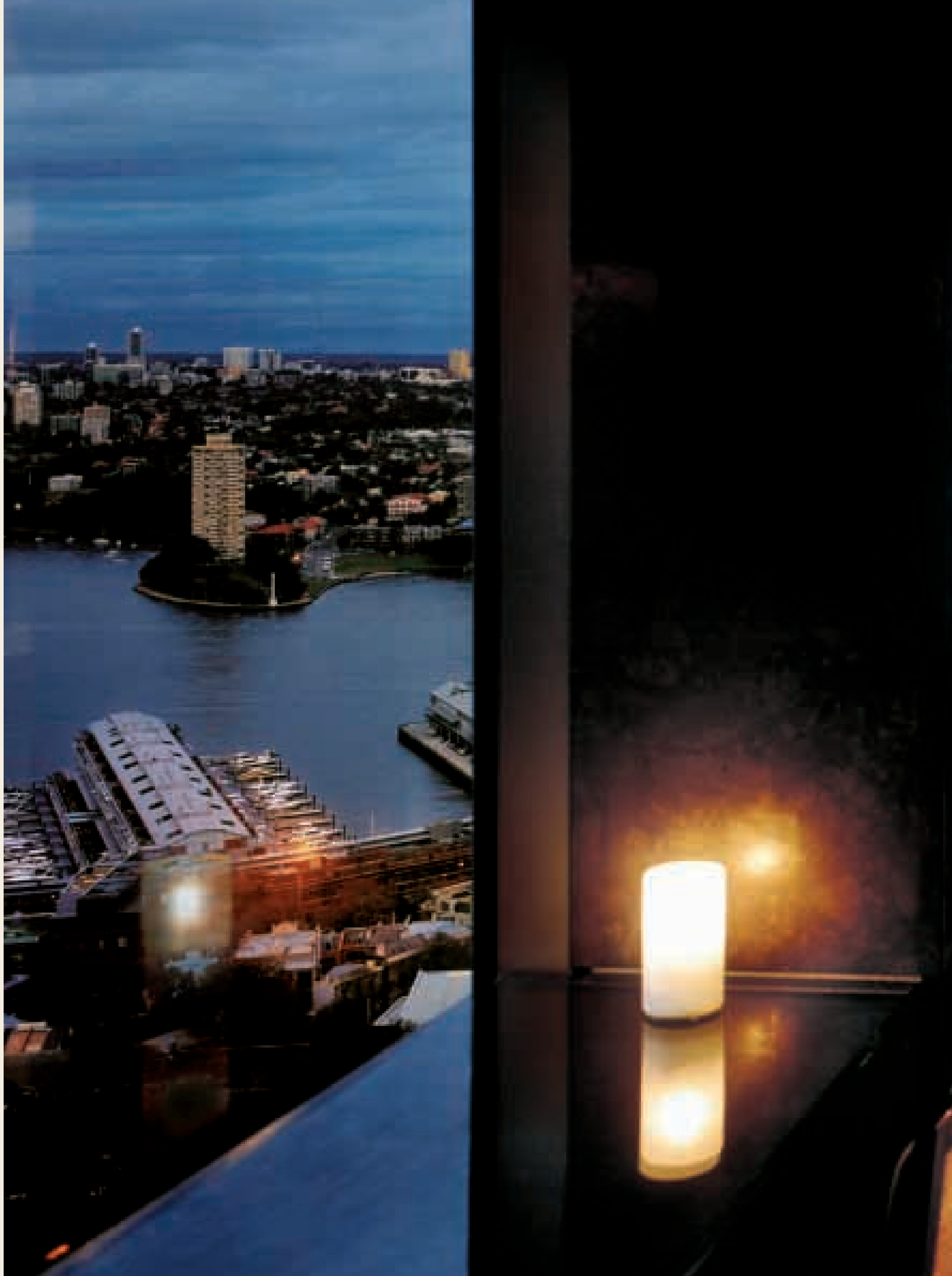
MANAGEMENT DISCUSSION AND ANALYSIS



BLUE HORIZON BAR
SHANGRI-LA HOTEL, SYDNEY

1. OPERATIONS REVIEW

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

The Group's turnover from operations is derived principally from its hotels. The Group benefited from the continuing robust travel demand in Hong Kong and Mainland China, buoyant global tourism and business travel and the economic growth throughout the regions that the Group operates in. Both room and food and beverage revenues improved significantly. Overall weighted average annual occupancy of Group-owned hotels increased to 73% compared to 71% for 2004, while weighted average room yield ("RevPAR") registered a 16% year-on-year increase.

