



## Report of the Directors

The Directors submit their report together with the audited accounts for the year ended 31 December 2001.

### **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 2 to the accounts.

### **RESULTS AND APPROPRIATIONS**

The results for the year are set out in the consolidated profit and loss account on page 50.

The details of dividends paid and proposed during the year are set out in note 8 to the accounts.

### **RESERVES**

The movements in reserves during the year are set out in notes 23 and 24 to the accounts.

### **DONATIONS**

Charitable donations and other donations made by the Group during the year amounted to US\$41,000.

### **FIXED ASSETS**

The details of movements in fixed assets during the year are set out in note 12 to the accounts.

### **PRINCIPAL PROPERTIES**

The details of the principal hotel and investment properties are set out in note 34 to the accounts.

### **SHARE CAPITAL**

The details of share capital are set out in note 21 to the accounts.

### **SUBSIDIARIES AND ASSOCIATED COMPANIES**

The details of the Company's principal subsidiaries and associated companies are set out in note 33 to the accounts.



## PARTICULARS OF BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

The particulars of bank loans, overdrafts and other borrowings as at 31 December 2001 are set out in notes 20 and 27 to the accounts.

## RESULTS, ASSETS AND LIABILITIES

The results, assets and liabilities of the Group for the last five financial years are set out on page 108.

## DIRECTORS

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

	Mr YE Longfei ( <i>Chairman</i> )	
	Mr KUOK Khoon Ho	
	( <i>Deputy Chairman and Managing Director</i> )	
	Mr Thaddeus Thomas BECZAK	
	Mr Giovanni ANGELINI	
	Mr LUI Man Shing	(appointed on 22 March 2002)
#	Madam KUOK Oon Kwong	
#	Mr John David HAYDEN	
#	Mr HO Kian Guan	
#	Mr LEE Yong Sun	(appointed on 7 December 2001)
*	Mr QUEK Poh Huat	
*	Mr Alexander Reid HAMILTON	(appointed on 8 November 2001)
#	Mr HO Kian Cheong	
	( <i>Alternate to Mr HO Kian Guan</i> )	
	Mr John Louis SEGRETI	(resigned on 15 December 2001)
	Mr Tomas Campos ZITA, JR.	(resigned on 11 March 2002)
	Mr YOUNG Chun Hui	(resigned on 11 March 2002)
#	<i>Non-executive Directors</i>	
*	<i>Independent Non-executive Directors</i>	

Mr Eoghan Murray McMILLAN, who had been an independent non-executive Director on the Board since December 1994, passed away on 2 October 2001. The Board wishes to acknowledge the valuable counsel and guidance provided by Mr McMILLAN during his tenure on the Board.

Messrs KUOK Khoon Ho, Giovanni ANGELINI and HO Kian Guan retire by rotation in accordance with Article 99(A) and Messrs LUI Man Shing, LEE Yong Sun and Alexander Reid HAMILTON retire in accordance with Article 102(B) of the Company's Bye-Laws. All retiring Directors, being eligible, offer themselves for re-election.



## Report of the Directors

### BIOGRAPHICAL DETAILS OF DIRECTORS

#### Executive Directors

**Mr YE Longfei**, aged 60, is the Chairman of the Company. He was appointed as an executive Director of the Company in December 1997 and was appointed as Chairman of the Company in October 2000. He is also the Chairman of Kerry Holdings (China) Co., Ltd. and a Director of Kerry Beverages Limited and Kerry Holdings Limited. Prior to joining the Kuok Group, Mr Ye was the Chief Executive of the “Shanghai Desk” in Hong Kong, a co-operative arrangement between the Shanghai Municipal Government and Arthur Andersen & Co. (HK), from 1991 to 1995. Before taking up his assignment in Hong Kong, Mr Ye had served in various positions in the Shanghai Municipal Government. Mr Ye graduated from the Shanghai Fudan University in physics and is a graduate of the research institute of physics at the Shanghai Fudan University.

**Mr KUOK Khoon Ho**, aged 51, is the Deputy Chairman and Managing Director of the Company. He was appointed as an executive Director and Managing Director of the Company in September 1997 and was appointed as Deputy Chairman of the Company in October 2000. He joined the Kuok Group in 1976 and is currently the Vice Chairman of Kerry Holdings Limited and a non-executive Director of SCMP Group Limited. He is also a Director of Kerry Group Limited. He graduated from McGill University, Canada with a bachelor’s degree in Commerce. He has extensive experience in hotel management, property development and corporate management. He is a brother of Madam KUOK Oon Kwong.

