



REPORT OF THE DIRECTORS



PITCH AND PUTT GOLF
SHANGRI-LA'S MACTAN ISLAND RESORT & SPA, CEBU



The Directors submit their report together with the audited accounts for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding.

The principal activities of the Company's subsidiaries are the ownership and operation of hotels and associated properties and the provision of hotel management and related services. The Company's subsidiaries are also the registered proprietors of various trademarks and service marks in various countries, including the brand names "Shangri-La", "Traders", "Rasa", "Summer Palace" and "Shang Palace" and related devices and logos.

The principal activities of the Company's associated companies are the leasing of office, commercial, residential and exhibition hall space and serviced apartments as well as the ownership and operation of hotels.

An analysis of the Group's performance for the year by geographical and business segments is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated income statement on page 104.

The Directors have declared an interim dividend of HK10 cents per share for the year.

The details of dividends paid and proposed during the year are set out in note 33 to the financial statements.

RESERVES

The movements in reserves during the year are set out in notes 17 and 18 to the financial statements.

DONATIONS

Charitable donations and other donations made by the Group during the year amounted to US\$758,000.

FIXED ASSETS

The details of movements in fixed assets during the year are set out in notes 6, 7 and 8 to the financial statements.

PRINCIPAL PROPERTIES

The details of the principal hotel properties and investment properties are set out in notes 39 and 40 to the financial statements respectively.

SHARE CAPITAL

The details of share capital are set out in note 17 to the financial statements.

SUBSIDIARIES AND ASSOCIATES

The details of the Company's principal subsidiaries and associates are set out in note 38 to the financial statements.

PARTICULARS OF BANK LOANS, OVERDRAFTS AND CONVERTIBLE BONDS

The particulars of bank loans, overdrafts and convertible bonds as at 31 December 2005 are set out in notes 19 and 20 to the financial statements respectively.

RESULTS, ASSETS AND LIABILITIES

The results, assets and liabilities of the Group for the last five financial years are set out on page 180.

DIRECTORS

The Directors who held office during the year and up to the date of this report were:

Mr KUOK Khoon Loong, Edward (*Chairman*)

Mr YE Longfei (*Deputy Chairman*)

Mr Giovanni ANGELINI

Mr LUI Man Shing

Mr NG Si Fong, Alan

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*)

Non-Executive Directors

+ *Independent Non-Executive Directors*

Mr Kuok Khoon Loong, Edward, Mr Lui Man Shing, Mr Ng Si Fong, Alan and Madam Kuok Oon Kwong retire by rotation in accordance with Bye-Law 99 of the Company's Bye-Laws. All retiring Directors, being eligible, offer themselves for re-election.

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

As at 31 December 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") were as follows:

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

Name of Company	Name of Director	Class of Shares	Personal Interests (Note 1)	Family Interests	Number of Shares held		Total	Percentage of Total Issued Share Capital of the Relevant Company as at 31 December 2005
					Corporate Interests	Other Interests		
(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	4.14%
	Mr Ho Kian Hock (Alternate to Mr Ho Kian Guan)	Ordinary	–	–	104,205,928 (Note 4)	–	104,205,928	4.12%
(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%

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 were 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 was 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 was owned as to 50% by Madam Kuok Oon Kwong.

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

As at 31 December 2005, details of share options granted under the Executive Option Scheme and the New Option Scheme to the Directors of the Company who held office during the year were stated in the section headed "Share Options" of this report.

Save as mentioned above, as at 31 December 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 by the Company under Section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party, and in which any Director had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "HK Listing Rules"), the Company disclosed below that during the year and up to the date of this report, the following Directors are considered to have interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors of the Company have been appointed/were appointed as Directors to represent the interests of the Company and/or the Group:

- (i) Madam Kuok Oon Kwong is a Non-Executive Director of Allgreen Properties Limited ("Allgreen"), a company listed on the Singapore Exchange Securities Trading Limited.

Allgreen Group of companies ("Allgreen Group") has a diversified portfolio of properties in Singapore including serviced apartments. Shangri-La Hotel Limited, Singapore ("SHL"), a wholly-owned subsidiary of the Company, also owns a serviced apartment and condominium development in Singapore. While SHL and the Allgreen Group may compete with each other in the area of serviced apartment business, the Directors believe that this competition does not pose any material threat to SHL's business prospects because:

- SHL is principally engaged in the hotel business;
- the serviced apartment business is an ancillary part of SHL's hotel business;
- the Group's hotel business is effectively marketed on the strength of Shangri-La International Hotel Management Limited's ("SLIM's") renowned position in the hotel industry worldwide built on its strong brands, brand recognition and high-quality services;
- SHL's serviced apartment business is effectively marketed on the strength of SLIM's renowned and high-quality services; and
- Madam Kuok Oon Kwong is only a Non-Executive Director of Allgreen.