The performance of the Group's investment properties in Mainland China from which the Group derives the majority of its property rentals, continues to improve.

Revenues

For the year ended 31 December

Combined Revenue by Trade

	2005		2004		%
	US$ million	**%**	US$ million	%	Change
Hotel Operation	**1,132.8**	**82%**	970.0	81%	17%
Hotel Management	**16.5**	**1%**	12.4	1%	33%
Property Rentals	**230.4**	**17%**	215.0	18%	7%
Total	**1,379.7**	**100%**	1,197.4	100%	15%

BREAKDOWN OF SALES

For the year ended 31 December

	SUBSIDIARIES			ASSOCIATES		
	2005 US$ Million	2004 US$ Million	% Change	**2005 US$ Million**	2004 US$ Million	% Change
Hotel Operation						
The People's Republic of China						
Hong Kong	**181.9**	155.0	17%	**–**	–	N/A
Mainland China	**253.5**	208.0	22%	**252.7**	211.5	19%
Singapore	**110.6**	93.1	19%	**23.1**	20.8	12%
The Philippines	**104.0**	88.2	18%	**–**	–	N/A
Malaysia	**70.6**	78.6	(10%)	**21.7**	18.0	21%
Thailand	**48.4**	46.0	5%	**–**	–	N/A
Fiji	**32.1**	20.0	60%	**–**	–	N/A
Indonesia	**–**	–	N/A	**28.4**	24.7	15%
Myanmar	**5.8**	6.1	(4%)	**–**	–	N/A
	806.9	695.0	16%	**325.9**	275.0	19%
Hotel Management	**16.5**	12.4	33%	**–**	–	N/A
Hotels Sub-total:	**823.4**	707.4	16%	**325.9**	275.0	19%
Property Rentals						
The People's Republic of China						
Mainland China	**6.2**	5.8	7%	**201.3**	183.6	10%
Singapore	**8.5**	8.1	4%	**8.7**	8.4	3%
Malaysia	**3.1**	3.4	(7%)	**1.8**	4.9	(63%)
Thailand	**0.8**	0.8	4%	**–**	–	N/A
Properties Sub-total:	**18.6**	18.1	3%	**211.8**	196.9	8%
Total	**842.0**	725.5	16%	**537.7**	471.9	14%

Note: Revenue of the hotel management group is stated after elimination of revenue earned from fellow subsidiaries.

N/A: Not Applicable

(a) Revenues

Hotel Operation

As at 31 December 2005, the Group has equity interest in 36 operating hotels, including the Portman Ritz-Carlton Hotel, Shanghai, and the Shangri-La Hotel, Surabaya (in which the Group has only 10% interest).

The key performance indicators of the Group's hotels on a combined basis are as follows:

Country	**2005 Occupancy (%)**	**2005 Weighted Average Transient Room Rate (US$)**	**2005 RevPAR (US$)**	2004 Occupancy (%)	2004 Weighted Average Transient Room Rate (US$)	2004 RevPAR (US$)
The People's Republic of China						
Hong Kong	**76**	**248**	**188**	71	207	157
Mainland China	**72**	**112**	**78**	72	99	72
Singapore	**81**	**123**	**98**	77	111	84
The Philippines	**77**	**110**	**85**	71	101	70
Malaysia	**73**	**74**	**54**	73	64	46
Thailand	**79**	**117**	**89**	81	111	87
Fiji	**77**	**123**	**105**	65	97	80
Indonesia	**51**	**103**	**48**	47	94	40
Myanmar	**47**	**34**	**15**	48	33	15

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

(ii) Performance indicators of 2004 for hotels in Malaysia had included Shangri-La's Rasa Sayang Resort & Spa, Penang, a resort closed down since 1 December 2004 for redevelopment. The performance of the Shangri-La Hotel, Surabaya has not been included in these indicators.

