Loong, Edward *(Chairman)*
Mr Alexander Reid HAMILTON
Mr TOW Heng Tan

Audit Committee

Mr Alexander Reid HAMILTON *(Chairman)*
Mr HO Kian Guan
Mr TOW Heng Tan

Company Secretary

Ms KO Sau Lai

Auditors

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor
Prince's Building
Central
Hong Kong

Head Office and Principal Place of Business

21st Floor
CITIC Tower
No. 1 Tim Mei Avenue
Central
Hong Kong

Branch Share Registrars in Hong Kong

Abacus Share Registrars Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Company's Website

http://www.shangri-la.com

Financial Information

http://www.ir.shangri-la.com

The Directors of Shangri-La Asia Limited (the "Company") are pleased to announce the unaudited interim results of the Company and its subsidiaries (the "Group"), and associated companies for the six months ended 30 June 2005. These results have been reviewed by the Company's auditors, PricewaterhouseCoopers, in accordance with the Hong Kong Statement of Auditing Standards SAS 700 "Engagements to Review Interim Financial Reports" and by the Audit Committee of the Board of Directors. The review report of the auditors is set out on page 3.

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has undertaken to converge by 1 January 2005 all Hong Kong Financial Reporting Standards ("HKFRS") with International Financial Reporting Standards issued by the International Accounting Standards Board. The condensed consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with HKFRS issued by the HKICPA. The effect of adopting the new accounting policies is set out in the notes to the financial statements and the financial statements for year 2004 included in this report have been restated.

The consolidated profit attributable to equity holders of the Company for the six months ended 30 June 2005 increased to US$60.6 million (US2.514 cents per share) from US$48.6 million (US2.103 cents per share) in the same period last year.

The consolidated net asset value (total equity) increased to US$2,379.1 million (US$0.97 per share) as at 30 June 2005 from US$2,164.7 million (US$0.90 per share) as at 31 December 2004 and the Group's net borrowings (total of bank loans, overdrafts and convertible bonds less cash and cash equivalents) to total equity ratio reduced to 38.3% as at 30 June 2005 from 40.2% as at 31 December 2004.

The Directors have declared an interim dividend of **HK10 cents** per share for 2005 (2004: HK9 cents per share) payable on Friday, 7 October 2005, to shareholders whose names appear on the Registers of Members of the Company on Wednesday, 28 September 2005.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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Central, Hong Kong
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INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF
SHANGRI-LA ASIA LIMITED
(incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 4 to 39.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

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

Review work performed

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

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2005.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 August 2005

CONDENSED CONSOLIDATED BALANCE SHEET – UNAUDITED

(All amounts in US dollar thousands)

	Note	As at 30 June 2005	As at 31 December 2004 Restated
ASSETS			
Non-current assets			
Property, plant and equipment	5	**2,040,280**	1,989,084
Investment properties	5	**411,065**	416,845
Leasehold land and land use rights	5	**365,504**	366,111
Goodwill		**75,791**	(109,047)
Interest in associates		**624,383**	626,840
Deferred income tax assets		**5,561**	5,956
Available-for-sale financial assets	6	**1,447**	1,570
Other receivables	7	**3,596**	4,818
		3,527,627	3,302,177
Current assets			
Inventories		**19,894**	18,926
Accounts receivables, prepayments and deposits	8	**91,142**	75,510
Due from associates		**80,315**	84,901
Due from minority shareholders		**822**	13,873
Financial assets held for trading	9	**38,040**	37,066
Cash and cash equivalents		**220,130**	186,874
		450,343	417,150
Total assets		**3,977,970**	3,719,327
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	10	**1,073,466**	1,029,599
Other reserves	11	**922,364**	948,943
Retained earnings			
– Proposed interim/final dividend	22	**32,381**	30,861
– Others		**169,110**	(31,320)
		2,197,321	1,978,083
Minority interests		**181,770**	186,647
Total equity		**2,379,091**	2,164,730

CONDENSED CONSOLIDATED BALANCE SHEET – UNAUDITED *(Continued)*

(All amounts in US dollar thousands)

		As at	
	Note	**30 June 2005**	31 December 2004 Restated
LIABILITIES			
Non-current liabilities			
Bank loans	*12*	**943,503**	768,509
Convertible bonds	*13*	**153,261**	184,173
Derivative financial instruments	*14*	**4,734**	–
Loans from minority shareholders	*15*	**83,933**	92,485
Deferred income tax liabilities		**188,746**	189,436
		1,374,177	1,234,603
Current liabilities			
Accounts payable and accruals	*16*	**163,771**	195,431
Due to minority shareholders		**8,923**	11,918
Current income tax liabilities		**14,518**	8,700
Bank loans and overdrafts	*12*	**34,824**	103,945
Derivative financial instruments	*14*	**2,666**	–
		224,702	319,994
Total liabilities		**1,598,879**	1,554,597
Total equity and liabilities		**3,977,970**	3,719,327
Net current assets		**225,641**	97,156
Total assets less current liabilities		**3,753,268**	3,399,333

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

(All amounts in US dollar thousands unless otherwise stated)

		Six months ended 30 June	
		2005	2004
	Note		Restated
Sales	*4*	**388,711**	340,834
Cost of goods sold	*17*	**(153,626)**	(141,178)
Gross profit		**235,085**	199,656
Other gains – net	*18*	**3,006**	8,723
Marketing costs	*17*	**(15,933)**	(14,879)
Administrative expenses	*17*	**(32,169)**	(26,098)
Other operating expenses	*17*	**(114,311)**	(96,128)
Operating profit		**75,678**	71,274
Finance costs	*19*	**(14,381)**	(24,211)
Share of profit of associates		**22,849**	17,785
Profit before income tax		**84,146**	64,848
Income tax expense	*20*	**(17,669)**	(12,467)
Profit for the period		**66,477**	52,381
Attributable to:			
Equity holders of the Company		**60,553**	48,616
Minority interests		**5,924**	3,765
		66,477	52,381
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in US cents per share)			
– basic	*21*	**2.514**	2.103
– diluted	*21*	**2.510**	2.101
Dividends	*22*	**32,381**	27,298

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

(All amounts in US dollar thousands)

	Note	Attributable to equity holders of the Company				
		Share capital	Other reserves	Retained earnings	Minority interests	Total
Balance at 1 January 2004, as previously reported as equity		815,240	1,516,097	292,664	–	2,624,001
Balance at 1 January 2004, as previously separately reported as minority interests		–	–	–	305,515	305,515
Currency translation differences arising from adjustment of depreciation for hotel properties and amortisation of leasehold land	*2(a)(i)*	–	39,348	–	77	39,425
Depreciation for hotel properties and amortisation of leasehold land, net of deferred income tax liabilities	*2(a)(i)*	–	–	(485,653)	(38,064)	(523,717)
Revaluation surplus of investment properties to be recognised in income statement, net of deferred income tax liabilities	*2(a)(i)*	–	(131,064)	131,064	–	–
Reversal of revaluation reserves for hotel properties, net of deferred income tax liabilities	*2(a)(i)*	–	(519,382)	–	(79,123)	(598,505)
Balance at 1 January 2004, as restated		815,240	904,999	(61,925)	188,405	1,846,719
Currency translation differences		–	(8,551)	–	(1,713)	(10,264)
Net expenses recognised directly in equity		–	(8,551)	–	(1,713)	(10,264)
Profit for the period		–	–	48,616	3,765	52,381
Total recognised income/(expenses) for the six months ended 30 June 2004		–	(8,551)	48,616	2,052	42,117
Issue of convertible bonds – equity component	*2(a)(iii)*	–	20,075	–	–	20,075
Issue of shares upon share placement	*10*	174,110	–	–	–	174,110
Allotment of shares upon exercise of share options	*10*	87	–	–	–	87
Payment of 2003 final dividend		–	–	(24,258)	–	(24,258)
Dividend paid to and equity acquired from minority interests		–	–	–	(117)	(117)
		174,197	20,075	(24,258)	(117)	169,897
Balance at 30 June 2004, as restated		989,437	916,523	(37,567)	190,340	2,058,733

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED *(Continued)*

(All amounts in US dollar thousands)

	Note	Attributable to equity holders of the Company				
		Share capital	Other reserves	Retained earnings	Minority interests	Total
Balance at 1 January 2005, as previously reported as equity		1,029,599	1,696,818	382,566	–	3,108,983
Balance at 1 January 2005, as previously separately reported as minority interests		–	–	–	324,000	324,000
Currency translation differences arising from adjustment of depreciation for hotel properties and amortisation of leasehold land	*2(a)(i)*	–	37,091	–	73	37,164
Depreciation for hotel properties and amortisation of leasehold land, net of deferred income tax liabilities	*2(a)(i)*	–	–	(520,227)	(41,403)	(561,630)
Revaluation surplus of investment properties to be recognised in income statement, net of deferred income tax liabilities	*2(a)(i)*	–	(139,693)	139,693	–	–
Reversal of revaluation reserves for hotel properties, net of deferred income tax liabilities	*2(a)(i)*	–	(665,348)	–	(96,023)	(761,371)
Issue of convertible bonds – equity component	*2(a)(iii)*	–	20,075	–	–	20,075
Increase in finance costs of convertible bonds	*2(a)(iii)*	–	–	(2,491)	–	(2,491)
Opening adjustment for the adoption of HKAS 38	*2(a)(iv)*	–	–	184,471	–	184,471
Opening adjustment for the adoption of HKAS 39	*2(a)(v)*	–	–	(12,196)	–	(12,196)
Balance at 1 January 2005, as restated		1,029,599	948,943	171,816	186,647	2,337,005
Currency translation differences		–	(23,649)	–	(2,592)	(26,241)
Net expenses recognised directly in equity		–	(23,649)	–	(2,592)	(26,241)
Profit for the period		–	–	60,553	5,924	66,477
Total recognised income/(expenses) for the six months ended 30 June 2005		–	(23,649)	60,553	3,332	40,236
Issue of shares upon conversion of convertible bonds – equity component	*10*	39,496	(3,798)	–	–	35,698
Allotment of shares upon exercise of share options	*10*	4,371	–	–	–	4,371
Granting of option shares – value of employee service	*2(a)(ii)*	–	868	–	–	868
Payment of 2004 final dividend	*22*	–	–	(30,878)	–	(30,878)
Dividend paid to and equity acquired from minority interests		–	–	–	(8,209)	(8,209)
		43,867	(2,930)	(30,878)	(8,209)	1,850
Balance at 30 June 2005		**1,073,466**	**922,364**	**201,491**	**181,770**	**2,379,091**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED

(All amounts in US dollar thousands)

	Six months ended 30 June	
	2005	2004
Net cash generated from operating activities	**58,412**	65,173
Net cash used in investing activities	**(97,368)**	(60,318)
Net cash generated from financing activities	**72,081**	194,376
Net increase in cash and bank overdrafts	**33,125**	199,231
Cash and bank overdrafts at 1 January	**186,727**	149,830
Cash and bank overdrafts at 30 June	**219,852**	349,061
Analysis of balances of cash and bank overdrafts		
Cash at bank and in hand	**104,804**	106,373
Short-term bank deposits	**115,326**	242,941
Cash and cash equivalents	**220,130**	349,314
Bank overdrafts	**(278)**	(253)
	219,852	349,061

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in US dollar thousands unless otherwise stated)

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

These condensed consolidated financial statements should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards and Interpretations issued by the HKICPA ("new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005.

These interim financial statements have been prepared in accordance with those new HKFRS issued and effective as at the time of preparing these information (August 2005). The new HKFRS that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this interim financial information.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2. CHANGES IN ACCOUNTING POLICIES

(a) Effect of adopting new HKFRS

In 2005, the Group adopted the following new HKFRS, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 12	Scope of HKAS-Int 12 Consolidation – Special Purpose Entities
HKAS Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Effect of adopting new HKFRS *(Continued)*

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 21, 23, 24, 27, 28, 31, 33 and HKAS-Ints 12 and 15 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures. In the consolidated balance sheet, minority interests are now shown within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the period.