(ii) Messrs Ho Kian Guan and Ho Kian Hock are substantial shareholders and Directors of the company which holds River View Hotel, Singapore. Messrs Ho Kian Guan and Ho Kian Hock are substantial shareholders of the company which holds Holiday Inn Riverside Wuhan (the "Holiday Inn Holding Company"). Mr Ho Kian Guan is a Director of the Holiday Inn Holding Company.

While such businesses may compete with the Group's hotel businesses in Singapore and Wuhan, the Directors believe that this competition does not pose any material threat to the Group's hotel business prospects because:

- the hotels operated by the Group and those by the Directors with competing interests are targeting different segments or groups of customers in the market and the differentiation of the clientele segments is based on a combination of factors, such as the geographical locations of the hotels, the breadth of services and amenities available, the positioning of the hotels in the local market, the level of room rates, the size and scale of the hotel and the guest recognition program; and/or
- the Group's hotel business is effectively marketed on the strength of SLIM's renowned position in the hotel industry worldwide built on its strong brands, brand recognition and high-quality services.

The abovementioned competing businesses are operated and managed by companies with independent management and administration. In addition, the Board of Directors of the Company is independent of the boards of the abovementioned companies carrying on the competing businesses. Accordingly, the Group is capable of carrying on its business independent of, and at arm's length from, the competing businesses mentioned above.

SHARE OPTIONS

Executive Share Option Scheme

The executive share option scheme of the Company was approved by the shareholders of the Company (the "Shareholders") on 16 December 1997 (the "Executive Option Scheme").

The Executive Option Scheme is designed to give Executive Directors of, managers of or other employees holding an executive, managerial, supervisory or similar position in the Company or any of its subsidiaries an interest in preserving and maximising shareholder value in the longer term, to enable the Company to attract and retain individuals with experience and ability, and to provide individuals with incentives for future performance.

A summary of the Executive Option Scheme has been disclosed in the Company's 2001 Annual Report.

In September 2001, HKSE amended the requirements for share option schemes under the HK Listing Rules. These new requirements make some of the provisions of the Executive Option Scheme no longer applicable.

At the Special General Meeting of the Company held on 24 May 2002 (the "Adoption Date"), the Shareholders approved the adoption of a new share option scheme (the "New Option Scheme") (details of which are set out below) 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 provisions of the Executive Option Scheme shall remain in full force and effect).

New Option Scheme

The purpose of the New Option Scheme is to motivate Eligible Persons^{Note 1} to optimise their future contribution to the Company, its Subsidiaries^{Note 2} and Associates^{Note 2}, and Invested Entities^{Note 2} (collectively referred to as the "Enlarged Group") and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Enlarged Group, and additionally in the case of Executives^{Note 2}, to enable the Enlarged Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

The maximum number of shares in the Company (the "Shares") in respect of which options may be granted under the New Option Scheme (and under any other share option scheme) shall not in aggregate exceed 10 per cent. of the Shares in issue as at the Adoption Date (the "Scheme Mandate Limit"). Shares which may be issued upon the exercise of all options granted under the Executive Option Scheme and outstanding as at the Adoption Date shall not be included in the calculation of the Scheme Mandate Limit as at the Adoption Date. The Company may from time to time as the Board may think fit seek approval from the Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the New Option Scheme (and any other share option scheme) shall not exceed 10 per cent. of the Shares in issue as at the date of approval by the Shareholders in the general meeting where such limit is refreshed. Notwithstanding the above, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Option Scheme (and under any other share option scheme) shall not exceed 30 per cent. of the Shares in issue from time to time.

As at the date of this report, a total of 184,065,991 Shares (representing approximately 7.28% of the existing issued share capital thereof) are available for issue under the New Option Scheme.

The maximum number of Shares issued and to be issued upon exercise of the options granted to any one Eligible Person (including exercised and outstanding options) in any 12-month period shall not exceed one percent of the Shares in issue from time to time.