(iii) Combined Revenue is the aggregate of turnover of all operating subsidiaries and associates while consolidated revenues relate to operating subsidiaries only.

Overall, combined room rentals increased by 19% to US$618.5 million. Correspondingly, combined food and beverage revenue increased by 15%.

The People's Republic of China

Hong Kong

The hotel industry in general experienced a strong recovery in 2005, supported by a continuing growth in arrivals. However, the recent closing down of two luxury hotels (accounting for over 1,200 rooms) coupled with the lack of new supply in the core business districts and anticipated increase in visitors arrivals in 2006 (both from Mainland China and other countries) will push up room yields further.

The Group's two hotels which have already completely refurbished their products recently, benefited from the favourable market conditions. Consolidated revenues of the two hotels increased by 17 % in 2005. Combined room rentals increased by 30% while combined food and beverage revenues increased by 6%. The average room rates of the Island Shangri-La, Hong Kong and the Kowloon Shangri-La, Hong Kong for the year reached US$287 and US$214, respectively.

Mainland China

The Group's hotels in Mainland China accounted for 45% of the Group's combined revenues. Combined revenues of the hotels increased by 21%. Weighted average annual occupancies of all hotels remained unchanged at 72% while weighted average room rates increased by 13% to US$112. All the hotels recorded increases in room rate, ranging from 3% in Shenyang to 24% in Dalian. However, occupancies of some hotels in provincial cities experienced temporary declines, pending the absorption of increased supply. In particular, the Shangri-La hotels in Harbin and Zhongshan recorded a decrease of 10 percentage points in occupancies. Despite this, all the hotels recorded improvement in RevPAR with the exception of a marginal decrease recorded by hotels in Hangzhou, Beihai and Shenzhen of less than 3%. Given the continuing growth in domestic travel and international arrivals and the long lead time for emergence of competitive supply, the Group remains optimistic on the overall prospects of its hotel business in Mainland China for the foreseeable future.

The Shangri-La Hotel, Fuzhou soft-opened for business on 25 January 2005 and has 414 rooms available for sale. Phase 2 of the Pudong Shangri-La, Shanghai ("SLPU") which comprises 375 guest rooms and complementary facilities, soft-opened for business on 19 July 2005. With a total 957 guest rooms, it is currently the largest hotel in the Group. Both these new products have been well received by the market.

Singapore

Business at the Group's Singapore hotels continued to improve with combined revenues increasing by 17%. Weighted average RevPAR increased by 17%, supported by 4 percentage point increase in annual occupancies and 11% increase in room rate. The Singapore government has recently initiated steps for the development of integrated resorts to further improve its position as a preferred tourist-destination and maintain a healthy trend of visitor arrivals in the medium term. The outlook for the Group's hotels remains very positive.

The Philippines

The performance of the Group's hotels continued to improve with overall positive economic indicators for the country. The improved perception on the country's security situation has also helped to support the operating performance. RevPAR and room rate increases ranged between 19% to 23% and 7% to 10%, respectively. Annual occupancies of the Makati Shangri-La, Manila and Shangri-La's Mactan Island Resort & Spa, Cebu ("MAC"), were in excess of 80%.

During the year, the Edsa Shangri-La, Manila ("ESL") commenced the renovation of 110 rooms and the Group opened the CHI Spa Village at MAC on 1 July. In 2006, the Group will renovate 188 guest rooms at MAC and 62 rooms in ESL. The overall outlook for the Group's hotels remains positive.

Malaysia

The Group's hotels recorded a weighted average increase in RevPAR by 17%. The strong performance was mainly attributable to significant improvements in room rate as weighted average annual occupancies remained unchanged at 73%. In particular, the two hotels in Sabah experienced robust growth in a buoyant market. Average transient room rates of the Golden Sands Resort, Penang and Shangri-La's Tanjung Aru Resort, Kota Kinabalu increased by 38% and 24%, respectively. Shangri-La's Rasa Sayang Resort & Spa, Penang which closed for redevelopment on 1 December 2004 is scheduled to re-open in the last quarter 2006.