– HKASs 2, 7, 8, 10, 23, 27, 28, 31, 33 and HKAS-Ints 12 and 15 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group's principal subsidiaries have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

As specified by HKAS 40, hotel properties were to no longer be accounted for as investment properties but should adopt HKAS 16. The adoption of HKAS 16 has resulted in a change in accounting policy relating to hotel properties and retrospective application is required. Hotel properties were previously classified under investment properties and the changes in the valuation were dealt with in the investment properties revaluation reserves. In accordance with the provisions of HKAS 16, the underlying buildings and integral plant and machinery of a hotel property have been classified under property, plant and equipment and carried at cost less accumulated depreciation and impairment. The underlying freehold land of a hotel property has also been classified as property, plant and equipment and carried at cost less impairment while the underlying leasehold land of a hotel property is accounted for in accordance with the provisions of HKAS 17.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases and retrospective application is required. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. A lease of land and building is split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The lease of land is stated at cost and amortised over the period of the lease whereas the building is stated at cost less accumulated depreciation. In prior years, the leasehold land of a hotel property was included as part of the hotel property while other leasehold land was classified under property, plant and equipment at cost less impairment.

The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments.

Under HKAS 32, convertible bonds issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value which is determined using a market interest rate for equivalent non-convertible bonds and attributing to the equity component the difference between the proceeds from the issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the convertible bonds reserve until the bond is either converted (in which case it is transferred to share premium) or the bond is redeemed (in which case it is released directly to retained earnings). In prior years, convertible bonds were stated at face value plus the accrued redemption premium. The redemption premium was accrued using effective interest rate method. The issuance costs incurred for the arrangement of convertible bonds were capitalised and amortised on a straight-line basis over the period of the convertible bonds. Retrospective application is required for adoption of HKAS 32.

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Effect of adopting new HKFRS *(Continued)*

Under HKAS 39, equity investments held on a continuing basis for an identifiable long-term purpose are classified as available-for-sale financial assets and are continued to be stated at cost less impairment as the fair value cannot be reliably measured. If there is objective evidence that an individual investment has been impaired, such impairment would be recognised in the income statement. Listed equity securities held for trading purpose are classified as financial assets held for trading and are continued to be stated at closing price with all realised and unrealised gains or losses to be recognised in the income statement. Long term receivables are classified as other receivables and are recognised initially at cost and subsequently measured at amortised cost using the effective interest method, less provision for impairment with changes in carrying value to be recognised in the income statement. All non-hedging derivative financial instruments entered are stated at fair value with changes recognised in the income statement. In prior years, equity investments for long term purpose were disclosed as long term investments and stated at cost less impairment through profit or loss. Listed equity securities held for trading purpose were disclosed as other investments and were stated at market value with changes to such value accounted through profit or loss. Long term receivables were stated at cost less impairment which, if any, was accounted through profit or loss. Derivative financial instruments entered were recognised on a cash basis. Prospective application is required for adoption of HKAS 39 by way of adjustments to the opening balance of retained earnings as at 1 January 2005. Comparative amounts have not been restated.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy for investment properties of which the changes in fair values are recorded in the income statement as part of other income and retrospective application is required. In prior years, the increases in fair value were credited to the investment properties revaluation reserves. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

The adoption of HKAS-Int 21 has resulted in a change in accounting policy relating to the measurement of deferred income tax liabilities arising from the revaluation of investment properties. Such deferred income tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use except for those under investment properties held on freehold land. In prior years, the carrying amount of all the investment properties was expected to be recovered through sale.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. With effect from 1 January 2005, the Group recognises the fair value of share options granted as an expense in the income statement over the vesting period with a corresponding increase being recognised in an option reserve. The related option reserve is transferred to share capital and share premium, together with the exercise price, when the option holder exercises its rights. In prior years, no amount was recognised when options were granted. If the option holders chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable. The Group has taken advantage of the transitional provisions in HKFRS 2 under which the new recognition and measurement policies have not been applied to all options granted on or before 7 November 2002 as all the outstanding options as at 31 December 2004 were granted before 7 November 2002. Accordingly, only the cost of new share options granted in 2005 will be expensed in the income statement *(Note 2.13)*.

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Effect of adopting new HKFRS *(Continued)*

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for positive goodwill and negative goodwill and prospective application is required. Until 31 December 2004,

– positive goodwill was amortised on a straight line basis over its useful life of 15 years and was subject to impairment testing when there were indications of impairment; and

– negative goodwill was amortised over the weighted average useful life of 15 years of the non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred.

In accordance with the provisions of HKFRS 3 *(Note 2.6)*:

– the Group ceased amortisation of positive goodwill from 1 January 2005;

– accumulated amortisation as at 31 December 2004 has been deducted from the cost of positive goodwill;

– from the year ending 31 December 2005 onwards, positive goodwill will be tested annually for impairment, as well as when there is indication of impairment;

– in accordance with the transitional provisions in HKFRS 3, all negative goodwill was derecognised at 1 January 2005 with a corresponding increase in retained earnings.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

(i) The adoption of HKAS 16, revised HKAS 17, HKAS 40 and HKAS-Int 21 resulted in a decrease in opening retained earnings and other reserves at 1 January 2004 by US$354,589,000 and US$611,098,000, respectively.

	As at	
	30 June 2005	31 December 2004
Increase in property, plant and equipment	**1,371,868**	1,401,974
Increase in leasehold land and land use rights	**365,504**	366,111
Decrease in investment properties	**3,119,847**	3,119,847
Decrease in interest in associates	**138,948**	136,584
Increase in deferred income tax assets	**2,350**	2,350
Decrease in deferred income tax liabilities	**209,136**	200,159
Decrease in investment properties revaluation reserve	**579,732**	579,732
Decrease in share of investment properties revaluation reserves in associates	**225,309**	225,309
Increase in exchange fluctuation reserve	**37,091**	37,091
Decrease in minority interests	**139,728**	137,353
Decrease in retained earnings	**402,259**	380,534

2. **CHANGES IN ACCOUNTING POLICIES** *(Continued)*

(a) **Effect of adopting new HKFRS** *(Continued)*

	For the year ended 31 December 2004	For the six months ended 30 June 2005	For the six months ended 30 June 2004
Increase in other operating expenses	52,709	**30,713**	27,737
Increase/(decrease) in share of profit of associates	15,692	**(2,364)**	(2,827)
Decrease in deferred income tax	8,914	**8,977**	9,319
Decrease in profit attributable to minority interests	2,158	**2,375**	1,829
Decrease in basic earnings per share (in US cents)	1.108	**0.902**	0.840
Decrease in diluted earnings per share (in US cents)	1.106	**0.900**	0.839

(ii) The adoption of HKFRS 2 resulted in:

	As at 30 June 2005
Increase in other reserves	**868**
Decrease in retained earnings	**868**
	For the six months ended 30 June 2005
Increase in other operating expenses	**868**
Decrease in basic earnings per share (in US cents)	**0.036**
Decrease in diluted earnings per share (in US cents)	**0.036**

There was no impact on opening retained earnings at 1 January 2004 and 1 January 2005 from the adoption of HKFRS 2.

(iii) The adoption of HKAS 32 resulted in a decrease in retained earnings and an increase in other reserves as at 1 January 2005 by US$2,491,000 and US$20,075,000, respectively:

	As at 30 June 2005	As at 31 December 2004
Increase in convertible bonds reserve	**16,277**	20,075
Decrease in retained earnings	**4,153**	2,491
Decrease in convertible bonds	**14,719**	20,199
Decrease in accounts receivables, prepayments and deposits	**2,156**	2,615
Increase in share capital	**439**	–

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Effect of adopting new HKFRS *(Continued)*

	For the year ended 31 December 2004	For the six months ended **30 June 2005**	For the six months ended 30 June 2004
Increase in finance costs	2,491	**1,662**	657
Decrease in basic earnings per share (in US cents)	0.106	**0.069**	0.028

There was no dilution effect on earnings per share in 2004 and 2005.

(iv) The adoption of HKFRS 3 and HKAS 38 resulted in an increase in opening retained earnings at 1 January 2005 by US$184,471,000 and the details of the adjustments to the balance sheet at 30 June 2005 and profit and loss for the six months ended 30 June 2005 are as follows:

	As at 30 June 2005
Increase in intangible assets	**181,635**
Increase in retained earnings	**181,635**
	For the six months ended 30 June 2005
Increase in other operating expenses	**2,836**
Decrease in basic earnings per share (in US cents)	**0.118**
Decrease in diluted earnings per share (in US cents)	**0.118**

There was no impact on opening retained earnings at 1 January 2004 from the adoption of HKFRS 3.

(v) The adoption of HKAS 39 resulted in a decrease in opening retained earnings at 1 January 2005 by US$12,196,000 and the details of the adjustments to the balance sheet at 30 June 2005 and profit and loss for the six months ended 30 June 2005 are as follows:

	As at 30 June 2005
Decrease in other receivables	**977**
Decrease in accounts payable and accruals	**3,512**
Increase in derivative financial instruments (liabilities)	**7,400**
Decrease in retained earnings	**4,865**
	For the six months ended 30 June 2005
Increase in other gains – net	**569**
Decrease in finance costs	**6,762**
Increase in basic earnings per share (in US cents)	**0.304**
Increase in diluted earnings per share (in US cents)	**0.304**

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Effect of adopting new HKFRS *(Continued)*

The Group has decided against early adoption of the following new Standards or Interpretations that have been issued but are not yet effective. The Group believes that most of these Standards or Interpretations will not apply to the Group or will not result in substantial changes to the Group's accounting policies.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 3	Emission Rights
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

(b) New Accounting Policies

The accounting policies used for the condensed consolidated financial information for the six months ended 30 June 2005 are the same as those set out in note 1 to the 2004 annual financial statements except for the following:

2.1 Acquisition of subsidiaries and associates

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. On acquisition of the investment, the measurement and recognition of goodwill is same as that of goodwill arising from the acquisition of subsidiaries. Goodwill relating to an associate is included in the carrying amount of the investment. Appropriate adjustments to the investor's share of the profits or losses after acquisition are made to account based on their fair values at the date of acquisition.

2.2 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's principal subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in US dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) New Accounting Policies *(Continued)*

2.2 Foreign currency translation (continued)

(b) Transactions and balances *(continued)*

Translation differences on non-monetary items, such as financial assets held for trading held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the exchange fluctuation reserve in the equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.3 Property, plant and equipment

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Hotel properties are classified as property, plant and equipment at cost less accumulated depreciation and accumulated impairment, if any.

Depreciation is calculated to write off the cost on the straight-line basis over the expected useful lives. The useful lives or principal annual rates used are:

Hotel buildings and other buildings	Lower of underlying land lease term or 50 years
Furniture, fixtures and equipment	10% to 33$^1/_3$%
Motor vehicles	25%
Plant and machinery	5% to 10%

No depreciation is provided on freehold land for hotel properties and such land is stated at cost less accumulated impairment, if any.

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) New Accounting Policies *(Continued)*

2.4 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating lease or freehold and buildings.

Land held under operating leases are classified and accounted for as investment property without amortisation when the rest of the definition of investment property is met.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value reviewed annually by external professional valuers. Changes in fair values are recognised in the income statement.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

2.5 Leasehold land and land use rights

Prepaid leasehold land premiums or land use rights for hotel properties or for development of hotel properties are classified and accounted for as leasehold land and land use rights and are stated at cost and amortised over the period of the lease on a straight line basis to the income statement.

2.6 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

2.7 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, but are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.8 Investments

From 1 January 2004 to 31 December 2004:

The Group classified its investments in securities, other than subsidiaries and associates, as long-term investments and receivables and other investments.

(a) Long-term investments and receivables

Investments which were held for non-trading purpose were stated at cost less impairment, if any, at the balance sheet date.

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) New Accounting Policies *(Continued)*

2.8 Investments (continued)

(b) Other investments

Trading securities were carried at market closing price. At each balance sheet date, the net unrealised gains or losses arising from the changes in value of other investments were recognised in the income statement. Profits or losses on disposal of these investments, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the income statement as they arose.

From 1 January 2005 onwards:

The Group classifies its investments in the following categories: financial assets held for trading, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this classification at every reporting date.