The period under which an option must be exercised shall be such period as the Board of Directors may in its absolute discretion determine at the time of grant, save that such period shall not be more than 10 years commencing on the date of grant of an option. The minimum period for which an option must be held before it can be exercised is determined by the Board of Directors upon the grant of an option. The amount payable on acceptance of an option is HK\$1. The full amount of the exercise price for the subscription of Shares must be paid upon exercise of an option.

The exercise price for any particular option shall be such price as the Board of Directors of the Company may in its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the exercise price shall not be less than whichever is the highest of (a) the nominal value of a Share; (b) the closing price of the Shares as stated in HKSE's daily quotation sheets on the date of the Board resolution approving the grant of options (the "Offer Date"), which must be a day on which HKSE is open for the business of dealing in securities (the "Business Day"); and (c) the average of the closing prices of the Shares as stated in HKSE's daily quotation sheets for the five Business Days immediately preceding the Offer Date.

The New Option Scheme will expire on 23 May 2012.

Notes:

1. "Eligible Person" means any of the following persons:
 - (a) an Executive;
 - (b) a Director or proposed Director (including an Independent Non-Executive Director) of any member of the Enlarged Group;
 - (c) a direct or indirect shareholder of any member of the Enlarged Group;
 - (d) a supplier of goods or services to any member of the Enlarged Group;
 - (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Enlarged Group;
 - (f) a person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Enlarged Group;
 - (g) a landlord or tenant (including a sub-tenant) of any member of the Enlarged Group;
 - (h) any person approved by the shareholders of the Company; and
 - (i) an Associate of any of the foregoing persons.
2. The terms "Associates", "Executives", "Invested Entities" and "Subsidiaries" are defined under the circular to Shareholders dated 17 April 2002.

Details of the outstanding option shares as at 31 December 2005 which have been granted under 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 year	Transfer from other category during the year	Transfer to other category during the year	No. of option shares exercised during the year (Note 3)	No. of option shares lapsed during the year	No. of option shares held as at 31 December 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	-	(174,168)	-	261,252	8.26	1 May 1999 – 30 April 2008
	1 May 1998	II	387,040	-	48,380	-	(174,168)	-	261,252	8.26	1 May 2000 – 30 April 2008
	1 May 1998	III	387,040	-	48,380	-	(174,168)	-	261,252	8.26	1 May 2001 – 30 April 2008
	15 January 2000	I	789,825	-	72,683	-	(271,351)	-	591,157	8.82	15 January 2001 – 14 January 2010
	15 January 2000	II	896,710	-	72,683	-	(271,348)	-	698,045	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)	(537,322)	-	783,758	8.26	1 May 1999 – 30 April 2008
	1 May 1998	II	1,509,460	-	-	(48,380)	(677,040)	-	784,040	8.26	1 May 2000 – 30 April 2008
	1 May 1998	III	1,509,456	-	-	(48,380)	(125,918)	-	1,335,158	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)	(3,452,002)	(104,555)	8,863,876	

Details of the outstanding option shares as at 31 December 2005 which have been granted under 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 year (Notes 1, 2)	Transfer from other category during the year	Transfer to other category during the year	No. of option shares exercised during the year (Note 3)	No. of option shares lapsed during the year	No. of option shares held as at 31 December 2005	Exercise price per option share HK\$	Exercisable Period	
I. Directors												
Mr Kuok Khoon	28 April 2005	I	–	250,000	–	–	–	–	250,000	11.60	28 April 2006 – 27 April 2015	
Loong, Edward	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	

	Date of grant	Tranche	No. of option shares held as at 1 January 2005	No. of option shares granted during the year (Notes 1, 2)	Transfer from other category during the year	Transfer to other category during the year	No. of option shares exercised during the year (Note 3)	No. of option shares lapsed during the year	No. of option shares held as at 31 December 2005	Exercise price per option share HK\$	Exercisable Period
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
2. Continuous Contract Employees	29 May 2002	I	1,178,500	-	-	-	(559,000)	-	619,500	6.81	29 May 2003 – 28 May 2012
	29 May 2002	II	1,178,500	-	-	-	(638,000)	-	540,500	6.81	29 May 2004 – 28 May 2012
	28 April 2005	I	-	6,590,000	-	-	-	(150,000)	6,440,000	11.60	28 April 2006 – 27 April 2015
	28 April 2005	II	-	6,590,000	-	-	-	(150,000)	6,440,000	11.60	28 April 2007 – 27 April 2015
3. Other Participants	29 May 2002	I	795,000	-	-	-	(550,000)	-	245,000	6.81	29 May 2003 – 28 May 2012
	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	-	-	-	(15,000)	570,000	11.60	28 April 2006 – 27 April 2015
	28 April 2005	II	-	585,000	-	-	-	(15,000)	570,000	11.60	28 April 2007 – 27 April 2015
	Total:			4,892,000	18,150,000	-	-	(2,477,000)	(405,000)	20,160,000	