**Mr Thaddeus Thomas BECZAK**, aged 51, was appointed as an executive Director of the Company in August 1997. He is also an executive Director of Kerry Holdings Limited and Kerry Properties Limited and the Deputy Chairman of SCMP Group Limited. In November 1997, Mr Beczak was elected as a Council Member of The Stock Exchange of Hong Kong Limited (“HKSE”) and Chairman of the Listing Committee of HKSE. Following the merger of HKSE with Hong Kong Futures Exchange Limited and Hong Kong Securities Clearing Company Limited, Mr Beczak remains as the Chairman of the Listing Committee of HKSE which has become a subsidiary of Hong Kong Exchanges and Clearing Limited after the merger. He is also a member of the Advisory Committee for the Securities and Futures Commission. Prior to joining the Kuok Group, Mr Beczak was a Managing Director of J.P. Morgan Inc. and President of J.P. Morgan Securities Asia Ltd., Hong Kong. Mr Beczak is a graduate of Georgetown University (B.S.F.S.) and Columbia University (M.B.A.). He is a member of the Board of Advisors of the School of Foreign Service of Georgetown University.

**Mr Giovanni ANGELINI**, aged 56, was appointed as an executive Director of the Company in June 1999. He joined the Group in August 1993 and at present, is the Managing Director and Chief Executive Officer of Shangri-La International Hotel Management Limited. Previously, he was the Vice President, Operations of Shangri-La Hotels and Resorts and the General Manager of Island Shangri-La, Hong Kong. Mr Angelini graduated from The Institute Volonta (University of Rome) in Business Administration. He is an experienced hotel/hospitality industry operator and during his past 37 years in the industry, he has managed quality hotels in Hong Kong, Singapore, Korea, Mexico, Bermuda and in his native country, Italy.

**Mr LUI Man Shing**, aged 58, was appointed as an executive Director of the Company in March 2002. Mr Lui joined the Kuok Group in 1977. He was previously Managing Director of Kerry (Thailand) Co. Ltd. and Shangri-La Hotel Public Company Limited (“SHPCL”), both are companies incorporated in Thailand. In 1992, Mr Lui returned to Hong Kong to oversee the planning and development of the Kuok Group’s investments and hotel projects in China. At present, he is the Vice Chairman of SHPCL, the Managing Director of Kerry Beverages Limited and a Director of a number of companies within the Kuok Group including Kerry Holdings Limited and Kerry Trading Co. Limited.



### Non-executive Directors

**Madam KUOK Oon Kwong**, aged 55, was appointed as a non-executive Director of the Company in November 1999. She is an Advocate & Solicitor (Barrister-at-Law) from Gray's Inn, London. In 1986, she was appointed Company Secretary of Shangri-La Hotel Limited, Singapore ("SHL"). This appointment enabled her to gain experience in handling the corporate and legal affairs of a listed company and also in hotel operations. In 1988, she joined the Board of SHL and is currently its Executive Chairman. Madam Kuok is also a Director of a number of companies within the Group including Shangri-La Hotel Public Company Limited, Thailand, Shangri-La Hotels (Malaysia) Berhad, Malaysia, of which she is the Managing Director, and certain subsidiaries of SHL. Madam Kuok is a sister of Mr KUOK Khoon Ho.

**Mr John David HAYDEN**, aged 60, was appointed as an executive Director of the Company in December 1997. Mr Hayden has held the position of Managing Director and Chief Executive Officer of Shangri-La International Hotel Management Limited since 1993 and retired from this position with effect from 30 June 1999. After his retirement, Mr Hayden remains as a non-executive Director of the Company and acts as an adviser to the Board. Mr Hayden is a graduate of the University of Natal, South Africa (B.A. Law) and Cornell University, U.S.A. (B.S. Hotel Administration).