The overall prospects for 2006 are healthy.

Thailand

Business of the Shangri-La Hotel, Bangkok was affected by the drop in arrivals at the beginning of the year after the tsunami struck Southern Thailand in December 2004. The hotel, though, successfully focused on regional business to mitigate the effect of decrease in long-haul business. Average room rate increased by 5% while occupancy declined marginally to 79% from 81%. The CHI spa, which first opened in July 2004, won a number of accolades, including the TTG and Baccarat awards for the best new Spa. With a gradual return of long-haul travelers to Thailand, the Group expects improvement in the hotel's performance in 2006.

Fiji

Renovation of the Lagoon Wing guest rooms at Shangri-La's Fijian Resort, Yanuca was substantially completed at the end of 2004 and the renovated product was well received. As a result, occupancy increased by 12 percentage points to 75% and the average room rate rose by 28%.

After considering the refurbishment costs and anticipated benefits in respect of the 128 rooms Fiji Mocambo, Nadi, the Group disposed this hotel in December 2005.

Indonesia and Myanmar

The performance of the Shangri-La Hotel, Jakarta ("SLJ") improved with annual room rate and RevPAR increasing by 9% and 20%, respectively. The performance of the Traders Hotel, Yangon continued to be adversely affected by Myanmar's uncertain political and economic environment. Occupancy decreased to 47% while room rate marginally increased by 3%.

Hotel Management

The hotel management arm of the Group, SLIM International Limited and its subsidiaries (the "SLIM Group"), provides technical consultation and project management services for hotels under development or renovation and hotel management and marketing services for operating hotels. The SLIM 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 31 December 2005, it also had hotel management contracts in respect of 12 other operating hotels and technical services and hotel management contracts in respect of 14 hotel projects owned by third parties.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Aided by the strong recovery of the hotels' business and successful signing of new contracts, the SLIM Group recorded a 33% increase in revenues on consolidation.

In 2005, the Group signed seven new hotel management contracts:

– Shangri-La Hotel, Seychelles (opening in late 2007)
– Traders Hotel, Macau (opening in early 2008)
– Shangri-La Hotel, Macau (opening in early 2008)
– Shangri-La Hotel, Bangalore, India (opening in mid 2008)
– Shangri-La Retreat & Spa, Bangalore, India (opening in mid 2008)
– Traders Hotel, Bangalore, India (opening in late 2008)
– Shangri-La Hotel, Chicago, USA (opening in early 2009)

The following hotels opened for business in 2005:

– Traders Fudu Hotel, Changzhou, Mainland China (on 3 January with 378 rooms)
– Shangri-La Hotel, New Delhi, India (on 14 September with 322 rooms)
– Traders Hotel, Kunshan, Mainland China (on 18 October with 300 rooms)
– Shangri-La's Barr Al Jissah Resort & Spa, Muscat, Oman (on 14 December with 302 rooms). Another wing of the resort comprising 194 rooms opened for business on 21 January 2006.

In January 2006, the Group signed a management agreement for a 340 rooms luxury hotel to be developed in Las Vegas, USA. The hotel is expected to open for business in early 2010.

The Group terminated the following management contracts:

– for a project in Haikou, Mainland China (in May 2005)
– Traders Hotel, Chennai, India (in November 2005)
– Shangri-La Dingshan, Nanjing, Mainland China (in January 2006)

Property Rentals

The Group's investment properties are located principally in Shanghai and Beijing and are owned by associated companies. The average yields in these two cities recorded an increase ranging from 4% to 23%. The Shangri-La Residences in Dalian recorded increase in yields of 13%.

In Singapore, the weighted average yields of serviced apartments increased by 10% and of the commercial space increased by 4%, with occupancy rates reaching 98%. Yields of office space, however, registered a decline of 4%.

In Bangkok, yields of office space registered an increase of 11%, supported by an increase in the occupancy rate, from 88% to 94%. The annual occupancy and monthly rate of the serviced apartments increased to 87% and US$18 per square meter.