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 2.23 and note 17 of the 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\$11.68.
4. No options were cancelled under the Executive Option Scheme and the New Option Scheme during the year and subsequent to 31 December 2005.
5. Options on 210,000 shares were lapsed under the New Option Scheme subsequent to 31 December 2005 and no options were lapsed under the Executive Option Scheme subsequent to 31 December 2005.
6. Options on 60,000 shares were exercised under the New Option Scheme and no options were exercised under the Executive Option Scheme subsequent to 31 December 2005.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

As at 31 December 2005, details of options granted under the Executive Option Scheme and the New Option Scheme to the Directors of the Company who held office during the year were stated in the previous section headed "Share Options" of this report.

Apart from the aforesaid, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors or their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

CONNECTED TRANSACTIONS

During the financial year ended 31 December 2005 and in the normal course of business, the Company and its subsidiaries had various commercial transactions with certain connected persons. These transactions are considered to be connected transactions under the HK Listing Rules. Details of these transactions are as follows:

1. On 13 April 2004, the Company entered into with Kerry Properties Limited ("KPL"), a subsidiary of Kerry Group Limited ("KGL") which is a substantial shareholder of the Company, a Master Agreement relating to the joint acquisition, ownership and development of certain sites in Jingan District, Shanghai in which the Group will have a 48.5% interest and up to a maximum of 49% interest. Such transaction constituted a discloseable and connected transaction of the Company and was approved by the independent shareholders of the Company at the Special General Meeting held on 29 June 2004. Pursuant to the Master Agreement, Kerry Shanghai (Jingan Nanli) Ltd ("KSJN"), a wholly owned subsidiary of the Group, disposed 50.5% equity interest out of its 99% holding in Shanghai Ji Xiang Properties Co., Ltd. ("SJXP") to a wholly owned subsidiary of KPL in December 2005. The total cash consideration for this disposal and assignment of the proportionate share of amounts due by SJXP to KSJN was US\$39,488,308.

Pursuant to the Master Agreement, KSJN has also acquired 49% equity interest in each of Shanghai Jin Ci Hou Properties Company Limited ("SJC") and Shanghai Ming Cheng Real Estate Development Co., Ltd. ("SMC") during the year for a total consideration of RMB9,800,000 (equivalent to US\$1,211,000) and US\$2,450,000, respectively. Subsequent to the acquisitions, the Group contributed additional proportionate equity to SJC and SMC for the amount of US\$36,766,660 and US\$1,960,000, respectively. The Group also entered into two shareholder loan agreements in December 2005 with these two newly acquired associates pursuant to the terms of the Master Agreement. Details of these two shareholder loan agreements are provided under Notes iii and viii.

As certain governmental approvals required to implement the relevant contracts are still pending, the Company and KPL agreed to further extend the deadline for the execution of all contracts and agreements contemplated under the underlying contracts to 30 June 2006 or such later date as the parties may agree.

2. On 20 July 2005, Seanoble Assets Limited ("Seanoble"), a wholly owned subsidiary of the Company, entered into the Sale and Purchase Agreement with Greatmagic Investments Limited ("Greatmagic") in relation to the sale by Seanoble of its 5% attributable interest in a hotel development project situated in Ningbo, the People's Republic of China and known as Shangri-La Hotel, Ningbo ("Ningbo Hotel") to Greatmagic (the "Sale"). The Sale was effected through the sale of Seanoble's 5% equity interest in Shangri-La International Hotels (Ningbo) Ltd. ("Shangri-La Ningbo") and the assignment of 5% of the shareholder's loan due to Seanoble from Shangri-La Ningbo at a consideration of HK\$5 and US\$1,520,000 respectively. Shangri-La Ningbo holds 100% interest in Shangri-La Hotel (Ningbo) Co., Ltd. which is the owner and developer of the Ningbo Hotel. After completion of the Sale, Ningbo Hotel is beneficially owned as to 95% by Seanoble and 5% by Greatmagic.

Greatmagic is owned as to 60% by Mr Chana Asdathorn (the spouse of a director of a subsidiary of the Company and hence, a connected person of the Company) and 40% by other family members of Mr Chana Asdathorn. Thus, Greatmagic is a connected person of the Company by virtue of its being an associate of Mr Chana Asdathorn.