**Mr HO Kian Guan**, aged 56, was appointed as a non-executive Director of the Company in May 1993. He is the Executive Chairman of the Keck Seng Group of companies including Keck Seng (Malaysia) Berhad (a company listed on the Kuala Lumpur Stock Exchange) and Keck Seng Investments (Hong Kong) Limited (a company listed on The Stock Exchange of Hong Kong Limited). He also serves on the boards of Shangri-La Hotel (Kowloon) Limited, Shangri-La International Hotels (Hangzhou) Limited, Shangri-La Hotel Limited, Singapore and Shangri-La Hotel Public Company Limited, Thailand. He is a brother of Mr HO Kian Cheong.

**Mr LEE Yong Sun**, aged 57, was appointed as a non-executive Director of the Company in December 2001. He is the Vice Chairman of Kerry Holdings Limited and also a Director of Kerry Group Limited. He has been with the Kuok Group since 1971. He graduated from the University of Singapore with a degree in Accountancy (B. Acc. Honours). He is a Certified Public Accountant (Singapore) and has extensive experience in banking, accounting and management.

**Mr QUEK Poh Huat**, aged 55, was appointed as an independent non-executive Director of the Company in August 1997. He was the President of Singapore Technologies Pte Ltd and Chairman of Singapore Technologies Aerospace Ltd before he joined Temasek Holdings (Private) Limited in September 1995. Mr Quek is currently the President of Temasek Holdings (Private) Limited. He holds a Bachelor of Science (Chemical Engineering) from University of Leeds (UK) and a Master of Science (Management) from the Naval Postgraduate School, Monterey, California. In Spring 1989, he attended the Harvard Advanced Management Program. He was awarded the Public Service Star Award by the Government of Singapore in August 1994.

**Mr Alexander Reid HAMILTON**, aged 60, was appointed as an independent non-executive Director of the Company in November 2001. He is a Director of a number of companies including CITIC Pacific Limited, COSCO International Holdings Limited, COSCO Pacific Limited, Esprit Holdings Limited and DBS Kwong On Bank Limited. He is a member of the Institute of Chartered Accountants of Scotland, a fellow member of the Hong Kong Society of Accountants and a fellow member of the Institute of Directors. He was a partner in Price Waterhouse for 16 years and has more than 20 years of audit and accounting experience. Mr Hamilton is the Chairman of the Board's Audit Committee.



## Report of the Directors

**Mr HO Kian Cheong**, aged 52, was appointed as an alternate Director to Mr HO Kian Guan in June 1993. He is a Director of the Keck Seng Group of companies including Keck Seng (Malaysia) Berhad and Keck Seng Investments (Hong Kong) Limited. He is also an alternate Director of Shangri-La Hotel (Kowloon) Limited and Shangri-La International Hotels (Hangzhou) Limited. He is a brother of Mr HO Kian Guan.

### PARTICULARS OF SECURITIES HELD BY DIRECTORS, CHIEF EXECUTIVES AND ASSOCIATES

As at 31 December 2001, the Directors had the following interests in the securities of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) (the "Associated Corporations") as recorded in the register required to be kept under Section 29 of the SDI Ordinance:

#### The Company

Name of Director	Number of ordinary shares	Notes
Mr YE Longfei	Nil	–
Mr KUOK Khoon Ho	3,456	1
	379,167	2
Mr Thaddeus Thomas BECZAK	394,000	1
Mr Giovanni ANGELINI	100,000	1
Mr LUI Man Shing	N/A	4
Madam KUOK Oon Kwong	151,379	1
	192,011	3
Mr John David HAYDEN	Nil	–
Mr HO Kian Guan	167,475	1
	126,755,718	2
Mr LEE Yong Sun	Nil	–
Mr QUEK Poh Huat	Nil	–
Mr Alexander Reid HAMILTON	Nil	–
Mr HO Kian Cheong	24,514	1
(Alternate to Mr HO Kian Guan)	124,046,553	2

#### Notes:

- 1 Personal interests held by the relevant Directors.
- 2 Deemed corporate interests held through companies controlled by the relevant Directors.
- 3 Family interest held by the spouse of the relevant Director.
- 4 Mr LUI Man Shing was appointed as a Director of the Company on 22 March 2002. His interest, if any, will be disclosed in the 2002 interim report of the Company.

Save as mentioned above, as at 31 December 2001, none of the Directors had any other interest in the securities of the Company or any of its Associated Corporations which had been entered in the register kept by the Company pursuant to Section 29 of the SDI Ordinance.