(a) Financial assets held for trading

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet *(Note 2.9)*.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date and are stated at cost less impairment as the fair value of these unlisted financial assets cannot be reliably measured.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at cost plus transaction costs for all financial assets. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets held for trading are subsequently carried at fair value based on current market closing prices with realised and unrealised gains and losses arising from changes in the fair value included in the income statement in the period in which they arise. Loans and receivables are carried at amortised cost using the effective interest method less impairment with changes in carrying value to be recognised in the income statement. Available-for-sale financial assets are stated at cost less impairment (which is charged to the income statement) as the fair value cannot be reliably measured.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of loans and receivables and available-for-sale financial assets, a significant or prolonged decline in the expected recoverable value of the asset below its cost is considered in determining whether the asset is impaired. If any such evidence exists, the carrying value is reduced to its estimated recoverable amount.

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) New Accounting Policies *(Continued)*

2.9 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.10 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.11 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.12 Convertible bonds

Convertible bonds issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value which is determined using a market interest rate for equivalent non-convertible bonds and attributing to the equity component the difference between the proceeds from the issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the convertible bonds reserve until the bond is either converted (in which case it is transferred to share premium) or the bond is redeemed (in which case it is released directly to retained earnings).

2.13 Share-based compensation

The Group has two equity-settled, share-based compensation plans. For options granted after 7 November 2002, the fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) New Accounting Policies *(Continued)*

2.14 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. There are no major changes in the critical estimates and judgments since 31 December 2004. For the investment properties, the Group has relied on the professional valuation as at 31 December 2004.

4. SEGMENT INFORMATION

Primary reporting format – geographical segments

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

Hong Kong	– hotel ownership, operation and management
Mainland China	– hotel ownership, operation and management
	– ownership and leasing of office, commercial and serviced apartments
The Philippines	– hotel ownership, operation and management
Singapore	– hotel ownership, operation and management
	– ownership and leasing of office, commercial and serviced apartments
Thailand	– hotel ownership, operation and management
	– ownership and leasing of office, commercial and serviced apartments
Malaysia	– hotel ownership, operation and management, golf club ownership and operation
	– ownership and leasing of office, commercial and serviced apartments
Other countries	– hotel ownership, operation and management

Secondary reporting format – business segments

The Group is organised on a worldwide basis into three main business segments:

Hotel operation	– ownership and operation of hotel business
Hotel management	– provision of hotel management and related services
Property rentals	– ownership and leasing of office, commercial and serviced apartments

4. SEGMENT INFORMATION *(Continued)*

Primary reporting format – geographical segments

Segment income statement
For the six months ended 30 June 2005 *(US$ million)*

	The People's Republic of China Hong Kong	Mainland China	The Philippines	Singapore	Thailand	Malaysia	Other	Elimination	Group
Sales									
External sales	86.7	116.0	51.2	56.6	24.1	34.8	19.3	–	388.7
Inter-segment sales	2.6	4.8	3.0	1.5	1.1	1.0	0.4	(14.4)	–
Total	89.3	120.8	54.2	58.1	25.2	35.8	19.7	(14.4)	388.7
Result									
Segment results	12.1	21.2	9.1	14.8	8.7	6.3	5.9	–	78.1
Interest income									1.8
Dividend income									0.7
Net realised and unrealised gains on financial assets held for trading									2.1
Net gains on Interest-rate swap contracts									0.6
Unallocated corporate expenses									(4.7)
Loss on disposal of interest in associates									(2.9)
Operating profit									75.7
Finance costs									(14.4)
Share of profit of associates	–	20.7	–	0.8	–	0.7	0.6	–	22.8
Profit before income tax									84.1
Depreciation	(6.1)	(19.3)	(8.3)	(6.5)	(3.8)	(4.2)	(1.2)	–	(49.4)
Amortisation	(0.9)	(2.5)	–	–	–	(0.1)	(0.2)	–	(3.7)
Capital expenditures	9.2	86.5	15.2	1.1	2.1	4.6	7.0	–	125.7

Segment balance sheet
As at 30 June 2005 *(US$ million)*

	Hong Kong	Mainland China	The Philippines	Singapore	Thailand	Malaysia	Other	Elimination	Group
Segment assets	273.9	1,278.8	405.0	606.4	156.5	335.4	101.3	(10.7)	3,146.6
Interest in associates	–	506.8	–	58.8	–	21.2	37.6	–	624.4
Unallocated assets									131.2
Goodwill									75.8
Total assets									3,978.0
Segment liabilities	(41.7)	(58.9)	(19.9)	(19.8)	(9.2)	(14.8)	(15.8)	10.7	(169.4)
Unallocated liabilities									(1,429.5)
Total liabilities									(1,598.9)

4. **SEGMENT INFORMATION** *(Continued)*

Primary reporting format – geographical segments *(Continued)*

Segment income statement
For the six months ended 30 June 2004 *(US$ million)*

	Hong Kong	The People's Republic of China Mainland China	The Philippines	Singapore	Thailand	Malaysia	Other	Elimination	Group
Sales									
External sales	71.0	101.4	42.5	49.0	21.6	41.2	14.1	–	340.8
Inter-segment sales	3.0	4.4	2.1	1.2	1.0	1.1	0.2	(13.0)	–
Total	74.0	105.8	44.6	50.2	22.6	42.3	14.3	(13.0)	340.8
Result									
Segment results	6.5	22.8	7.0	12.3	7.4	7.2	(0.4)	–	62.8
Interest income									2.0
Dividend income									0.5
Net realised and unrealised gains on financial assets held for trading									5.8
Unallocated corporate expenses									(2.7)
Amortisation of negative goodwill									2.8
Operating profit									71.2
Finance costs									(24.2)
Share of profit of associates	–	16.5	–	0.4	–	0.9	–	–	17.8
Profit before income tax									64.8
Depreciation	(5.0)	(16.9)	(7.5)	(5.9)	(3.2)	(4.5)	(1.5)	–	(44.5)
Amortisation	(1.0)	(1.7)	–	–	–	(0.1)	(0.1)	–	(2.9)
Amortisation of negative goodwill									2.8
Capital expenditures	7.1	57.8	6.6	1.2	3.4	1.5	4.4	–	82.0

Segment balance sheet
As at 31 December 2004 *(US$ million)*

	Hong Kong	Mainland China	The Philippines	Singapore	Thailand	Malaysia	Other	Elimination	Group
Segment assets	280.0	1,228.9	393.3	628.1	165.2	334.0	100.3	(10.0)	3,119.8
Interest in associates	–	492.5	–	59.8	–	37.4	37.1	–	626.8
Unallocated assets									81.7
Negative goodwill									(109.0)
Total assets									3,719.3
Segment liabilities	(55.5)	(66.9)	(20.5)	(22.9)	(9.9)	(18.6)	(18.2)	10.0	(202.5)
Unallocated liabilities									(1,352.1)
Total liabilities									(1,554.6)

4. **SEGMENT INFORMATION** *(Continued)*

Secondary reporting format – business segments

For the six months ended/as at 30 June 2005 *(US$ million)*

	Sales	Segment results	Total assets	Capital expenditures
Hotel operation				
– Room rentals	199.1			
– Food and beverage sales	145.2			
– Renderings of ancillary services	27.8			
	372.1	70.5	2,694.3	124.9
Hotel management	22.1	4.6	33.3	0.7
Property rentals	8.9	3.0	429.7	0.1
Elimination	(14.4)	–	(10.7)	–
Total	388.7	78.1	3,146.6	125.7
Interest in associates			624.4	–
Unallocated assets			131.2	–
Goodwill			75.8	–
Total			3,978.0	125.7

For the six months ended 30 June 2004 *(US$ million)*

	Sales	Segment results	Total assets	Capital expenditures
Hotel operation				
– Room rentals	170.0			
– Food and beverage sales	131.9			
– Renderings of ancillary services	24.3			
	326.2	55.9		80.3
Hotel management	19.1	3.7		1.1
Property rentals	8.5	3.2		0.6
Elimination	(13.0)	–		–
Total	340.8	62.8		82.0

As at 31 December 2004 *(US$ million)*

	Sales	Segment results	Total assets	Capital expenditures
Hotel operation			2,675.2	
Hotel management			28.1	
Property rentals			426.5	
Elimination			(10.0)	
			3,119.8	
Interest in associates			626.8	
Unallocated assets			81.7	
Negative goodwill			(109.0)	
Total			3,719.3	

5. CAPITAL EXPENDITURE

	Investment properties	Property, plant & equipment	Leasehold land and land use rights
Opening net book amount as at 1 January 2005, as restated	416,845	1,989,084	366,111
Additions	68	122,495	3,099
Exchange differences	(5,776)	(19,281)	–
Disposals	(72)	(2,512)	–
Depreciation/amortisation charge *(Note 17)*	–	(49,506)	(3,706)
Closing net book amount as at 30 June 2005	**411,065**	**2,040,280**	**365,504**
Opening net book amount as at 1 January 2004, as restated	415,224	1,923,137	300,280
Additions	546	58,827	22,612
Exchange differences	(1,278)	(9,549)	(116)
Disposals	–	(5,696)	–
Depreciation/amortisation charge *(Note 17)*	–	(44,495)	(2,945)
Closing net book amount as at 30 June 2004, as restated	414,492	1,922,224	319,831
Additions	297	98,289	50,036
Exchange differences	8,401	27,262	–
Disposals	(6,345)	(12,558)	–
Depreciation/amortisation charge	–	(46,133)	(3,756)
Closing net book amount as at 31 December 2004, as restated	416,845	1,989,084	366,111

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at	
	30 June 2005	31 December 2004
Equity securities:		
Overseas unlisted shares, at cost	**1,916**	1,916
– Exchange differences	**(191)**	(101)
– Provision for impairment losses	**(278)**	(245)
	1,447	1,570

7. OTHER RECEIVABLES

	As at 30 June 2005	As at 31 December 2004
Loan to an investee company *(note a)*	–	140
Loans to a managed hotel *(note b)*	3,596	4,678
	3,596	4,818

Notes:

(a) The loan is unsecured, interest-free and with no fixed repayment terms.

(b) The loans were granted to a managed hotel in Australia owned by an independent third party under the provision of the hotel management agreement. The loans are secured by a second mortgage over that hotel property and wholly repayable by 2012 according to a fixed repayment schedule. These loans are interest-free except for a fixed amount of A$2,000,000 (equivalent US$1,524,000) which is interest bearing at LIBOR plus 1% per annum.

The effective interest rate applied to calculate the fair value on the interest free portion is 5.74% per annum.

8. ACCOUNTS RECEIVABLES, PREPAYMENTS AND DEPOSITS

	As at 30 June 2005	As at 31 December 2004
Trade receivables	40,103	37,732
Prepayments and deposits	20,107	16,910
Account receivables	30,932	20,868
	91,142	75,510

(a) The fair value of the trade and other receivables are not materially different from their carrying value.

(b) The majority of the Group's sales are by credit cards or with deposit payment. The remaining amounts are with general credit term of 30 days. The Group has a defined credit policy. The ageing analysis of the trade receivables was as follows:

	As at 30 June 2005	As at 31 December 2004
0 – 3 months	36,995	35,013
4 – 6 months	1,525	1,418
Over 6 months	1,583	1,301
	40,103	37,732

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, internationally dispersed.

9. FINANCIAL ASSETS HELD FOR TRADING

	As at 30 June 2005	As at 31 December 2004
Equity securities, at market value		
Shares listed in Hong Kong	**35,027**	33,143
Shares listed outside Hong Kong	**3,013**	3,923
	38,040	37,066

Equity securities listed in Hong Kong included 11,805,055 (31 December 2004: 11,805,055) ordinary shares in the Company ("such SA shares") with a carrying value of US$18,162,000 (31 December 2004: US$16,875,000) held by a wholly owned subsidiary of Shangri-La Hotel Public Company Limited, Thailand ("SHPCL"). Such SA shares, representing approximately 0.5% (31 December 2004: 0.5%) of the issued share capital of the Company as at 30 June 2005, were held by the wholly owned subsidiary of SHPCL before the Company acquired the controlling interests in SHPCL in late 1999. The Company has undertaken, subject to market conditions, to use its reasonable endeavours to procure SHPCL to dispose of all such SA shares to independent parties. In view of the temporary nature of this holding in such SA shares, they have been classified as financial assets held for trading in these accounts.