Mr Chana Asdathorn and his family members have been strategic investors of Shangri-La Hotel Public Company Limited, Thailand, a 73.61% owned subsidiary of the Company, which holds interest in an operating hotel in Bangkok and a resort under development in Chiangmai, Thailand. The aforesaid Sale to Mr Chana Asdathorn will strengthen the co-operation between the parties and will allow the Group to exploit more efficiently any development or expansion opportunities that may arise in Thailand.

3. A subsidiary of the Company entered into (1) a joint venture contract on 9 October 2005 with a subsidiary of KPL, a subsidiary of Allgreen Properties Limited ("Allgreen"), (collectively referred to as the "Parties") and an independent third party; and (2) a funding agreement on 30 November 2005 with the Parties relating to the establishment of a joint venture company to undertake a property development project in Pudong, Shanghai, the People's Republic of China (the "Project"). KPL, the Group, Allgreen and the independent third party would have

40.8%, 23.2%, 16% and 20% interest in the Project respectively. KPL is a subsidiary of Kerry Holdings Limited which is a substantial shareholder of the Company. Allgreen's subsidiary is a substantial shareholder of a subsidiary of the Company and therefore, Allgreen is a connected person of the Company at the subsidiaries' level. Accordingly, the transactions constituted connected transactions of the Company and approval was given by the independent shareholders of the Company at the Special General Meeting held on 17 February 2006.

4. Unsecured shareholders' loans and guarantees

The Group provided financial assistance to certain companies in prior years. The balances of these financial assistance as at the respective year end date of 2005 and 2004 are listed below:

(A) Unsecured shareholders' loansⁱ

	Loan balance	
	2005 US\$'000	2004 US\$'000
a. Non-wholly owned subsidiaries		
– Traders Yangon Company Limited		
: interest bearing portion ⁱ	35,472	35,854
: non-interest bearing portion	34,021	34,021
– Shangri-La Yangon Company Limited		
: interest bearing portion ⁱ	1,992	1,992
: non-interest bearing portion	23,732	23,732
– Traders Square Company Limited		
: non-interest bearing	4,406	4,406
b. Associates		
– Cuscaden Properties Pte Ltd ("CPPL")		
: interest bearing at 1.25%	32,012	32,581
– SMC		
: interest bearing at 6-month HIBOR + 2% per annum ⁱⁱⁱ	4,110	–
c. Investee company		
– P.T. Sariपुरi Permai Hotel	1,030	1,230

(B) Guarantees executed in favour of banks for securing bank loans/ facilities granted ^{iv}

	Amount of guarantees given	
	2005 US\$'000	2004 US\$'000
a. Associates		
– CPPL ^v	10,886	1,965
– Beijing Jia Ao Real Estate Development Co., Ltd. ^{vi}	5,558	4,940
– Beijing Kerry Centre Hotel Co., Ltd. ^{vi}	2,874	4,726
– Shanghai Xin Ci Hou Properties Co., Ltd. ("SXCHP") ^{vii}	12,008	13,803

Notes:

- i. Please refer to 2000 annual report for other details of the financial assistance provided. Terms of such financial assistance (except those set out in Note ii below) remain unchanged as at year end of 2005.
- ii. Under a supplementary agreement, the loan interest rate has been changed from 5% per annum to 2.5% per annum commencing 1 April 2002.
- iii. The loan was granted pursuant to a shareholder loan agreement dated 1 December 2005 between, inter alia, SMC, 49% owned by the Group, and KSJN. The maximum amount of loan to be granted by KSJN under such facility is HK\$34,153,000. The loan is unsecured, bearing interest at 6-month HIBOR plus 2% per annum and wholly repayable on 31 December 2015.
- iv. The amount of guarantees disclosed is stated with reference to the utilised bank loans/facilities balance.
- v. This guarantee was for securing certain banking facilities granted in 2001. Please refer to 2001 annual report for details. Terms of such financial assistance remain unchanged as at year end of 2005.
- vi. Please refer to 2004 annual report for details of the guarantees provided. Terms of such financial assistance remain unchanged as at year end of 2005.