### 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 ("HKSE") (the "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") 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;
- SHL's serviced apartment business is effectively marketed on the strength of Shangri-La International Hotel Management Limited ("SLIM") Group's renowned, high-quality services; and
- Madam KUOK Oon Kwong is only a non-executive Director of Allgreen.

- (ii) Madam KUOK Oon Kwong is also a non-executive Director of Tanjong Aru Hotel Sdn. Bhd. ("TAHSB"), an associated company of the Kuok Group, which owns Shangri-La's Tanjong Aru Resort, Kota Kinabalu ("TAH").

While TAH may compete with Shangri-La's Rasa Ria Resort ("RRR"), a hotel in Kota Kinabalu owned by the Group, the Directors believe that this competition does not pose any material threat to RRR's business prospects because both TAH and RRR are managed by SLIM. Besides, as announced on 18 July 2001, the Group has entered into a Conditional Shares Sale Agreement for acquiring Kuok Group's entire 40% interest in TAHSB (the "Acquisition") and upon completion of the Acquisition, TAH will be under the Group's hotel portfolio.

- (iii) Messrs HO Kian Guan and HO Kian Cheong are substantial shareholders and executive Directors of the companies which own the Holiday Inn Riverside Wuhan and the River View Hotel Singapore. While such businesses may compete with the Group's hotel businesses in Wuhan and Singapore, the Directors believe that this competition does not pose any material threat to the Group's hotel business prospects because:

- the target customers are different; and
- the Group's hotel business is effectively marketed on the strength of the SLIM Group's renowned and high-quality services.



## Report of the Directors

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

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

The 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.

The maximum number of shares in the Company (the "Shares") in respect of which options may be granted under the Option Scheme shall be such number of Shares as shall represent 10 per cent of the Shares in issue from time to time (excluding the number of Shares which have been duly allotted and issued upon the exercise of options granted pursuant to the Option Scheme) (the "Maximum Number"). As at the date of this report, a total of 191,295,991 Shares (representing approximately 8.79% of the existing issued share capital thereof) are available for issue under the Option Scheme. The maximum entitlement of each participant under the Option Scheme cannot exceed 25 per cent of the Maximum Number at the relevant time.

The period under which an option may be exercised will be determined by the Board of Directors of the Company in its absolute discretion, save that no option may be exercised later than 10 years from the date on which the option is granted. The minimum period for which an option must be held before it can be exercised is determined by the Board of Directors of the Company 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 has to 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 higher of (a) the nominal value of a Share; and (b) 90 per cent of the average of the closing prices of the Shares as stated in HKSE's daily quotation sheets for the five trading days immediately preceding the date of offer of an option on which there were dealings in Shares on HKSE.

The Option Scheme will expire on 15 December 2007.

HKSE has amended the requirements for share option schemes under the Listing Rules and the new requirements came into effect on 1 September 2001. These new requirements make some of the provisions of the existing Option Scheme no longer applicable. The Board of Directors of the Company will recommend to the shareholders for approval a new share option scheme which complies with the new requirements under the Listing Rules at a Special General Meeting to be convened immediately after the forthcoming Annual General Meeting. During the transitional period, the Company must nevertheless comply with the new requirements of the Listing Rules.



Details of the Share Options outstanding as at 31 December 2001 which have been granted under the Option Scheme are as follows:

	Date of grant	Tranche	No. of option shares held as at 1 January 2001	No. of option shares granted during the year	No. of option shares exercised during the year	No. of option shares lapsed during the year	No. of option shares held as at 31 December 2001	Exercise price per option share HK\$	Exercisable from	Exercisable until
<b>1. Directors</b>										
Mr YE Longfei	1 May 1998	I	100,000	-	-	-	100,000	8.00	1 May 1999	30 April 2008
	1 May 1998	II	100,000	-	-	-	100,000	8.00	1 May 2000	30 April 2008
	1 May 1998	III	100,000	-	-	-	100,000	8.00	1 May 2001	30 April 2008
	15 January 2000	I	200,000	-	-	-	200,000	8.55	15 January 2001	14 January 2010
	15 January 2000	II	200,000	-	-	-	200,000	8.55	15 January 2002	14 January 2010
	15 January 2001	I	-	350,000	-	-	350,000	7.94	15 January 2002	14 January 2011
	15 January 2001	II	-	350,000	-	-	350,000	7.94	15 January 2003	14 January 2011
Mr KUOK Khoon Ho	1 May 1998	I	400,000	-	-	-	400,000	8.00	1 May 1999	30 April 2008
	1 May 1998	II	400,000	-	-	-	400,000	8.00	1 May 2000	30 April 2008
	1 May 1998	III	400,000	-	-	-	400,000	8.00	1 May 2001	30 April 2008
	15 January 2000	I	250,000	-	-	-	250,000	8.55	15 January 2001	14 January 2010
	15 January 2000	II	250,000	-	-	-	250,000	8.55	15 January 2002	14 January 2010
	15 January 2001	I	-	150,000	-	-	150,000	7.94	15 January 2002	14 January 2011
	15 January 2001	II	-	150,000	-	-	150,000	7.94	15 January 2003	14 January 2011
Mr Thaddeus Thomas BECZAK	1 May 1998	I	400,000	-	-	-	400,000	8.00	1 May 1999	30 April 2008
	1 May 1998	II	400,000	-	-	-	400,000	8.00	1 May 2000	30 April 2008
	1 May 1998	III	400,000	-	-	-	400,000	8.00	1 May 2001	30 April 2008
	15 January 2000	I	250,000	-	-	-	250,000	8.55	15 January 2001	14 January 2010
	15 January 2000	II	250,000	-	-	-	250,000	8.55	15 January 2002	14 January 2010
	15 January 2001	I	-	50,000	-	-	50,000	7.94	15 January 2002	14 January 2011
	15 January 2001	II	-	50,000	-	-	50,000	7.94	15 January 2003	14 January 2011
Mr Giovanni ANGELINI	1 May 1998	I	150,000	-	-	-	150,000	8.00	1 May 1999	30 April 2008
	1 May 1998	II	150,000	-	-	-	150,000	8.00	1 May 2000	30 April 2008
	1 May 1998	III	150,000	-	-	-	150,000	8.00	1 May 2001	30 April 2008
	15 January 2000	I	275,000	-	-	-	275,000	8.55	15 January 2001	14 January 2010
	15 January 2000	II	275,000	-	-	-	275,000	8.55	15 January 2002	14 January 2010
	15 January 2001	I	-	150,000	-	-	150,000	7.94	15 January 2002	14 January 2011
	15 January 2001	II	-	150,000	-	-	150,000	7.94	15 January 2003	14 January 2011
Mr Tomas Campos ZITA, JR. (note 1)	1 May 1998	I	100,000	-	-	-	100,000	8.00	1 May 1999	30 April 2008
	1 May 1998	II	100,000	-	-	-	100,000	8.00	1 May 2000	30 April 2008
	1 May 1998	III	100,000	-	-	-	100,000	8.00	1 May 2001	30 April 2008
	15 January 2000	I	200,000	-	-	-	200,000	8.55	15 January 2001	14 January 2010
	15 January 2000	II	200,000	-	-	-	200,000	8.55	15 January 2002	14 January 2010
	15 January 2001	I	-	50,000	-	-	50,000	7.94	15 January 2002	14 January 2011
	15 January 2001	II	-	50,000	-	-	50,000	7.94	15 January 2003	14 January 2011
Mr YOUNG Chun Hui (note 2)	1 May 1998	I	150,000	-	-	-	150,000	8.00	1 May 1999	30 April 2008
	1 May 1998	II	150,000	-	-	-	150,000	8.00	1 May 2000	30 April 2008
	1 May 1998	III	150,000	-	-	-	150,000	8.00	1 May 2001	30 April 2008
	15 January 2000	I	100,000	-	-	-	100,000	8.55	15 January 2001	14 January 2010
	15 January 2000	II	100,000	-	-	-	100,000	8.55	15 January 2002	14 January 2010
	15 January 2001	I	-	50,000	-	-	50,000	7.94	15 January 2002	14 January 2011
	15 January 2001	II	-	50,000	-	-	50,000	7.94	15 January 2003	14 January 2011