10. SHARE CAPITAL

	No. of shares *('000)*	Amount: Ordinary shares	Amount: Share premium	Total
Authorised				
– Ordinary shares of HK$1 each				
At 31 December 2004 and 30 June 2005	5,000,000	646,496	–	646,496
Issued and fully paid				
– Ordinary shares of HK$1 each				
At 1 January 2005	2,404,292	310,588	719,011	1,029,599
Allotment of shares upon exercise of share options *(note (a))*	4,500	577	3,794	4,371
Issue of shares upon conversion of convertible bonds *(note (b))*	31,911	4,091	35,405	39,496
At 30 June 2005	**2,440,703**	**315,256**	**758,210**	**1,073,466**
At 1 January 2004	2,181,329	282,003	533,237	815,240
Issue of shares upon share placement *(note (c))*	183,832	23,568	150,542	174,110
Allotment of shares upon exercise of share options *(note (a))*	100	13	74	87
At 30 June 2004	2,365,261	305,584	683,853	989,437
Allotment of shares upon exercise of share options *(note (a))*	22,654	2,904	19,204	22,108
Issue of scrip dividend shares *(note (d))*	16,377	2,100	15,954	18,054
At 31 December 2004	2,404,292	310,588	719,011	1,029,599

10. SHARE CAPITAL *(Continued)*

(a) The following option shares at various exercise prices granted to option holders of the Company under the Executive Option Scheme and the New Option Scheme were exercised:

	Number of option shares issued				
	At HK$8.26 per option share	**At HK$8.82 per option share**	**At HK$8.18 per option share**	**At HK$6.81 per option share**	**Total consideration**
In year 2005					
January	232,224	204,439	203,763	1,284,000	1,812
February	–	163,821	–	380,000	517
March	127,084	96,911	–	152,000	377
April	–	96,911	–	398,000	457
May	800,000	–	–	–	847
June	180,000	–	67,921	113,000	361
For the six months ended 30 June 2005	**1,339,308**	**562,082**	**271,684**	**2,327,000**	**4,371**
In year 2004					
May	–	–	–	100,000	87
For the six months ended 30 June 2004	–	–	–	100,000	87
October	–	–	97,030	3,750,000	3,376
November	1,992,654	969,108	1,736,837	6,327,000	10,551
December	4,011,010	1,881,824	892,676	996,000	8,181
	6,003,664	2,850,932	2,726,543	11,073,000	22,108
For the year ended 31 December 2004	6,003,664	2,850,932	2,726,543	11,173,000	22,195

The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK$11.28 (2004: HK$9.59).

(b) During the period, the following convertible bonds issued by a wholly owned subsidiary of the Company *(Note 13)* have been converted by the bondholders at a conversion price of HK$9.25 per ordinary share of the Company and the following ordinary shares have been issued:

Issue date of ordinary shares	**Face value of convertible bonds**	**Number of new ordinary shares issued**
February 2005	US$100,000	84,324
June 2005	US$37,743,000	31,826,521

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

10. SHARE CAPITAL *(Continued)*

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

	Number of new ordinary shares issued	Issue price per ordinary share	Issue date
Interim dividend for the year ended 31 December 2004	15,809,483	HK$8.63	7 December 2004
Final dividend for the year ended 31 December 2003	567,268	HK$7.73	28 July 2004
	16,376,751		

Share options

Share options are granted to directors and to key employees. The exercise price of the granted options is equal to/higher than the closing price of the shares on the date of the grant. Options are conditional on the directors and employees completing one year's service (the vesting period). The options are exercisable starting one year from the grant date and the options have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The Company has two share option schemes: the Executive Option Scheme and the New Option Scheme. Details of these two schemes are stated under the section headed "Share Options" of this interim report.

Movements in the number of outstanding option shares and their related weighted average exercise prices are as follows:

	For the six months ended 30 June 2005		For the year ended 31 December 2004	
	Average exercise price in HK$ per option share	**Number of option shares**	Average exercise price in HK$ per option share	Number of option shares
At 1 January	**8.00**	**17,312,433**	7.78	41,127,845
Granted	**11.60**	**18,150,000**	–	–
Exercised	**7.58**	**(4,500,074)**	7.61	(22,754,139)
Lapsed	**9.28**	**(279,555)**	7.90	(1,061,273)
At 30 June/31 December	**10.18**	**30,682,804**	8.00	17,312,433

10. SHARE CAPITAL *(Continued)*

Share options *(Continued)*

Outstanding option shares at the end of the period have the following expiry dates and exercise prices:

Expiry date	Exercise price in HK$ per option share	Number of option shares as at 30 June 2005	31 December 2004
Executive Option Scheme			
31 December 2004	8.82	–	104,555
30 April 2008	8.26	**4,500,468**	5,839,776
14 January 2010	8.82	**4,148,072**	4,710,154
14 January 2011	8.18	**1,494,264**	1,765,948
		10,142,804	12,420,433
New Option Scheme			
22 May 2005	6.81	–	75,000
28 May 2012	6.81	**2,490,000**	4,817,000
27 April 2015	11.60	**18,050,000**	–
		20,540,000	4,892,000

The fair value of each option granted during the six months ended 30 June 2005 determined using the Black-Scholes valuation model was HK$3.0 (year ended 31 December 2004: nil). The significant inputs into the model were share price of HK$11.60 at the grant date, exercise price shown above, standard deviation of expected share price returns of 29.59%, expected life of options of 5 years, expected dividend yield of 1.84% and annual risk-free interest rate of 3.16%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last year.

According to the terms of the two option schemes, options on 523,476 shares, 465,172 shares and 150,000 shares with exercise price per share of HK$8.26, HK$8.82 and HK$6.81, respectively have been exercised subsequent to 30 June 2005 and up to the date of the report. Options on 130,000 shares with exercise price of HK$11.60 have lapsed subsequent to 30 June 2005 and up to the date of this report.

11. OTHER RESERVES

	Option	Convertible bonds	Capital redemption	Investment property revaluation	Share of investment property revaluation reserves in associates	Exchange fluctuation	Capital	Other	Contributed surplus	Total
Balance at 1 January 2004, as previously reported	–	–	10,666	456,368	194,078	(137,586)	601,490	1,340	389,741	1,516,097
Currency translation differences arising from adjustment of depreciation for hotel properties and amortisation of leasehold land	–	–	–	–	–	39,348	–	–	–	39,348
Revaluation surplus of investment properties to be recognised in income statement, net of deferred income tax liabilities	–	–	–	10,865	(141,929)	–	–	–	–	(131,064)
Reversal of revaluation reserves for hotel properties, net of deferred income tax liabilities	–	–	–	(467,233)	(52,149)	–	–	–	–	(519,382)
Balance at 1 January 2004, as restated	–	–	10,666	–	–	(98,238)	601,490	1,340	389,741	904,999
Issue of convertible bonds – equity component	–	20,075	–	–	–	–	–	–	–	20,075
Currency translation differences	–	–	–	–	–	(8,551)	–	–	–	(8,551)
Balance at 30 June 2004, as restated	–	20,075	10,666	–	–	(106,789)	601,490	1,340	389,741	916,523
Currency translation differences	–	–	–	–	–	32,392	–	–	–	32,392
Other movements	–	–	–	–	–	–	–	28	–	28
Balance at 31 December 2004, as restated	–	20,075	10,666	–	–	(74,397)	601,490	1,368	389,741	948,943
Balance at 1 January 2005, as restated	–	20,075	10,666	–	–	(74,397)	601,490	1,368	389,741	948,943
Currency translation differences	–	–	–	–	–	(23,649)	–	–	–	(23,649)
Issue of shares upon conversion of convertible bonds – equity component	–	(3,798)	–	–	–	–	–	–	–	(3,798)
Granting of option shares	868	–	–	–	–	–	–	–	–	868
Balance at 30 June 2005	**868**	**16,277**	**10,666**	**–**	**–**	**(98,046)**	**601,490**	**1,368**	**389,741**	**922,364**

12. BANK LOANS AND OVERDRAFTS

	As at	
	30 June 2005	31 December 2004
Overdrafts – unsecured	**278**	147
Bank loans – secured *(Note 23)*	**51**	68
Bank loans – unsecured	**977,998**	872,239
	978,327	872,454

The maturity of bank loans and overdrafts is as follows:

	As at	
	30 June 2005	31 December 2004
Within 1 year	**34,824**	103,945
Between 1 and 2 years	**501,680**	221,994
Between 2 and 5 years	**425,001**	507,844
Wholly repayable within 5 years	**961,505**	833,783
Over 5 years	**16,822**	38,671
	978,327	872,454

In 2005, the Group refinanced part of the borrowings that fell due between one and five years, by entering into new loan agreements at lower interest cost.

The effective interest rates at the balance sheet date were as follows:

	30 June 2005					31 December 2004				
	HK$	***RMB***	***MYR***	***US$***	***Baht***	*HK$*	*RMB*	*MYR*	*US$*	*Baht*
Bank overdrafts	**–**	**–**	**6.09%**	**–**	**6.00%**	–	–	6.50%	–	6.00%
Bank borrowings	**3.30%**	**5.17%**	**3.53%**	**4.06%**	**–**	0.67%	5.16%	3.55%	3.54%	–

The carrying amounts of the bank loans and overdrafts approximate their fair value and are denominated in the following currencies:

	As at	
	30 June 2005	31 December 2004
Hong Kong dollar	**912,005**	800,503
Renminbi	**23,240**	24,396
Malaysian Ringgit	**38,055**	42,525
US dollar	**4,980**	4,980
Baht	**47**	50
	978,327	872,454

12. BANK LOANS AND OVERDRAFTS *(Continued)*

The Group has the following undrawn borrowing facilities:

	As at	
	30 June 2005	31 December 2004
Floating rate		
– expiring within one year	**187,079**	470,276
– expiring beyond one year	**384,223**	37,928
Fixed rate		
– expiring within one year	**492**	–
– expiring beyond one year	**72,517**	76,281
	644,311	584,485

13. CONVERTIBLE BONDS

On 15 March 2004, a wholly owned subsidiary of the Company issued zero coupon guaranteed convertible bonds due March 2009 (the "Maturity Date"), in the aggregate principal amount of US$200 million with an initial conversion price of HK$9.25 per ordinary share of the Company (subject to adjustment). Unless previously redeemed, converted or purchased and cancelled, these bonds will be redeemed at 114.633 per cent of their principal amount on the Maturity Date.

The fair values of the liability component and the equity conversion component were determined at issuance of the bonds.

The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in other reserves *(Note 11)*.

The convertible bonds recognised in the balance sheet is calculated as follows:

	As at	
	30 June 2005	31 December 2004
Face value of convertible bonds issued on 15 March 2004	**200,000**	200,000
Issuing expenses	**(3,185)**	(3,185)
Equity component	**(20,075)**	(20,075)
Liability component on initial recognition at 15 March 2004	**176,740**	176,740
Accumulated interest expense *(Note 19)*	**12,219**	7,433
Amount converted to ordinary shares of the Company	**(35,698)**	–
Liability component at 30 June 2005/31 December 2004	**153,261**	184,173

The face value of the outstanding bonds at 30 June 2005 amounted to US$162,157,000. The carrying value of the liability component is calculated using cash flows discounted at an effective borrowing rate of 5.27% per annum. The fair value of the liability component as at 30 June 2005 amounted to US$153,157,000 and is calculated using cash flows discounted at a rate based on the borrowing rate of 4.53%.

During the period, convertible bonds with face value US$37,843,000 were converted to 31,910,845 ordinary shares of the Company *(Note 10(b))*.

Subsequent to 30 June 2005 and up to the date of this report, bondholders have served conversion notices and convertible bonds with face value of US$99,465,000 have been converted to 83,873,172 ordinary shares of the Company.