- vii. On 17 March 2004, the Company executed a guarantee in favour of the China Construction Bank, Shanghai Jingan Sub-Branch ("CCB") guaranteeing the repayment of 24.75% of the monies (up to HK\$123,750,000) owed by SXCHP to CCB under the loan facility of HK\$500,000,000 made available by CCB to SXCHP and the related interests and expenses. The loan facility was granted to SXCHP for financing the repayment of shareholders' loans advanced to SXCHP.
- viii. KSJN entered into a shareholder loan agreement with, inter alia, SJC, 49% owned by the Group, on 8 December 2005. The maximum amount of loan to be granted by KSJN under such facility is HK\$245,000,000. The loan is unsecured, bearing interest at 6-month HIBOR plus 2% per annum and wholly repayable on 31 December 2015. KSJN has not granted any loan pursuant to this agreement as at 31 December 2005.

CONTINUING CONNECTED TRANSACTIONS

During the financial year ended 31 December 2005, there were continuing connected transactions of the Group in effect as set out below:

- i. On 28 January 1995, the Company entered into a discloseable and connected transaction to acquire various hotel interests from certain parties, including connected persons. Included in these hotel interests are (i) Shangri-La's Edsa Plaza Hotel, Manila (now known as Edsa Shangri-La, Manila) ("Edsa Shangri-La Hotel"), and (ii) Shangri-La's Mactan Island Resort & Spa, Cebu ("Mactan Island Resort"). Edsa Shangri-La Hotel is built on land leased from Shangri-La Properties Inc. (now known as Edsa Properties Holdings Inc. ("EPHI")) (an associate of KPL) under a 25 years lease commencing in 1992, with an option to renew the lease for a further term of 25 years. Upon expiration of the further term, EPHI agrees to grant to Edsa Shangri-La Hotel & Resort, Inc. a new lease term of 25 years subject to the prevailing Philippine laws. Mactan Island Resort is built on land leased from Brown Swallow Development Corporation ("BSDC") and Green Mangrove Realty Inc. ("GMRI") (both of which are associates of KGL and of the spouse of a past director of a wholly owned subsidiary of the Company) under a 25 years lease commencing in 1990, with an option to renew the lease for an additional 25 years. Further information regarding these leases are set out in the Company's circular dated 13 February 1995.

EPHI, BSDC and GMRI are connected persons of the Company by virtue of their being associates of KGL, a substantial shareholder of the Company, and/or of a family member of a past director of the Company's subsidiary. Accordingly, these leases constitute continuing connected transactions of the Company under the HK Listing Rules.

For the year ended 31 December 2005, an aggregate amount of US\$1,052,000 (2004: US\$1,001,000) was paid to EPHI and an aggregate amount of US\$1,090,000 (2004: US\$882,000) was paid to BSDC and GMRI.

- Shangri-La International Hotel Management Limited ("SLIM") and its fellow subsidiaries provided hotel management, marketing, communication and reservation services ("Hotel Management Services") to five hotels/club which are owned by certain connected persons of the Company (as set out in the table below) pursuant to the hotel management, marketing and related agreements entered into between various SLIM entities and the relevant connected persons of the Company. SLIM is an indirect wholly owned subsidiary of the Company.

Cuscaden Properties Pte Ltd ("CPPL") is the owner of Traders Hotel, Singapore. CPPL is owned as to 55.4% by Allgreen and as to 40.75% by the Group. As CPPL is a substantial shareholder of a subsidiary of the Company, both CPPL and Allgreen (being the holding company of CPPL) are regarded as connected persons of the Company at the subsidiaries' level under the HK Listing Rules.

Traders Yangon Company Limited ("TYCL") is the owner of Traders Hotel, Yangon. TYCL is owned as to 11.76% by Kuok (Singapore) Limited ("KSL"), as to 11.76% by Jenko Properties Limited ("JPL") and as to 59.16% by the Group. KSL is a substantial shareholder of certain subsidiaries of the Company and is regarded as a connected person of the Company at the subsidiaries' level. JPL is an indirect wholly owned subsidiary of KGL, a substantial shareholder of the Company, and is regarded as a connected person of the Company at the issuer's level. By virtue of the interest of JPL in TYCL (a 59.16% owned subsidiary of the Company), TYCL is also regarded as a connected person of the Company.

P.T. Saripuri Permai Hotel ("PTSPH") is the owner of Shangri-La Hotel, Surabaya. PTSPH is indirectly owned as to 30% by KGL and is an associate of the Company's substantial shareholder. Hence, PTSPH is regarded as a connected person of the Company under the HK Listing Rules.

Beijing Kerry Centre Hotel Co., Ltd. ("BKC") is the owner of The Kerry Centre Hotel, Beijing. BKC is a connected person of the Company by virtue of its being a subsidiary of KPL which, in turn, is a subsidiary of KGL, a substantial shareholder of the Company.