## Report of the Directors

	Date of grant	Tranche	No. of option shares held as at 1 January 2001	No. of option shares granted during the year	No. of option shares exercised during the year	No. of option shares lapsed during the year	No. of option shares held as at 31 December 2001	Exercise price per option share HK\$	Exercisable from	Exercisable until
Mr John Louis SEGRETI (note 3)	1 May 1998	I	90,000	-	-	90,000	-	8.00	1 May 1999	30 April 2008
	1 May 1998	II	90,000	-	-	90,000	-	8.00	1 May 2000	30 April 2008
	1 May 1998	III	90,000	-	-	90,000	-	8.00	1 May 2001	30 April 2008
	15 January 2000	I	165,000	-	-	165,000	-	8.55	15 January 2001	14 January 2010
	15 January 2000	II	165,000	-	-	165,000	-	8.55	15 January 2002	14 January 2010
	6 April 2000	I	200,000	-	-	200,000	-	8.55	6 April 2001	5 April 2010
	6 April 2000	II	200,000	-	-	200,000	-	8.55	6 April 2002	5 April 2010
	15 January 2001	I	-	150,000	-	150,000	-	7.94	15 January 2002	14 January 2011
15 January 2001	II	-	150,000	-	150,000	-	7.94	15 January 2003	14 January 2011	
Mr John David HAYDEN	1 May 1998	I	400,000	-	-	-	400,000	8.00	1 May 1999	30 April 2008
	1 May 1998	II	400,000	-	-	-	400,000	8.00	1 May 2000	30 April 2008
	1 May 1998	III	400,000	-	-	-	400,000	8.00	1 May 2001	30 April 2008
2. Continuous contract employees	1 May 1998	I	1,590,000	-	-	70,000	1,520,000	8.00	1 May 1999	30 April 2008
	1 May 1998	II	1,590,000	-	-	70,000	1,520,000	8.00	1 May 2000	30 April 2008
	1 May 1998	III	1,590,000	-	-	70,000	1,520,000	8.00	1 May 2001	30 April 2008
	15 January 2000	I	2,375,000	-	-	215,000	2,160,000	8.55	15 January 2001	14 January 2010
	15 January 2000	II	2,375,000	-	-	215,000	2,160,000	8.55	15 January 2002	14 January 2010
	15 January 2001	I	-	1,600,000	-	70,000	1,530,000	7.94	15 January 2002	14 January 2011
	15 January 2001	II	-	1,600,000	-	70,000	1,530,000	7.94	15 January 2003	14 January 2011
3. Other participants	1 May 1998	I	1,100,000	-	-	-	1,100,000	8.00	1 May 1999	30 April 2008
	1 May 1998	I	50,000	-	-	-	50,000	8.00	1 May 1999	30 November 2002
	1 May 1998	II	1,100,000	-	-	-	1,100,000	8.00	1 May 2000	30 April 2008
	1 May 1998	II	50,000	-	-	-	50,000	8.00	1 May 2000	30 November 2002
	1 May 1998	III	1,100,000	-	-	-	1,100,000	8.00	1 May 2001	30 April 2008
	1 May 1998	III	50,000	-	-	-	50,000	8.00	1 May 2001	30 November 2002
	15 January 2000	I	745,000	-	-	-	745,000	8.55	15 January 2001	14 January 2010
	15 January 2000	II	745,000	-	-	-	745,000	8.55	15 January 2002	14 January 2010
	15 January 2001	I	-	120,000	-	-	120,000	7.94	15 January 2002	14 January 2011
	15 January 2001	II	-	120,000	-	-	120,000	7.94	15 January 2003	14 January 2011
	Total			<u>23,110,000</u>	<u>5,340,000</u>	<u>-</u>	<u>2,080,000</u>	<u>26,370,000</u>		

### Notes:

- The options granted to Mr Tomas Campos ZITA, JR. remains exercisable following his resignation as Director of the Company with effect from 11 March 2002 as he is still an executive Director in several of the Company's subsidiaries.
- The options granted to Mr YOUNG Chun Hui remains exercisable following his resignation as Director of the Company with effect from 11 March 2002 as he still holds an executive position in one of the Company's subsidiaries.
- During the year, the options granted to Mr John Louis SEGRETI lapsed following his resignation as Director of the Company.
- The closing price per share of the Company's shares trading on HKSE on 12 January 2001 (i.e. the business day immediately before the grant on 15 January 2001) was HK\$7.80.
- No options were cancelled during the year.