14. DERIVATIVE FINANCIAL INSTRUMENTS

	As at 30 June 2005
Liabilities	
Interest-rate swaps contracts (HIBOR) – non-hedging	**7,400**
Less: non-current portion	**(4,734)**
Current portion	**2,666**

The notional principal amounts of the outstanding interest-rate swap contracts at 30 June 2005 were HK$4,016,000,000 (31 December 2004: HK$2,716,000,000).

At 30 June 2005, the fixed interest rates vary from 4.335% to 5.74% (31 December 2004: 4.69% to 5.74%).

15. LOANS FROM MINORITY SHAREHOLDERS

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

	As at	
	30 June 2005	31 December 2004
HIBOR plus 1.0% per annum	**1,560**	3,900
LIBOR plus 2.5% per annum	**335**	335
2.5% per annum	**31,276**	31,394
6.0% per annum	**2,474**	–
	35,645	35,629

16. ACCOUNTS PAYABLE AND ACCRUALS

	As at	
	30 June 2005	31 December 2004
Trade payables	**31,496**	35,026
Construction cost payable and accrued expenses	**132,275**	160,405
	163,771	195,431

At 30 June 2005, the ageing analysis of the trade payables was as follows:

	As at	
	30 June 2005	31 December 2004
0 – 3 months	**27,182**	33,213
4 – 6 months	**3,217**	708
Over 6 months	**1,097**	1,105
	31,496	35,026

17. EXPENSES BY NATURE

Expenses included in cost of sales, marketing expenses, administrative expenses and other operating expenses are analysed as follows:

	For the six months ended	
	30 June 2005	30 June 2004
Depreciation and amortisation (net of amount capitalised of US$72,000 (2004: US$30,000)) *(Note 5)*	**53,140**	47,410
Amortisation of negative goodwill	**–**	(2,849)
Employee benefit expenses	**102,120**	88,353
Cost of inventories sold or consumed in operation	**48,410**	43,549
Loss on disposal of fixed assets	**323**	245
Discarding of fixed assets due to renovation of hotels	**1,744**	2,948
Expenses on share options granted	**868**	–

18. OTHER GAINS – NET

	For the six months ended	
	30 June 2005	30 June 2004
Available-for-sale financial assets:		
– impairment losses	**(33)**	–
Gains (realised and unrealised) on financial assets held for trading	**2,148**	5,780
Derivative instruments:		
– interest-rate swap contracts: transactions not qualifying as hedges	**569**	–
Loss on disposal of associates	**(2,925)**	–
Interest income	**1,763**	2,035
Dividend income	**675**	485
Others	**809**	423
	3,006	8,723

19. FINANCE COSTS

	For the six months ended	
	30 June 2005	30 June 2004
Interest expense:		
– interest-rate swap contracts	**–**	15,323
– bank loans and overdrafts	**12,438**	6,658
– other borrowings wholly repayable within five years	**246**	282
– convertible bonds wholly repayable within five years *(Note 13)*	**4,786**	2,703
	17,470	24,966
Less: amount capitalised	**(3,129)**	(1,401)
	14,341	23,565
Net foreign exchange transaction gains	**40**	646
	14,381	24,211

20. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

	For the six months ended	
	30 June 2005	30 June 2004
Current income tax		
– Hong Kong profits tax	**4,256**	3,248
– Overseas taxation	**12,002**	9,974
Deferred income tax	**1,411**	(755)
	17,669	12,467

Share of associates' taxation for the six months ended 30 June 2005 of US$12,259,000 (2004: US$8,653,000) are included in the income statement as share of profits of associates.

21. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	For the six months ended	
	30 June 2005	30 June 2004
Profit attributable to equity holders of the Company	**60,553**	48,616
Weighted average number of ordinary shares in issue (thousands)	**2,408,711**	2,311,645
Basic earnings per share (US cents per share)	**2.514**	2.103

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bonds are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense. For the share options a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is increased by the number of shares that would have been issued assuming the exercise of the share options.

For the six months ended 30 June 2005, all the share options issued under the Executive Option Scheme and the share options at exercise price of HK$6.81 per option share issued under the New Option Scheme have the greatest dilution effect. For the six months ended 30 June 2004, only the share options at exercise price of HK$6.81 per option share issued the New Option Scheme have the greatest dilution effect.

21. EARNINGS PER SHARE *(Continued)*

Diluted *(Continued)*

	For the six months ended	
	30 June 2005	30 June 2004
Profit attributable to equity holders of the Company	**60,553**	48,616
Weighted average number of ordinary shares in issue (thousands)	**2,408,711**	2,311,645
Adjustments for – share options (thousands)	**4,123**	1,891
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**2,412,834**	2,313,536
Diluted earnings per share (US cents per share)	**2.510**	2.101

22. DIVIDENDS

	For the six months ended	
	30 June 2005	30 June 2004
Interim dividend proposed of HK10 cents (2004: HK9 cents) per ordinary share	**32,381**	27,298

Notes:

(a) At a meeting held on 31 March 2005, the directors proposed a final dividend of HK10 cents per ordinary share for the year ended 31 December 2004, which was paid on 8 June 2005 and has been reflected as an appropriation of retained earnings for the six months ended 30 June 2005.

(b) At a meeting held on 26 August 2005, the directors declared an interim dividend of HK10 cents per ordinary share for the year ending 31 December 2005. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as a distribution of retained earnings for the year ending 31 December 2005.

23. CONTINGENCIES AND CHARGES OVER ASSETS

(a) Contingent liabilities

As at 30 June 2005, contingent liabilities of the Group were as follows:

(i) The Group executed proportionate guarantees in favour of banks for securing banking facilities granted to certain associates. The utilised amount of such facilities covered by the Group's guarantees for these associated companies amounts to US$25,183,000 (31 December 2004: US$25,265,000).

(ii) The Group executed a performance guarantee in favour of the owner of a hotel in Sydney for the financial performance of the hotel under a management contract. The maximum cumulative amount of liability under such guarantee is A$10,000,000 (equivalent to US$7,622,000) (31 December 2004: A$10,000,000).

(b) Charges over assets

As at 30 June 2005, bank loans of a subsidiary amounting to US$51,000 (31 December 2004: US$68,000) were secured by charges over certain motor vehicles of the subsidiary with net book values totaling US$104,000 (31 December 2004: US$112,000).

24. COMMITMENTS

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	As at 30 June 2005	As at 31 December 2004
Property, plant and equipment at existing properties		
Contracted but not provided for	**26,698**	32,009
Authorised but not contracted for	**41,130**	52,297
Development projects		
Contracted but not provided for	**135,190**	76,430
Authorised but not contracted for	**1,394,850**	1,155,190
	1,597,868	1,315,926

25. RELATED-PARTY TRANSACTIONS

Kerry Group Limited ("KGL"), which owns approximately 44.2% of the Company's issued ordinary shares as recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance as at 30 June 2005, has significant influence over the Company.

The following transactions were carried out with related parties:

	For the six months ended 30 June 2005	For the six months ended 30 June 2004
(a) Transactions with subsidiaries of KGL (other than subsidiaries of the Company)		
Receipt of hotel management and related services and royalty fees	**918**	774
Reimbursement of office expenses and payment of administration and related expenses	**357**	358
Payment of office rental, management fees and rates	**169**	122
Purchase of eatable oil	**242**	77

	For the six months ended 30 June 2005	For the six months ended 30 June 2004
(b) Transactions with associates (other than a subsidiary of KGL included under item (a) above)		
Receipt of hotel management and related services and royalty fees	**3,506**	2,608
Receipt for laundry service	**322**	309

	As at 30 June 2005	As at 31 December 2004
(c) Financial assistance provided to subsidiaries of KGL (other than subsidiaries of the Company)		
Balance of loan to associates	**48,687**	54,187
Balance of guarantees executed in favor of banks for securing bank loans/facilities granted to associates	**23,951**	23,469

25. RELATED-PARTY TRANSACTIONS *(Continued)*

		As at	
		30 June 2005	31 December 2004
(d)	Financial assistance provided to an associate (excluding item (c) above)		
	Balance of loan to an associate	**53,307**	54,297
	Balance of guarantees executed in favor of banks for securing bank loans/facilities granted to an associate	**1,350**	1,965

There are no material changes to the terms of these transactions during the period.

		For the six months ended	
		30 June 2005	30 June 2004
(e)	Key management compensation		
	Salaries and other short-term employee benefits	**1,117**	936
	Post employment benefits	**40**	38
	Share-based payments	**139**	–
		1,296	974

26. EVENTS AFTER THE BALANCE SHEET DATE

(a) The Company issued the following new ordinary shares to holders of convertible bonds who have exercised the right of conversion at conversion price of HK$9.25 per ordinary share subsequent to 30 June 2005 and up to the date of this report:

Issue date of ordinary shares	Face value of convertible bonds *US$'000*	Number of new ordinary shares issued
July 2005	45,100	38,030,266
August 2005	54,365	45,842,906
	99,465	83,873,172

(b) The Company issued a total of 1,138,648 new ordinary shares to share option holders who have exercised their rights subsequent to 30 June 2005 and up to the date of this report.

(c) In August 2005, the Group executed an unsecured bilateral dual-currency (HK/US dollar) loan agreement with a bank at a total amount equivalent to US$100 million. The loan has a maturity of 5 years and the all-inclusive cost is 37 basis points over LIBOR or HIBOR at the option of the Group.

OPERATIONS REVIEW

(Performance compared to the corresponding period last year)

The Group's business is organised into three main segments:

Hotel operation	–	Hotel ownership and operation
Hotel management	–	Provision of hotel management and related services to Group-owned hotels and to hotels owned by third parties
Property rentals	–	Ownership and leasing of office properties, commercial properties and serviced apartments

Revenues

Hotel Operation

The Group's turnover from operations is derived principally from its hotels. Following the opening of the Shangri-La Hotel, Fuzhou in Mainland China for business on 25 January 2005, the Group has equity interest in 37 operating hotels with 18,874 rooms as at 30 June 2005.

The Group benefited from the continuing robust travel demand in Mainland China, buoyant global tourism and business travel and the economic growth throughout the regions that the Group operates. Among all, the resorts in Malaysia and Fiji, the 2 hotels in Hong Kong, the China World Hotel, Beijing and the hotels in Shanghai (Puxi), Dalian, Qingdao and Harbin (Mainland China) recorded significant increase in terms of both the average room rate (ranging from 13% to 31%) and average room yield ("RevPAR") (ranging from 14% to 45%). Overall weighted average room rate and weighted average RevPAR for the period increased by 14% and 17% respectively, compared to last year. Correspondingly, the Group's food and beverage revenue also increased by 10%.

The key performance indicators of the Group for the period are as follows:

	2005 Weighted Average			2004 Weighted Average		
Country	**Occupancy** *(%)*	**Transient Room Rate** *(US$)*	**RevPAR** *(US$)*	Occupancy *(%)*	Transient Room Rate *(US$)*	RevPAR *(US$)*
The People's Republic of China						
Hong Kong	**74**	**241**	**182**	66	199	145
Mainland China	**71**	**108**	**75**	70	97	69
Singapore	**81**	**121**	**96**	73	114	81
The Philippines	**78**	**107**	**81**	69	100	68
Malaysia	**70**	**70**	**49**	71	63	44
Thailand	**77**	**118**	**87**	78	108	81
Fiji	**67**	**113**	**96**	54	90	68
Indonesia	**55**	**103**	**49**	47	94	42
Myanmar	**47**	**33**	**15**	46	33	15

OPERATIONS REVIEW *(Continued)*

Revenues *(Continued)*

Hotel Operation (Continued)

Key performance indicators of the Group for the last 5 years:

	Year				
Weighted average	**2004**	**2003**	**2002**	**2001**	**2000**
Occupancy (%)	71	55	63	60	69
Transient Room Rate (US$)	102	90	91	96	94
RevPAR (US$)	73	52	58	57	63

Notes: (i) The RevPAR of hotels under renovation has been computed by excluding the number of rooms under renovation.

(ii) Performance indicators for hotels in Malaysia in 2000 to 2004 have included Shangri-La's Rasa Sayang Resort, Penang which has been closed down for major redevelopment since 1 December 2004.

(iii) The performance of the Shangri-La Hotel, Surabaya in which the Group only has 10% equity interest has not been included in the performance indicators.