In Kuala Lumpur, yields of office space decreased marginally by 3%, albeit yields of the serviced apartments increased by 9%.

On 1 May 2005, the Group's subsidiaries completed the agreement to dispose their entire shareholding in Johdaya Karya Sdn Bhd ("Johdaya") which owns a commercial and office complex in Johor Bahru.

(b) Consolidated Profits

Consolidated profits attributable to the equity holders of the Company for 2005 increased to US$151.0 million from US$113.5 million in 2004. The financial performance reflected the combined effects of the 16% increase in consolidated turnover, a 11.5 percentage point increase in the gross profit ratio and an increase of US$8.1 million in net income from non-operating items.

The detailed breakdown of the profit is as follows:

Consolidated Profit Attributable to Equity Holders of the Company

For the year ended 31 December

	2005 US$ million	2004 US$ million	% Change
Company & Subsidiaries			
Hotel Operation			
Hong Kong	**40.4**	28.1	44%
Mainland China	**31.1**	26.5	17%
Singapore	**20.4**	20.6	(1%)
The Philippines	**(0.8)**	4.6	NM
Malaysia	**3.2**	5.0	(35%)
Thailand	**8.3**	7.3	14%
Fiji	**5.2**	0.8	515%
Myanmar	**(0.4)**	(0.8)	48%
	107.4	92.1	17%
Property Rentals			
Mainland China	**1.7**	1.0	67%
Singapore	**3.1**	2.9	9%
Malaysia	**0.8**	0.8	3%
Thailand	**0.2**	0.2	1%
	5.8	4.9	20%
Hotel Management	**(3.8)**	0.6	NM
Associates			
Hotel Operation			
Mainland China	**16.3**	5.2	214%
Singapore	**1.0**	0.6	79%
Malaysia	**1.2**	2.2	(47%)
Indonesia	**–**	(0.4)	NM
	18.5	7.6	144%
Property Rentals			
Mainland China	**27.8**	23.8	17%
Singapore	**1.8**	1.7	6%
Malaysia	**0.2**	0.5	(61%)
	29.8	26.0	15%
Operating Profit After Tax	**157.7**	131.2	20%
Less:			
– Corporate expenses net	**(10.0)**	(6.6)	(52%)
– Pre-opening expenses and amortisation of land use rights for projects	**(2.2)**	(5.8)	61%
– Net finance costs on corporate borrowings	**(30.4)**	(32.5)	6%
– Interest expenses on convertible bonds	**(6.7)**	(7.3)	9%
Profit before Non-Operating Items	**108.4**	79.0	37%

	2005 US$ million	2004 US$ million	% Change
Non-Operating Items:			
– Fair value gains on investment properties	**36.1**	6.6	445%
– Realised and unrealised gains on financial assets held for trading	**6.6**	19.3	(66%)
– Gains from non-hedging interest-swap contracts	**3.5**	–	NM
– Gains/(losses) on disposal of investment in subsidiaries	**0.3**	(0.9)	NM
– Losses on disposal of interest in associates	**(2.1)**	–	NM
– Retrenchment payout and discarding of fixed assets due to redevelopment of a resort	**–**	(4.9)	NM
– Gain on disposal of a hotel	**1.7**	–	NM
– Amortisation of negative goodwill	**–**	5.5	NM
– Expenses on share options granted	**(3.5)**	–	NM
– Reversal of deferred provision for taxation on possible future distribution of retained profits of a subsidiary after group reorganisation	**–**	8.9	NM
	42.6	34.5	24%
Profit attributable to equity holders of the Company	**151.0**	113.5	33%

Notes:

1. Interest expenses of operating units' bank borrowings and deferred tax provision are included in operating results.

2. All balances stated are net of share of minority interests.

3. Profit of the hotel management group is stated before elimination of revenue earned from fellow subsidiaries and operating results of the subsidiaries are stated before elimination of management fees charged by the hotel management group.