Aberdeen Marina Holdings Limited ("AMHL") is the owner of Aberdeen Marina Club, Hong Kong. It is an indirect 79.17% owned subsidiary of KGL and is regarded as a connected person of the Company by virtue of its being a subsidiary of the substantial shareholder of the Company.

Accordingly, the provision of the Hotel Management Services constitutes continuing connected transactions of the Company under the HK Listing Rules.

Details of these hotels/club are set out below:

Name of property	Date of transaction	Nature of agreement	Counterparty	Aggregate amount received by SLIM and its fellow subsidiaries for the year ended 31 December	
				2005 (US\$)	2004 (US\$)
Traders Hotel, Singapore	Principal agreement signed on 1 March 1994. Various related agreements signed on various dates in 1994.	Management Agreement, Marketing and Reservations Agreement and Licence Agreements	CPPL	939,000	852,000
Traders Hotel, Yangon	24 June 1995	Management Agreement, Marketing and Reservations Agreement and Licence Agreements	TYCL	206,000	214,000
Shangri-La Hotel, Surabaya	27 October 1994	Management Agreement, Marketing and Reservations Agreement and Licence Agreement	PTSPH	468,000	471,000
The Kerry Centre Hotel, Beijing	30 June 1998	Management and Marketing Services Agreement	BKC	1,684,000	1,384,000
Aberdeen Marina Club, Hong Kong	20 February 1993	Operators Agreement	AMHL	190,000	193,000

3. Central Laundry Pte Ltd (“CLPL”), a 75% owned subsidiary of the Company in Singapore, operates a commercial laundry. The other 25% of CLPL is owned by CPPL which is, in turn, 55.4% owned by Allgreen and 40.75% owned by the Group.

As CPPL is a substantial shareholder of CLPL, both CPPL and Allgreen are regarded as connected persons of the Company at the subsidiaries' level. Accordingly, the provision of commercial laundry services by CLPL to those properties owned by CPPL and Allgreen pursuant to Master Agreements signed between CLPL and the relevant entities owning or operating those properties constitutes continuing connected transactions of the Company under the HK Listing Rules.

On 15 April 2005, the Company entered into a separate Supplemental Agreement with CLPL and each of the relevant counterparties of the Master Agreements to bring the Master Agreements in line with the requirements of the HK Listing Rules relating to continuing connected transactions.

Details of the transactions are set out below:

Name of property	Date of transaction	Nature of agreement	Counterparty	Aggregate amount received by CLPL for the year ended 31 December	
				2005 (US\$)	2004 (US\$)
Great World Serviced Apartments [#]	(a) 15 October 1997 and (b) 16 October 1997, in each case, as supplemented by the Supplemental Agreement dated 15 April 2005	Master Agreement for laundry services	(a) Great World Serviced Apartments and (b) Worldwide Apartment Services Pte Ltd	250,000	225,000
Traders Hotel, Singapore ^{##}	1 April 1995, as supplemented by the Supplemental Agreement dated 15 April 2005	Master Agreement for laundry services	Traders Hotel, Singapore	660,000	652,000

[#] Owned by a member of the Allgreen group

^{##} Owned by CPPL

Taking into account (i) the historical amounts received by CLPL in respect of each of these properties, (ii) the likely and potentially achievable occupancy and utilisation projections in respect of these properties, (iii) adjustments for inflation and buffer for unexpected price hikes, and (iv) the possibility of Asian currencies appreciating against the US Dollar if the Chinese Renmenbi were to be revalued, the Company has set the following annual caps for each of the years ending respectively 31 December 2005, 2006 and 2007:

Property	1/1/2005 to 31/12/2005	1/1/2006 to 31/12/2006	1/1/2007 to 31/12/2007
	(US\$)	(US\$)	(US\$)
Great World Serviced Apartments	300,000	400,000	510,000
Traders Hotel, Singapore	900,000	1,200,000	1,600,000

4. On 27 June 2005, Addu Investments Private Limited ("AIPL"), which is 70% owned by the Company and 30% owned by the Government of the Republic of Maldives (the "Maldivian Government"), entered into a lease agreement (the "Lease") with the Maldivian Government for the lease of the whole of an island located in Villingili, Addu Atoll, Republic of Maldives (the "Island") for 25 years. The Lease was entered into to enable AIPL to construct, develop, own and operate a luxury tourist resort on the Island (the "Resort"). The Maldivian Government is a connected person of the Company by virtue of its being a substantial shareholder of AIPL. Hence, the execution of the Lease constitutes a non-exempt continuing connected transaction of the Company under the HK Listing Rules.