Hotel Management

The hotel management arm of the Group has hotel management and/or technical consultation and project management services contracts in respect of all the Group's hotels with the exception of the Portman Ritz-Carlton Hotel, Shanghai. As at 30 June 2005, it also had hotel management contracts in respect of 10 operating hotels with 2,997 rooms and technical services and hotel management contracts in respect of 15 hotel projects owned by third parties. Aided by the strong growth of the hotels' business, the hotel management arm of the Group recorded a 16% increase in revenues before consolidation adjustment for the current period compared to last year.

Property Rentals

The Group's investment properties are located principally in Shanghai and Beijing and are owned by associated companies. The yields of both the serviced apartments, office and commercial space in these two cities recorded an increase ranging from 4% for the commercial space in the China World Trade Center in Beijing to 45% for the serviced apartments of that center with occupancies increasing from 52% to 77%. The yields of the investment properties in other locations have also improved with the exception of the commercial space in Bangkok (decreased marginally by 1%), and the commercial space (decreased by 52%) and the office space (decreased by 10%) in Kuala Lumpur.

Consolidated Profits

The consolidated profit attributable to the equity holders of the Company increased to US$60.6 million from US$48.6 million after restatement in the same period last year. The financial performance reflected the combined effects of the 14.0% increase in consolidated turnover and 1.9 percentage point increase in the gross profit ratio.

OPERATIONS REVIEW *(Continued)*

Consolidated Net Asset Value and Gearing Ratio

The Group's net asset value (total equity) increased from US$2,164.7 million as at 31 December 2004 to US$2,379.1 million largely due to the issuance of 36,410,919 new shares to holders of share options and convertible bonds who have exercised their rights and the profits recorded during the period. The net borrowings to total equity ratio improved from 40.2% as at 31 December 2004 to 38.3%.

Financial Indicators of the Group

	For the six months ended	
	30 June 2005	30 June 2004
Return on Equity [Profit attributable to equity holders of the Company / Average equity attributable to equity holders of the Company]	**2.90%**	2.76%
EBITDA [Earning before interest, tax, depreciation, amortisation and non-operating items]	**US$125,812,000**	US$106,842,000
EBITDA Margin [EBITDA/Sales]	**32.4%**	31.3%

CORPORATE DEBT AND FINANCIAL CONDITIONS

The Group has satisfactorily complied with all covenants under its borrowing agreements. The analysis of borrowings outstanding as at 30 June 2005 is as follows:

	Maturities of Borrowings Contracted as at 30 June 2005				
	Repayment				
(US$ million)	**Within 1 year**	**In the 2nd year**	**In the 3rd to 5th year**	**After 5 years**	**Total**
Borrowings					
Convertible bonds	–	–	153.3	–	153.3
Corporate bank loans	–	487.2	368.6	–	855.8
Project bank loans and overdrafts	34.8	14.5	56.4	16.8	122.5
Total borrowings	34.8	501.7	578.3	16.8	1,131.6
Undrawn but committed facilities					
Bank loans and overdrafts	187.6	29.9	426.8	–	644.3

CORPORATE DEBT AND FINANCIAL CONDITIONS *(Continued)*

The currency-mix of the borrowings, and cash and cash equivalents as at 30 June 2005 is as follows:

(US$ million)	**Borrowings**	**Cash and cash equivalents**
In Hong Kong dollars	912.0	71.9
In Singapore dollars	–	4.2
In Malaysian Ringgit	38.1	2.1
In Renminbi	23.3	43.2
In United States dollars	158.2	63.9
In Thai Baht	–	26.3
In Philippine Pesos	–	3.8
In Fiji dollars	–	3.9
In other currencies	–	0.8
	1,131.6	220.1

The borrowings in Hong Kong dollars, Malaysian Ringgit and United States dollars (with the exception of the convertible bonds) are at variable rates of interest at spreads over HIBOR, Cost of Funds and SIBOR, respectively. The loans in Renminbi are at rates specified by The People's Bank of China from time to time. As at 30 June 2005 of the Group's borrowings, US$51,000 (31 December 2004: US$68,000) were secured by charges over certain motor vehicles of a subsidiary with a net book value of US$104,000 (31 December 2004: US$112,000).

As at 30 June 2005, of the Group's cash and cash equivalents, US$118.0 million (31 December 2004: US$111.3 million) were kept in Mainland China, Malaysia, Thailand, the Philippines, Fiji and Myanmar. The remittance of funds out of these countries is subject to rules and regulations of foreign exchange control promulgated by the governments of the respective countries.

TREASURY POLICIES

The treasury policies consistently followed by the Group aim to:

(a) Minimise interest risk

This is accomplished in the loan re-financing and loan negotiation process. The Group closely monitors its loan portfolio and compares the interest margin under existing agreements against new offers. During the period, the Group has executed new five-year unsecured dual currencies (HK/US dollar) loan agreements for a total amount of US$594 million at all-inclusive costs of HIBOR/LIBOR plus 37 basis points per annum. With these facilities in place, the Group prepaid HK$2,380 million (equivalents US$305 million) under other agreements which carried higher interest rates. The Group has also sought to reduce its interest rate exposure by entering into HIBOR interest rate swap contracts. The Group has entered into new five-year HIBOR interest rate swap contracts for an aggregate principal amount of HK$1,300 million during the period. As at 30 June 2005, the Group had outstanding contracts for an aggregate principal amount of HK$4,016 million at fixed interest rates ranging between 4.335% and 5.74% per annum. The interest cover continues through March 2010.

TREASURY POLICIES *(Continued)*

(b) Minimise currency exposure

The Group has an economic hedge in terms of currency risk to the extent that all of the properties in Hong Kong, Mainland China, Singapore and Malaysia derive their revenue (and most of the expenses associated therewith) in local currencies. In addition, a substantial portion of its hotels' room revenues in the Philippines, Thailand and Indonesia are priced in United States dollars. Revenues in Indonesia are also immediately converted into United States dollars upon realisation, to the maximum extent possible.

The Group attempts to align the currencies of its loan portfolio with the currency mix of the Group's investments and revenues in various countries. Given the strengthening of the Renminbi and in compliance with directives issued by the foreign exchange regulatory authorities, subsidiaries in Mainland China have contracted project bank loan facilities partly in Renminbi and partly in Hong Kong dollars. As mentioned earlier, the Group has also secured new corporate bank loans in dual currencies to provide flexibility in view of the relative weakness of the US dollar.

The Group has not felt it appropriate to substantially hedge against currency risks through forward exchange contracts on a consideration of the currency risks involved and the cost of obtaining such cover.

FINANCIAL ASSETS HELD FOR TRADING – TRADING SECURITIES

The Group continued to gradually dispose its investment portfolio in trading securities. During the period, this disposal for US$1.2 million recorded realised gains of US$67,000 before adjustment for minority interests (US$61,000 after minority interests). As at 30 June 2005, the market value of the Group's investment portfolio was US$38.0 million which included an unrealised gain of US$2.1 million before adjustment of minority interests (US$1.7 million after minority interests). The investment portfolio included 11,805,055 ordinary shares in the Company ("such SA shares") with a market value of US$18.2 million held by a wholly owned subsidiary of Shangri-La Hotel Public Company Limited, Thailand ("SHPCL"), one of the principal subsidiaries of the Group which is listed on the Stock Exchange of Thailand. Such SA shares were held by the wholly owned subsidiary of SHPCL before the Company acquired a controlling interest in it in late 1999. The Company has undertaken, subject to market conditions, to use its reasonable endeavours to procure SHPCL to dispose all such SA shares to independent parties. The investment portfolio also included 7,603,968 ordinary shares in Kerry Properties Limited ("KPL") with a market value of US$16.9 million as at 30 June 2005. Given favourable market conditions, the Group continued to gradually dispose of its investment portfolio in trading securities to realise cash for its project developments. Subsequent to 30 June 2005, the Group disposed part of the trading securities for US$5.4 million.

DEVELOPMENT PROGRAMMES

The 414-room Shangri-La Hotel, Fuzhou and Tower 2 of the Pudong Shangri-La, Shanghai (375 rooms) opened for business on 25 January 2005 and 19 July 2005, respectively. Construction work at the following hotels is progressing satisfactorily:

	Rooms	Projected opening
In Mainland China		
Shangri-La Hotel, Pazhou, Guangzhou	750	Late 2006
Shangri-La Hotel, Chengdu	580	Early 2007
Shangri-La Hotel, Xian	400	Mid 2007
Shangri-La Hotel, Baotou, Inner Mongolia	348	Mid 2007
Shangri-La Hotel, Qingdao (Phase II)	190	Late 2007
Shangri-La Hotel, Wenzhou	400	Late 2007
Shangri-La Hotel, Futian, Shenzhen	596	Late 2007
Shangri-La Hotel, Ningbo	550	Mid 2008
Shangri-La Hotel, Huhhot, Inner Mongolia	380	Mid 2008
In other countries		
Shangri-La Hotel & Spa, Chiangmai, Thailand	280	Early 2007
Shangri-La Resort & Spa, Boracay, The Philippines	220	2008

The hotel projects in Guilin and Manzhouli (Mainland China) are in the conceptual design stage.

In June 2004, the independent shareholders of the Company and KPL approved at their respective special general meetings, the entering into of the discloseable and connected transactions relating to the joint acquisition, ownership and development of sites in Jingan District, Shanghai in which the Group will have 48.5% interest. It is intended to develop a high-end composite development consisting of office, residential, serviced apartments, retail and a Shangri-La hotel. Each of the Group and KPL own a piece of land in the area. Development would commence once the joint acquisition of the remaining parcels of land and all local registrations and approvals are obtained. The maximum total investment in the entire project is not expected to exceed US$700 million.

The Group entered into a joint venture agreement in January 2005 to develop a mixed-use complex in Ulaanbaatar, Republic of Mongolia and has identified a land to build an office tower. The project company is now identifying a suitable piece of land for hotel development. The Group will have 60% equity interest in this project.

In February 2005, the Group entered into an operating lease agreement for a Shangri-La hotel at London Bridge Tower in London, scheduled to open in 2009. The deluxe, 195-room, 18-floor Shangri-La will occupy floors 34 to 52 of the Tower.

In June 2005, the Group accepted the invitation of the Government of the Republic of Maldives (the "Maldivian Government") and entered into a joint venture agreement to develop a 198-room luxury resort in the Island of Villingili, scheduled to open in mid 2007. The Group has 70% equity interest in this project with the balance 30% owned by the Maldivian Government. The current estimated total development cost is US$80 million. As disclosed in the 2004 annual report, the Group originally only had a management contract to develop the resort but having assessed the business potential it decided to invest in the project's equity capital.

DEVELOPMENT PROGRAMMES *(Continued)*

The Group's "CHI" spa has been well received by the market since the first one at the Shangri-La Hotel, Bangkok opened in July 2004. The "CHI" spa village at Shangri-La's Mactan Island Resort & Spa, Cebu opened for business in June 2005. There are at present plans for more than ten CHI spas to be introduced in various hotels and resorts over the next few years. The CHI spa at the Pudong Shangri-La, Shanghai is scheduled to open next month.

MANAGEMENT CONTRACTS

The 378-room Traders Fudu Hotel, Changzhou opened for business on 3 January 2005. On 22 April 2005, the 162-room Traders Hotel, Chennai in India soft opened for business. On 19 March 2005, the Group signed management contracts to manage two Shangri-La hotels (738 rooms) and a Traders hotel (280 rooms) in Bangalore, the technology capital of India. These hotels are expected to open for business in late 2007/early 2008.

In May 2005, the Group terminated a management contract for a hotel project in Haikou, Mainland China due to inordinate delays in project implementation.

In addition to the 10 hotels under operation which the Group manages for third party developers/ investors, it has contracts on hand for development of 15 new hotels as at 30 June 2005. These represent an inventory of 6,079 rooms. The development projects are located in Muscat, Dubai (2 hotels), Doha (Qatar), Kuala Lumpur, Vancouver, Bangalore (3 hotels) and New Delhi (India), Kunshan, Suzhou, Dongguan, Sunny Bay – Sanya, and Urumqi (all in Mainland China).