NM: Not Meaningful

Profit after tax and before non-operating items for 2005 as compared to 2004 has been affected by the following:

(a) Performance based bonus at hotels and investment properties of the Group was higher by US$6.9 million while that at hotel management company and the Company was higher by US$6.7 million and US$2.4 million, respectively.

(b) Income tax charged in respect of effective interest in associates increased by US$8.7 million mainly due to corresponding increase in taxable profits while that relating to subsidiaries increased by US$28.8 million (after the US$8.9 million special credit in 2004 grouped under non-operating items). Of this, US$11.9 million is attributable to an increase in taxable profits and US$16.9 million due to net increase in deferred income tax provision principally arising from:

   – a reversal of provision of US$4.1 million relating to potential tax balancing charge on future disposal of fixed assets in 2004 by a subsidiary in Singapore consequent upon satisfying certain exemption clauses under local tax laws;

   – a reversal of provision of US$1.3 million by subsidiaries in Singapore resulting from a decrease in income tax rate from 22% to 20%;

- US$7.2 million incrementally provided in 2005 relating to the subsidiaries in the Philippines pursuant to an increase in the corporate income tax rate from 32% to 35%; and

- US$5.8 million incrementally provided in 2005 relating to gains on revaluation of investment properties.

(c) Consolidated Net Asset Value and Gearing Ratio

As at 31 December 2005, the Group's net asset value (total equity) increased to US$2,630.2 million from last year's US$2,165.4 million largely due to the issuance of 123,146,531 new shares to holders of share options and convertible bonds who have exercised their rights, adjustments required to negative goodwill under the new accounting standards and the profits for the year. The net borrowings to total equity ratio improved from 40.2% as at 31 December 2004 to 33.0%.

The currency mix of the Group's total tangible assets and total liabilities as at 31 December 2005 is as follows:

	Total Tangible Assets	**Total Liabilities**
In Hong Kong dollars	8%	63%
In Renminbi	47%	10%
In Singapore dollars	17%	2%
In Philippine Pesos	10%	8%
In Malaysian Ringgit	9%	4%
In Thai Baht	4%	2%
In US dollars	2%	10%
In Fiji dollars	2%	1%
In other currencies	1%	–
	100%	100%

Note: Total tangible assets included all non-current and current assets with the exception of goodwill and trademarks while total liabilities included balances of minority interests and loans from them.

(d) Financial indicators of the Group

	2005	2004
Return on Equity Profit attributable to equity holders of the Company/ Average equity attributable to equity holders of the Company	**6.93%**	6.25%
EBITDA (in US$'000) Earnings before interest, tax, depreciation (including losses on disposal), amortisation and non-operating items	**265,261**	222,723
EBITDA Margin EBITDA/Sales	**31.50%**	30.70%

2. CORPORATE DEBT AND FINANCIAL CONDITIONS

Taking advantage of the liquidity in the banking system and with a view to address its capital commitment requirements, the Group executed 8 unsecured bilateral Hong Kong dollars/ US dollars dual currency corporate loan agreements with individual banks in 2005 in a total amount of equivalent US$744.5 million. These loans have a maturity of 5 years with an all-inclusive cost of 37 basis points over HIBOR/ LIBOR. These loans give the Group the flexibility for shifting the currency of its borrowings from time to time considering financial market conditions. These new loans have also served to push out loan maturities and reduced the loan interest margin. With these facilities in place, the Group prepaid HK$2,080 million borrowings under loan agreements which carried a higher interest rate. Following the exercise of the conversion right by some of the convertible bonds holders, the outstanding aggregate principle amount of the zero coupon guaranteed convertible bonds due March 2009 with an initial conversion price of HK$9.25 per share of the Company (subject to adjustment) reduced to US$61 million as at 31 December 2005. Subsequent to the year end, convertible bonds with principal amount of US$2.4 million were also converted. Unless previously redeemed, converted or purchased and cancelled, the outstanding bonds will be redeemed at 114.633 percent of their principal amount on the maturity date.

The Group has satisfactorily complied with all covenants under its borrowing agreements.