The Directors consider that it is not appropriate to disclose the value of options granted during the year as the market price of the Company's shares as at the year end date was below the respective exercise prices of the options granted and any valuation of the above options would be subject to a number of assumptions that would be subjective and uncertain.



## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

As at 31 December 2001, details of options granted under the Option Scheme to the Directors/former 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 year and in the normal course of business, the Company and its subsidiaries had various commercial transactions with certain connected persons including member companies of the Kuok Group. The Kuok Group has a controlling interest in the share capital of the Company. These transactions are considered to be connected transactions under the Listing Rules and related party transactions under the Hong Kong Statement of Standard Accounting Practice No. 20 "Related Party Disclosures". Details of these transactions are as follows:

### 1 Payment of office expenses

The Company reimbursed Kerry Trading Co. Limited, a company within the Kuok Group for US\$ 1,170,000 (2000: US\$1,290,000) on costs reimbursement basis and paid Kerry Holdings Limited, a substantial shareholder of the Company, US\$561,000 (2000: US\$567,000) for office rental, administration and related expenses.

### 2 Land rental

- (A) Payment of land rental amounting to US\$700,000 (2000: US\$899,000) to Brown Swallow Development Corporation and Green Mangrove Realty Inc., companies within the Kuok Group, for lease of land where Shangri-La's Mactan Island Resort, Cebu is constructed. Rental payments are computed at a certain percentage of the hotel's rooms, food and beverage and dry goods and service revenues under a contract for 25 years which commenced on 12 March 1990. The percentages are comparable to those paid by another subsidiary of the Company in the Philippines to an independent third party.
- (B) Payment of land rental amounting to US\$1,002,000 (2000: US\$1,301,000) to Edsa Properties Holdings, Inc., an associated company of the Kuok Group, for lease of land where Edsa Shangri-La, Manila is constructed. Rental payments are computed at a certain percentage of the hotel's rooms, food and beverage and dry goods and service revenues under a contract for 25 years which commenced on 28 August 1992. The percentage is comparable to those paid by another subsidiary of the Company in the Philippines to an independent third party.



## Report of the Directors

### 3 Unsecured shareholders' loans and guarantee

(A) 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 2001 and 2000 are listed below:

(i) *Unsecured shareholders' loans*<sup>1</sup>

	Loan balance	
	2001 US\$'000	2000 US\$'000
a. Non-wholly owned subsidiaries		
– Harbin Shangri-La Hotel Co., Ltd. <sup>2</sup>	18,843	19,493
– Changchun Shangri-La Hotel Co., Ltd. <sup>3</sup>	29,070	33,170
– Shenyang Traders Hotel Ltd. <sup>3</sup>	30,350	36,690
– Beihai Shangri-La Hotel Ltd. <sup>3</sup>	23,130	23,630
– Shangri-La International Hotels (Pacific Place) Limited	15,600	15,600
– Traders Yangon Company Limited (“THYN”)		
: interest bearing portion	21,862	13,230
: non-interest bearing portion	32,859	32,859
– Shangri-La Yangon Company Limited		
: interest bearing portion	1,492	1,428
: non-interest bearing portion	23,732	23,732
– Traders Square Company Limited	4,160	4,160
– Sentosa Beach Resort Pte Ltd (“SEN”)	6,499	6,920
– Central Laundry Pte Ltd (“CLPL”)	569	865
b. Associated company		
– Cuscaden Properties Pte Ltd (“CPPL”)	28,831	30,702
c. Investee company		
– PT Saripuri Permai Hotel	1,950	2,306



(ii) *Guarantee executed in favour of banks for securing bank loans/facilities granted*<sup>1&4</sup>

	Amount of guarantee given	
	2001 US\$'000	2000 US\$'000
a. Non-wholly owned subsidiaries		
– THYN	13,580	20,510
– CLPL	–	228
– Wuhan Shangri-La Hotel Co., Ltd.	6,900	6,900
b. Associated companies		
– CPPL	4,831	13,632
– Beijing Jia Ao Real Estate Development Co., Ltd.	29,759	29,759

*Notes:*

1. Please refer to 2000 annual report for other details of the financial assistance provided. Terms of such financial assistance remain unchanged as at year end of 2001.
2. The Group had waived all the year 2000 loan interest of this subsidiary amounting to US\$1,508,000. Under a supplementary agreement signed during the year, this loan will be non-interest bearing for all the years from year 2001 to 2003.
3. The Group has waived all the current year's loan interest of these subsidiaries amounting to US\$4,651,000 (2000: US\$7,161,000).
4. The amount of guarantee disclosed is stated with reference to the utilised bank loans/facilities balance.