The Group continues to review proposals it receives for management opportunities world-wide and intends to secure contracts in locations/cities which it considers to be of long-term strategic interest.

MAJOR DISPOSAL

The Group intends to sell all those assets that it considers "non-core" at market prices as and when suitable opportunities arise.

On 1 May 2005, the Group's subsidiaries completed a conditional sale and purchase agreement entered in May 2004 to dispose their entire shareholding in Johdaya Karya Sdn Bhd ("Johdaya"), which owns a commercial and office complex in Johor Bahru, Malaysia. This disposal of 27 million shares of Johdaya at a price of RM2.43 per share provided extra funds to finance the Group's capital expenditure commitments. The Group's effective interest in Johdaya was 35.83% as at 30 April 2005.

CORPORATE PHILANTHROPY

The Group is committed to supporting the communities in which it operates. This was evident in the HK$5 million contribution to the Red Cross and various relief agencies in the immediate aftermath of the tsunami disaster that struck the Southeast Asia region in December 2004 and the regular annual contribution to the Community Chest of Hong Kong.

Care for Children ("CFC"), a charity with its roots in the United Kingdom and registered in Mainland China, has been selected as the major beneficiary of the Group's ongoing social responsibility programme. The Group is now organising/planning a number of fund raising arrangements for the CFC.

ENVIRONMENTAL INITIATIVES AND PRACTICES

The Group, a founding member of the Asia Pacific Hotels Environmental Initiative, has historically been an industry leader in environment-friendly initiatives and practices. In accordance with the Group's Environmental Policy, all Shangri-La and Traders hotels have "Green Programmes" to identify ways to reduce wastage and eradicate practices that could damage the environment.

The Group's commitment to environmental awareness has to date resulted in a total of 20 hotel properties receiving certification under ISO 14001, the international Environmental Management System standard. The Group has an extensive list of internally developed environmental "best practices" which hotels not yet certified as ISO14001 also follow. All properties use an Environmental Management System manual as a guideline. This helps to identify and address the immediate and long-term impact of every hotel's operations on its local environment and ensures on-going compliance with national and international requirements.

CORPORATE STRATEGY

The Asia-Pacific region, and in particular Mainland China, will continue to be the Group's main sources of business and the focus of its capital investment. The Group was recently recognised for its contributions to the China hotel industry by receiving the first annual "China Hotel Industry Pioneer Award" during the China Hotel Development and Financing Seminar in Beijing which was jointly organised by an eminent firm of hospitality industry consultants and the China Tourist Hotels Association. The Group will continue to expand the number of properties that it owns and operates in Mainland China supplemented by management contracts for third-party-owned hotels.

Having achieved brand market leadership in Asia, the Group's strategic plan envisages the expansion of the Shangri-La brand globally through the operation of hotels in key gateway cities and resort destinations around the world preferably through management agreements and depending on individual circumstance, through equity investments. The Group has successfully launched its up-market spa brand "CHI" and plans to roll-out this concept across 19 hotels/resorts in the next 3 years. It has also entered the high-end resort market through its investments in resort developments in Boracay (The Philippines) and Maldives and plans to add to its portfolio in this segment.

PROSPECTS

The performance of the Group's hotels in the first half of this year has been encouraging. The hotels experienced a pricing momentum on the back of sustained high occupancies in most locations which beneficially impacted their RevPAR. Food and Beverage revenue growth in general has been consistent with growth in room revenues. Taken together, these have resulted in a good growth in operating profits.

These past few weeks, the price of crude oil and correspondingly its derivatives e.g. jet fuel has increased tremendously. Thus far it has not dampened travel volumes either regionally or globally. The Group remains optimistic that the business momentum it experienced this year will carry through in the second half of this year, barring any unforeseen circumstances.

HUMAN RESOURCES

As at 30 June 2005, the Company and its subsidiaries had approximately 17,900 employees. Headcount of all the 46 hotels managed by the Group totalled 28,100. Salaries and benefits including provident fund, insurance and medical cover, housing and share option schemes are maintained at competitive levels and bonuses are awarded based on individual performance as well as the financial performance of business units. The Board's Remuneration Committee reviews matters relating to the compensation and the incentives proposed for senior management and executive Directors.

The Group has extensive training programmes to ensure its employees have the skills and knowledge to be the best in their field. Its in-house training programmes emphasise service attitudes, organisation values and job enrichment and instill in its employees the philosophy of "Shangri-La Hospitality from Caring People". The Group has also conducted regular Staff Opinion Surveys in different languages to gauge employees' opinions on a range of matters affecting their interests. In 2004, the Group recorded the lowest staff turnover in its history, indicating a rising level of employee satisfaction and morale.

In December 2004, the Group launched a centralised employee training centre, the Shangri-La Academy, at Oriental University City, Lang Fang Economic and Technology Development Zone near Beijing. This training centre will accelerate and intensify employee training in keeping with the Group's expansion in Mainland China and address the critical need to attract and retain hospitality industry talent. Efforts to develop existing employees with high potential continue unabated under the Group's three core talent development programs – the Corporate Management Trainee Program, the Corporate Executive Training Program and the Corporate Trainee Program.

SHARE OPTIONS

Details of the outstanding option shares as at 30 June 2005 which have been granted under the executive share option scheme adopted by the shareholders of the Company on 16 December 1997 (the "Executive Option Scheme") are as follows:

	Date of grant	Tranche	No. of option shares held as at 1 January 2005	No. of option shares granted during the period	Transfer from other category during the period	Transfer to other category during the period	No. of option shares exercised during the period *(Note 3)*	No. of option shares lapsed during the period	No. of option shares held as at 30 June 2005	Exercise price per option share *HK$*	Exercisable Period
1. Directors											
Mr YE Longfei	1 May 1998	I	96,760	–	–	–	–	–	96,760	8.26	1 May 1999 – 30 April 2008
	1 May 1998	II	96,760	–	–	–	–	–	96,760	8.26	1 May 2000 – 30 April 2008
	1 May 1998	III	96,760	–	–	–	–	–	96,760	8.26	1 May 2001 – 30 April 2008
	15 January 2000	I	193,822	–	–	–	–	–	193,822	8.82	15 January 2001 – 14 January 2010
	15 January 2000	II	193,822	–	–	–	–	–	193,822	8.82	15 January 2002 – 14 January 2010
	15 January 2001	I	339,606	–	–	–	–	–	339,606	8.18	15 January 2002 – 14 January 2011
	15 January 2001	II	339,606	–	–	–	–	–	339,606	8.18	15 January 2003 – 14 January 2011
Mr Giovanni ANGELINI	15 January 2000	I	266,505	–	–	–	–	–	266,505	8.82	15 January 2001 – 14 January 2010
	15 January 2000	II	266,505	–	–	–	–	–	266,505	8.82	15 January 2002 – 14 January 2010
2. Continuous Contract Employees	1 May 1998	I	387,040	–	48,380	–	(106,436)	–	328,984	8.26	1 May 1999 – 30 April 2008
	1 May 1998	II	387,040	–	48,380	–	(106,436)	–	328,984	8.26	1 May 2000 – 30 April 2008
	1 May 1998	III	387,040	–	48,380	–	(106,436)	–	328,984	8.26	1 May 2001 – 30 April 2008
	15 January 2000	I	789,825	–	72,683	–	(232,587)	–	629,921	8.82	15 January 2001 – 14 January 2010
	15 January 2000	II	896,710	–	72,683	–	(232,584)	–	736,809	8.82	15 January 2002 – 14 January 2010
	15 January 2001	I	295,945	–	–	–	(101,883)	–	194,062	8.18	15 January 2002 – 14 January 2011
	15 January 2001	II	295,938	–	–	–	(101,880)	–	194,058	8.18	15 January 2003 – 14 January 2011
3. Other Participants	1 May 1998	I	1,369,460	–	–	(48,380)	(440,562)	–	880,518	8.26	1 May 1999 – 30 April 2008
	1 May 1998	II	1,509,460	–	–	(48,380)	(553,520)	–	907,560	8.26	1 May 2000 – 30 April 2008
	1 May 1998	III	1,509,456	–	–	(48,380)	(25,918)	–	1,435,158	8.26	1 May 2001 – 30 April 2008
	15 January 2000	I	1,051,485	–	–	(72,683)	(48,456)	–	930,346	8.82	15 January 2001 – 14 January 2010
	15 January 2000	II	1,051,480	–	–	(72,683)	(48,455)	–	930,342	8.82	15 January 2002 – 14 January 2010
	15 January 2000	II	104,555	–	–	–	–	(104,555)	–	8.82	15 January 2002 – 31 December 2004
	15 January 2001	I	247,428	–	–	–	(33,961)	–	213,467	8.18	15 January 2002 – 14 January 2011
	15 January 2001	II	247,425	–	–	–	(33,960)	–	213,465	8.18	15 January 2003 – 14 January 2011
Total:			12,420,433	–	290,506	(290,506)	(2,173,074)	(104,555)	10,142,804		

SHARE OPTIONS *(Continued)*

Details of the outstanding option shares as at 30 June 2005 which have been granted under the share option scheme adopted by the shareholders of the Company on 24 May 2002 (the "New Option Scheme") are as follows:

	Date of grant	Tranche	No. of option shares held as at 1 January 2005	No. of option shares granted during the period *(Notes 1, 2)*	Transfer from other category during the period	Transfer to other category during the period	No. of option shares exercised during the period *(Notes 3)*	No. of option shares lapsed during the period	No. of option shares held as at 30 June 2005	Exercise price per option share HK$	Exercisable Period
1. Directors											
Mr KUOK Khoon Loong, Edward	28 April 2005	I	–	250,000	–	–	–	–	250,000	11.60	28 April 2006 – 27 April 2015
	28 April 2005	II	–	250,000	–	–	–	–	250,000	11.60	28 April 2007 – 27 April 2015
Mr YE Longfei	29 May 2002	II	150,000	–	–	–	–	–	150,000	6.81	29 May 2004 – 28 May 2012
	28 April 2005	I	–	250,000	–	–	–	–	250,000	11.60	28 April 2006 – 27 April 2015
	28 April 2005	II	–	250,000	–	–	–	–	250,000	11.60	28 April 2007 – 27 April 2015
Mr Giovanni ANGELINI	28 April 2005	I	–	500,000	–	–	–	–	500,000	11.60	28 April 2006 – 27 April 2015
	28 April 2005	II	–	500,000	–	–	–	–	500,000	11.60	28 April 2007 – 27 April 2015
Mr LUI Man Shing	29 May 2002	I	150,000	–	–	–	–	–	150,000	6.81	29 May 2003 – 28 May 2012
	29 May 2002	II	150,000	–	–	–	–	–	150,000	6.81	29 May 2004 – 28 May 2012
	28 April 2005	I	–	150,000	–	–	–	–	150,000	11.60	28 April 2006 – 27 April 2015
	28 April 2005	II	–	150,000	–	–	–	–	150,000	11.60	28 April 2007 – 27 April 2015
Mr NG Si Fong, Alan	29 May 2002	I	60,000	–	–	–	–	–	60,000	6.81	29 May 2003 – 28 May 2012
	29 May 2002	II	60,000	–	–	–	–	–	60,000	6.81	29 May 2004 – 28 May 2012
	28 April 2005	I	–	150,000	–	–	–	–	150,000	11.60	28 April 2006 – 27 April 2015
	28 April 2005	II	–	150,000	–	–	–	–	150,000	11.60	28 April 2007 – 27 April 2015
Madam KUOK Oon Kwong	28 April 2005	I	–	150,000	–	–	–	–	150,000	11.60	28 April 2006 – 27 April 2015
	28 April 2005	II	–	150,000	–	–	–	–	150,000	11.60	28 April 2007 – 27 April 2015
Mr HO Kian Guan	28 April 2005	I	–	75,000	–	–	–	–	75,000	11.60	28 April 2006 – 27 April 2015
	28 April 2005	II	–	75,000	–	–	–	–	75,000	11.60	28 April 2007 – 27 April 2015
Mr LEE Yong Sun	29 May 2002	I	75,000	–	–	–	–	–	75,000	6.81	29 May 2003 – 28 May 2012
	29 May 2002	II	75,000	–	–	–	–	–	75,000	6.81	29 May 2004 – 28 May 2012
	28 April 2005	I	–	75,000	–	–	–	–	75,000	11.60	28 April 2006 – 27 April 2015
	28 April 2005	II	–	75,000	–	–	–	–	75,000	11.60	28 April 2007 – 27 April 2015
Mr Roberto V. ONGPIN	28 April 2005	I	–	75,000	–	–	–	–	75,000	11.60	28 April 2006 – 27 April 2015
	28 April 2005	II	–	75,000	–	–	–	–	75,000	11.60	28 April 2007 – 27 April 2015
Mr Alexander Reid HAMILTON	29 May 2002	I	75,000	–	–	–	(75,000)	–	–	6.81	29 May 2003 – 28 May 2012
	29 May 2002	II	75,000	–	–	–	(75,000)	–	–	6.81	29 May 2004 – 28 May 2012
	28 April 2005	I	–	75,000	–	–	–	–	75,000	11.60	28 April 2006 – 27 April 2015
	28 April 2005	II	–	75,000	–	–	–	–	75,000	11.60	28 April 2007 – 27 April 2015
Mr TOW Heng Tan	28 April 2005	I	–	75,000	–	–	–	–	75,000	11.60	28 April 2006 – 27 April 2015
	28 April 2005	II	–	75,000	–	–	–	–	75,000	11.60	28 April 2007 – 27 April 2015
Mr Timothy David DATTELS	28 April 2005	I	–	75,000	–	–	–	–	75,000	11.60	28 April 2006 – 27 April 2015
	28 April 2005	II	–	75,000	–	–	–	–	75,000	11.60	28 April 2007 – 27 April 2015