The analysis of borrowings outstanding as at 31 December 2005 is as follows:

	Maturities of Borrowings Contracted as at 31 December 2005				
	Repayment				
(US$ million)	**Within 1 year**	**In the 2nd year**	**In the 3rd to 5th year**	**After 5 years**	**Total**
Borrowings					
Corporate bank loans	103.2	387.1	440.0	–	930.3
Project bank loans and overdrafts	49.4	20.3	69.8	14.0	153.5
Convertible bonds	–	–	59.2	–	59.2
Total	**152.6**	**407.4**	**569.0**	**14.0**	**1,143.0**
Undrawn but Committed facilities					
Bank loans and overdrafts	**163.6**	**8.5**	**520.3**	**–**	**692.4**

As at 31 December 2005, all the above borrowings were unsecured except the bank loan of a subsidiary amounting to US$36,000 (2004: US$68,000) which was secured by charges over certain motor vehicles of the subsidiary with net book values totalling US$93,000 (2004: US$112,000).

The currency-mix of the borrowings and cash and bank balances as at 31 December 2005 is as follows:

(US$ million)	**Borrowings**	**Cash and Bank Balances**
In Hong Kong dollars	897.5	30.5
In US dollars	162.2	83.2
In Renminbi	47.3	88.4
In Singapore dollars	–	13.8
In Philippine Pesos	–	6.6
In Malaysian Ringgit	36.0	3.9
In Thai Baht	–	34.8
In Fiji dollars	–	14.4
In other currencies	–	0.5
Total	**1,143.0**	**276.1**

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/LIBOR, respectively. The loans in Renminbi are at rates specified by The People's Bank of China from time to time.

As at 31 December 2005, of the Group's cash and bank balances, US$193.4 million (2004: US$116.1 million) were kept in Mainland China, Malaysia, Thailand, the Philippines, Myanmar and Fiji. 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.

The Group also executed proportionate guarantees in favour of banks for securing banking facilities to certain associates. The utilised amount of such facilities covered by the Group's guarantees for these associates as at 31 December 2005, amounted to US$30.4 million (2004: US$25.3 million).

3. TREASURY POLICIES

The treasury policies 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 and borrowing rates under different currencies.

During the year, the Group executed new corporate loan agreements to re-finance substantial portion of the loans drawn down / available under the earlier agreements which carried a higher interest rate. The subsidiary in Thailand executed a five-year bank loan agreement of Thai Baht 800 million to provide funding for the hotel project in Chiangmai.

The Group has also sought to hedge its medium term interest rate risk by entering into HIBOR and LIBOR interest rate swap contracts. The Group has entered into new five-year HIBOR interest swap contracts for an aggregate principal amount of HK$1,300 million, and seven-year HIBOR and LIBOR interest swap contracts for an aggregate principal amount of HK$2,560 million and US$100 million, respectively. As at 31 December 2005, the Group had outstanding contracts for an aggregate principal amount of HK$4,360 million at fixed interest rates ranging between 4.335% and 5.29% per annum, and US$100 million at fixed interest rate of 4.7% per annum. The interest cover continues through November 2012. Together with the convertible bonds outstanding, the Group has fixed its interest liability on 67% of its term loans outstanding.

GREAT MOTHERLAND OF CHINA MURAL
ISLAND SHANGRI-LA, HONG KONG

(b) Minimise Currency Risk

The Group has an economic hedge in terms of currency risk to the extent that all 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 the 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 general expectations about the strengthening of the Renminbi and in compliance with directives issued by the foreign exchange regulatory authorities, some subsidiaries in Mainland China have contracted bank loan facilities partly in Renminbi and partly in Hong Kong dollars. As mentioned earlier, the Group has secured new corporate bank loans in dual-currencies to provide flexibility to switch the currency in the event of relative weakness of either currency. Moving forward, the Group plans to selectively increase the funding assistance provided to its subsidiaries in Mainland China in order to further reduce their Renminbi borrowings.