During the first ten years of the term of the Lease, starting from the date of commencement of the operation of the Resort or 18 months from the date of approval by all the relevant Maldivian Government departments of all detailed drawings, designs and work plan with respect to the Resort, whichever is the earlier, annual rent shall be paid as agreed between the parties with reference to the number of beds available in the Resort. The annual rent payable on a per bed basis has been agreed between the parties. In accordance with the method of calculation as set out in the Lease and with reference to the anticipated number of beds to be built in the Resort, the amount of annual rent payable during the first ten years of the Lease is expected to be less than US\$4,050,000. The annual rent for the second ten years and the annual rent for the last five years of the Lease shall be determined by the Maldivian Government, in consultation with AIPL, six months prior to the commencement of the respective periods. In determining the annual rent for the subsequent periods, the Maldivian Government shall take into account the factors as mentioned in the Lease. The annual rent shall be paid upon commencement of operation of the Resort by quarterly installments in advance before the commencement of the quarter for which such payment is due. Accordingly, no lease rental was paid for the year ended 31 December 2005.

The continuing connected transactions mentioned in (1) to (4) above have been reviewed by the Independent Non-Executive Directors of the Company. The Independent Non-Executive Directors of the Company have confirmed that the transactions have been entered into:

- a. in the ordinary and usual course of business of the Company;
- b. either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties;
- c. in accordance with the relevant agreements governing such transactions; and
- d. on terms which are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Based on the work performed, the auditors have confirmed that:

- A. In relation to the transactions set out in (1) to (4) above, the transactions:
 - a. have received the approval of the Company's Board of Directors;
 - b. involving the provision of goods and services by the Group, are in accordance with the pricing policies of the Group; and
 - c. have been entered into in accordance with the relevant agreements governing the transactions.
- B. In relation to the transactions set out in (3) and (4) above, the transactions have not exceeded the relevant annual caps.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 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 by the Company 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 31 December 2005
Substantial Shareholders			
Kerry Group Limited ("KGL")	Interest of controlled corporations	1,087,719,468	43.04%
Kerry Holdings Limited ("KHL") (Notes 1 and 2)	Interest of controlled corporations	1,087,719,468	43.04%
Caninco Investments Limited ("Caninco") (Notes 2 and 3)	Beneficial owner	479,424,818	18.97%
	Interest of a controlled corporation	96,330,633	3.81%
Persons other than Substantial Shareholders			
Darmex Holdings Limited ("Darmex") (Notes 2 and 3)	Beneficial owner	239,302,975	9.47%
Temasek Holdings (Private) Limited ("Temasek")	Interest of a controlled corporation	166,284,498	6.58%
Cress Limited ("Cress") (Note 4)	Beneficial owner	166,284,498	6.58%
The Capital Group Companies, Inc.	Investment manager	203,919,181	8.07%

Notes:

- Out of KHL's interest in 1,087,719,468 shares, 1,062,254,890 shares were held through its wholly-owned subsidiaries, 13,659,523 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.
- 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.
- 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.
- 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.

Save as mentioned above, as at 31 December 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 by the Company under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year and up to the date of this report, the Company has not redeemed any of its shares, and neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-Laws or the laws in Bermuda.

SERVICE CONTRACTS

There is no service contract, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation), in respect of any Director proposed for re-election at the forthcoming annual general meeting.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of the five largest customers combined and the five largest suppliers combined are less than 10% of the Group's total turnover and purchases respectively.

PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the HK Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company.

REMUNERATION COMMITTEE

A Remuneration Committee of the Board of Directors was set up on 17 October 1997. The Committee currently comprises three members including the Chairman and two Independent Non-Executive Directors. The Committee acts in accordance with written terms of reference. The current Committee members are Mr Kuok Khoon Loong, Edward, Mr Alexander Reid Hamilton and Mr Tow Heng Tan.

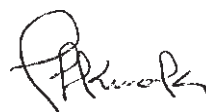
AUDIT COMMITTEE

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 audited financial statements before they were tabled for the Board's review and approval.

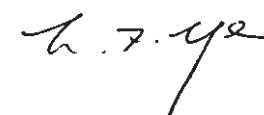
AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board of Directors



KUOK Khoon Loong, Edward
Director



YE Longfei
Director

Hong Kong, 4 April 2006