SHARE OPTIONS *(Continued)*

	Date of grant	Tranche	No. of option shares held as at 1 January 2005	No. of option shares granted during the period *(Notes 1, 2)*	Transfer from other category during the period	Transfer to other category during the period	No. of option shares exercised during the period *(Notes 3)*	No. of option shares lapsed during the period	No. of option shares held as at 30 June 2005	Exercise price per option share *HK$*	Exercisable Period
2. Continuous	29 May 2002	I	1,178,500	–	–	–	(484,000)	–	694,500	6.81	29 May 2003 – 28 May 2012
Contract	29 May 2002	II	1,178,500	–	–	–	(563,000)	–	615,500	6.81	29 May 2004 – 28 May 2012
Employees	28 April 2005	I	–	6,590,000	–	–	–	(50,000)	6,540,000	11.60	28 April 2006 – 27 April 2015
	28 April 2005	II	–	6,590,000	–	–	–	(50,000)	6,540,000	11.60	28 April 2007 – 27 April 2015
3. Other	29 May 2002	I	795,000	–	–	–	(550,000)	–	245,000	6.81	29 May 2003 – 28 May 2012
Participants	29 May 2002	II	795,000	–	–	–	(580,000)	–	215,000	6.81	29 May 2004 – 28 May 2012
	29 May 2002	II	75,000	–	–	–	–	(75,000)	–	6.81	29 May 2004 – 22 May 2005
	28 April 2005	I	–	585,000	–	–	–	–	585,000	11.60	28 April 2006 – 27 April 2015
	28 April 2005	II	–	585,000	–	–	–	–	585,000	11.60	28 April 2007 – 27 April 2015
Total:			4,892,000	18,150,000	–	–	(2,327,000)	(175,000)	20,540,000		

Notes:

1. The closing price per share of the shares trading on The Stock Exchange of Hong Kong Limited on 27 April 2005 (i.e. the business day immediately before the grant on 28 April 2005) was HK$11.75.

2. Please refer to note 2 and note 10 of the condensed consolidated financial statements included in this report for the accounting policy adopted for the share options and the fair value of the options.

3. The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK$11.28.

4. At the Special General Meeting of the Company held on 24 May 2002, the shareholders of the Company approved the adoption of the New Option Scheme and the termination of the operation of the Executive Option Scheme such that no further options shall thereafter be offered under the Executive Option Scheme but in all other respects the provision of the Executive Option Scheme shall remain in full force and effect.

5. No options were cancelled under the Executive Option Scheme and the New Option Scheme during the period and subsequent to 30 June 2005.

6. Options on 130,000 shares have lapsed under the New Option Scheme subsequent to 30 June 2005. No options were lapsed under the Executive Option Scheme subsequent to 30 June 2005.

7. Options on 988,648 shares were exercised under the Executive Option Scheme and options on 150,000 shares were exercised under the New Option Scheme subsequent to 30 June 2005.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2005, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (the "Associated Corporations") as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "HKSE") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities on the HKSE (the "HK Listing Rules") were as follows:

(a) Long positions in shares of the Company and Associated Corporations

Name of Company	Name of Director	Class of Shares	Number of Shares held: Personal Interests *(Note 1)*	Family Interests	Corporate Interests	Other Interests	Total	Percentage of Total Issued Share Capital of the Relevant Company as at 30 June 2005
(i) The Company	Mr KUOK Khoon Loong, Edward	Ordinary	3,456	–	297,410 *(Note 2)*	–	300,866	0.01%
	Mr Giovanni ANGELINI	Ordinary	100,000	–	–	–	100,000	0.00%
	Madam KUOK Oon Kwong	Ordinary	151,379	192,011 *(Note 3)*	108,673 *(Note 5)*	–	452,063	0.02%
	Mr HO Kian Guan	Ordinary	317,475	–	104,205,928 *(Note 4)*	–	104,523,403	4.28%
	Mr HO Kian Hock (Alternate to Mr HO Kian Guan)	Ordinary	–	–	104,205,928 *(Note 4)*	–	104,205,928	4.27%
(ii) Associated Corporation								
Shangri-La Hotels (Malaysia) Berhad	Madam KUOK Oon Kwong	Ordinary	–	–	10,000 *(Note 5)*	–	10,000	0.00%
Shangri-La Hotel Public Company Limited	Mr LUI Man Shing	Ordinary	10,000	–	–	–	10,000	0.01%

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

(a) Long positions in shares of the Company and Associated Corporations *(Continued)*

Notes:

1. These shares were held by the relevant Directors as beneficial owners.

2. These shares represent the interest of a controlled corporation.

3. These shares were held by the spouse of the relevant Director.

4. 67,600,329 shares were held through companies which are controlled as to 33.33% by each of Mr HO Kian Guan and Mr HO Kian Hock.

   4,165,848 shares were held through a company which is controlled as to 21.88% by each of Mr HO Kian Guan and Mr HO Kian Hock.

   3,895,710 shares were held through companies which were controlled as to 13.30% and 7.08% by Mr HO Kian Guan and Mr HO Kian Hock respectively.

   28,544,041 shares were held through companies which were controlled as to 6.55% and 6.74% by Mr HO Kian Guan and Mr HO Kian Hock respectively.

5. These shares were held through a company which is owned as to 50% by Madam KUOK Oon Kwong.

(b) Long positions in underlying shares of the Company and Associated Corporations

As at 30 June 2005, details of share options granted under the Executive Option Scheme and the New Option Scheme to the Directors were stated in the previous section headed "Share Options" of this report.

Save as mentioned above, as at 30 June 2005, none of the Directors had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its Associated Corporations which had been recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2005, the interests and short positions of those persons (other than the Directors) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long positions in shares of the Company

Name	Capacity in which Shares were Held	Number of Ordinary Shares Held	Percentage of Total Issued Share Capital of the Company as at 30 June 2005
Substantial Shareholders			
Kerry Group Limited ("KGL")	Interest of controlled corporations	1,078,887,701	44.20%
Kerry Holdings Limited ("KHL") *(Notes 1 and 2)*	Interest of controlled corporations	1,078,887,701	44.20%
Caninco Investments Limited *(Notes 2 and 3)*	Beneficial owner Interest of a controlled corporation	479,424,818 96,330,633	23.59%
Persons other than Substantial Shareholders			
Darmex Holdings Limited *(Notes 2 and 3)*	Beneficial owner	239,302,975	9.80%
Temasek Holdings (Private) Limited ("Temasek")	Interest of a controlled corporation	166,284,498	6.81%
Cress Limited ("Cress") *(Note 4)*	Beneficial owner	166,284,498	6.81%
The Capital Group Companies, Inc.	Investment Manager	120,792,412	4.95%

Notes:

1. Out of KHL's interest in 1,078,887,701 shares, 1,053,481,123 shares were held through its wholly-owned subsidiaries, 13,601,523 shares were held through companies in which KHL controls more than one third of the voting power (other than those wholly-owned subsidiaries as aforementioned) and 11,805,055 shares were held through a wholly-owned subsidiary of Shangri-La Hotel Public Company Limited, Thailand, a 73.61% owned subsidiary of the Company.

2. These companies are wholly-owned subsidiaries of KGL, and their interests in the shares of the Company are included in the interests held by KGL.

3. These companies are wholly-owned subsidiaries of KHL, and their interests in the shares of the Company are included in the interests held by KHL.

4. Cress is a wholly-owned subsidiary of Temasek and its interest in the shares of the Company is included in the interest held by Temasek.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY *(Continued)*

Save as mentioned above, as at 30 June 2005, the Company had not been notified of any interests and short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the six months ended 30 June 2005.

CORPORATE GOVERNANCE

The Company has always recognised the importance of shareholders' transparency and accountability. The Board of Directors believes that shareholders can maximise their benefits from good corporate governance. Therefore, the Company continuously reviews its corporate governance framework to ensure that it aligns with generally acceptable practices and standards.

During the period under review, the Company has met the code provisions (those which became effective for the accounting period commencing 1 January 2005) as set out in the Code on Corporate Governance Practices contained in Appendix 14 of the HK Listing Rules, except that the Company has not appointed a chief executive officer since Mr Giovanni ANGELINI is already, and has been since 1999, a chief executive officer of Shangri-La International Hotel Management Limited, which administers on a day-to-day basis the hotel business which accounts for a substantial portion of the Group's business interests. It is therefore considers it unnecessary to appoint a chief executive officer of the Company. As for the management of the Board of Directors of the Company, this is a function already performed by Mr KUOK Khoon Loong, Edward as the Chairman of the Board of Directors of the Company. The Board of Directors of the Company considers that this structure will not impair the balance of power and authority between the Board and the Management.

The Board of the Company meets at least four times a year at quarterly intervals and meets more frequently as and when required. Mr ANGELINI, being an Executive Director of the Company, reports to the Board of Directors of the Company on the Group's affairs. The Board of Directors of the Company believes that this structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently.

SECURITIES TRANSACTIONS BY DIRECTORS

The Board of Directors of the Company has adopted the Model Code as set out in Appendix 10 of the HK Listing Rules as the Code for Securities Transactions by Directors of the Company (the "Securities Dealing Code"). The Company has made specific enquiry of all Directors who confirmed compliance with the required standard set out in the Securities Dealing Code during the period under review.

REMUNERATION COMMITTEE

A Remuneration Committee of the Board of Directors was set up on 17 October 1997 to review matters relating to the compensation and the incentives proposed for senior management and Executive Directors of the Company. The Committee currently comprises three members including the Chairman and two Independent Non-Executive Directors.

AUDIT COMMITTEE

The Company set up an Audit Committee of the Board of Directors on 25 August 1998. The Committee comprises three Non-Executive Directors, two of them being independent. The Committee acts in accordance with written terms of reference. The current Committee members are Mr Alexander Reid HAMILTON, Mr HO Kian Guan and Mr TOW Heng Tan. The Committee reviewed the Group's 2005 interim financial statements before they were tabled for the Board's review and approval.

REGISTERS OF MEMBERS

The registers of members will be closed from Monday, 26 September 2005, to Wednesday, 28 September 2005, both dates inclusive. To qualify for the proposed interim dividend, all share transfers must be lodged with the Company's branch share registrars in Hong Kong, Abacus Share Registrars Limited of G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration no later than 4:00 p.m. on Friday, 23 September 2005.

On behalf of the Board of Directors

KUOK Khoon Loong, Edward
Chairman

Hong Kong, 26 August 2005