(B) The Group also provided the following new financial assistance to CPPL during the year:

SHL and a subsidiary of Shangri-La Hotel Public Company Limited, Thailand ("SHPCL") executed a proportionate guarantee in favour of a bank for securing the interest expenses of facilities granted to CPPL. The total balance of these facilities as at 31 December 2001 was US\$59,951,000.

#### 4 Proposed acquisitions

The Group has entered into conditional agreements with certain connected persons during the year to acquire the equity interest of certain companies held by them. Details of these transactions are set out in note 31(f) to 31 (h) to the accounts.



## Report of the Directors

- 5 During the year, there were other connected transactions covering fees paid and received which need to be disclosed herein in accordance with the requirements of the waivers granted by HKSE.
- (A) The Group received hotel management and related services and royalty fees totalling US\$1,986,000 (2000: US\$2,356,000) from certain companies within the Kuok Group. The fees are charged by the Group at either a fixed amount or a certain percentage of the gross operating revenue/profit of the relevant companies. The terms under these agreements are comparable to other agreements with the Group's subsidiaries and associated companies and with third parties under management contracts.
- (B) Payment of insurance premium, godown and transportation rental amounting to US\$945,000 (2000: US\$864,000) to various companies within the Kuok Group (other than a Malaysian company as mentioned below). The fees are determined with reference to relevant industry practices.
- (C) Payment of insurance premium amounting to US\$548,000 (2000: US\$578,000) by SHMB Group of companies to a Malaysian company within the Kuok Group. The fees are determined with reference to relevant industry practices.
- (D) Payment of renovation project services fees and reimbursement of staff cost amounting to US\$239,000 (2000: US\$234,000) by SHL to a company within the Kuok Group. The project services fees are comparable to those charged by independent project consultants.
- (E) Receipt of laundry services fees of US\$784,000 and US\$497,000 (2000: US\$904,000 and US\$534,000) by CLPL on normal commercial terms from two companies within the Kuok Group and SEN, respectively.

In accordance with the requirements of the respective waivers, the Directors of the Company confirm that:

- (a) In relation to all the items 5(A) to 5(E)
- these transactions were entered into in the ordinary and usual course of business of the Company;
  - these transactions were entered into in accordance with the terms of the agreement governing such transactions;
  - these transactions were conducted either on normal commercial terms or (where there is no available comparison) on terms that were fair and reasonable so far as the shareholders of the Company were concerned; and
- (b) In relation to items 5(C), 5(D) and 5(E)
- the aggregate value of each of such transactions in the financial year was less than HK\$10 million or 3% of the book value of the net tangible assets of the Company as disclosed in the latest published audited consolidated accounts, whichever is the higher.



## SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2001, as far as the Directors are aware, the interests of the substantial shareholders in the shares of the Company were as follows:

Name	Number of Ordinary shares
Kerry Group Limited ("KGL")	981,958,555
Kerry Holdings Limited ("KHL")	981,958,555

### Notes:

- 1 KHL is a subsidiary of KGL and, accordingly, the shares in which KHL is shown to be interested are also included in the shares in which KGL is shown to be interested.
- 2 The shares in which KGL and KHL are shown to be interested include those shares held by the subsidiary of SHPCL.

Apart from the aforesaid, as at 31 December 2001, the Company had not been notified of any interest amounting to 10% or more of the issued share capital of the Company.

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

During the year and up to the date of this report, except as disclosed in note 21 to the accounts, 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.



## Report of the Directors

### CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules, throughout the year.

### 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 five members including the Chairman, the Deputy Chairman and Managing Director, an executive Director and two non-executive Directors, one of them being independent.

### 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 QUEK Poh Huat. The Committee reviewed the Group's 2001 audited accounts before they were tabled for the Board's review and approval.

### AUDITORS

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

On behalf of the Board of Directors

**YE Longfei**  
*Director*

**KUOK Khoon Ho**  
*Director*

Hong Kong, 22 March 2002