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

4. FIXED ASSET VALUATIONS

(a) Fixed Assets Values* – by Geographical Area

	2005		2004	
	US$ million	**%**	US$ million	%
The People's Republic of China				
Hong Kong	**220**	**6%**	218	6%
Mainland China	**1,994**	**51%**	1,686	47%
Singapore	**681**	**18%**	696	19%
The Philippines	**383**	**10%**	364	10%
Malaysia	**345**	**9%**	365	10%
Thailand	**127**	**3%**	135	4%
Fiji	**53**	**1%**	54	2%
Indonesia	**35**	**1%**	35	1%
Myanmar	**31**	**1%**	32	1%
Maldives	**5**	**0%**	–	0%
Total	**3,874**	**100%**	3,585	100%

* Including total fixed assets value owned by subsidiaries and the effective interest share of fixed assets value owned by associates.

(b) Independent Valuation of Properties

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (the "new HKFRS") that are effective for accounting periods beginning on or after 1 January 2005. The Group has adopted the new HKFRS in the financial statements for the year ended 31 December 2005 and the 2004 comparatives have been amended as required. The significant changes include:

I. The Group's hotel properties can no longer be accounted for as investment properties under HKAS 40 "Investment Property". Accordingly, for the accounting year beginning on 1 January 2005, instead of stating the hotel properties at fair value, the Group adopted the following accounting policies retroactively:

(1) The underlying buildings and integral plant and machinery are stated at cost less accumulated depreciation and impairment, if any, under HKAS 16 "Property, Plant and Equipment";

(2) the underlying freehold land is stated at cost less impairment, if any, under HKAS 16 "Property, Plant and Equipment"; and

(3) the underlying leasehold land is stated at cost and subject to annual operating lease rental charge (amortisation of land cost) as required by HKAS 17 "Leases".

Adoption of these new accounting policies have the following significant consequences:

(a) The net book value of fixed assets, the overall provision for deferred tax liabilities and the net asset value of the Group is reduced.

(b) The annual depreciation and lease rental charges increase and provision for deferred tax liabilities decrease. Overall, the profit after tax attributable to the equity holders of the Company ("PAT") and the earnings per share ("EPS") of the Group is reduced.

For the year ended 31 December 2005, the Group charged net additional depreciation and amortisation expenses of US$44.4 million after adjustment of minority interests and provision for deferred tax liabilities; and shared such additional expenses of US$4.4 million of its associates.

II. For the accounting year beginning on 1 January 2005, the Group adopted the following accounting policy retroactively for its investment properties:

– The Group's investment properties continue to be stated at fair value. All changes in the fair value of investment properties from one balance sheet date to the next will be reported in the income statement. Previously, such changes were taken directly to the investment property revaluation reserve account on a portfolio basis to the extent that the reserve remained in surplus.

Adoption of this new policy will affect the PAT and the EPS of the Group depending on the results of the annual revaluation.

All investment properties are stated at professional valuations carried out by the following independent firms of professional valuers as at 31 December 2005:

CB Richard Ellis Limited, DTZ Debenham Tie Leung Limited and Chesterton Petty Limited	:	For properties in Mainland China

Colliers Valuation Consultancy & Valuation (Singapore) Pte Ltd and DTZ Debenham Tie Leung (SEA) Pte Limited	:	For properties in Singapore
W.M. Malik & Kamaruzaman	:	For properties in Malaysia

The valuations of all the investment properties made in 2005 year end resulted in a net increase in profit of US$36.1 million after adjustment of minority interests and additional provision for deferred tax liabilities relating to the full effect of temporary differences arising from revaluation of the properties.

5. FINANCIAL ASSETS HELD FOR TRADING – TRADING SECURITIES

The Group continued to gradually dispose of its investment portfolio in trading securities. In 2005, this disposal for US$6.8 million recorded realised gains of US$1.0 million before adjustment for minority interests (US$1.0 million after minority interests). Dividend income from trading securities of US$1.0 million before adjustment of minority interests (US$0.9 million after minority interests) was recorded.

As at 31 December 2005, the market value of the Group's investment portfolio was US$37.8 million which included an unrealised gain of US$6.5 million before adjustment of minority interests (US$5.6 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$19.7 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 had undertaken, subject to market conditions, to use its reasonable endeavours to procure SHPCL to dispose of all such SA shares to parties independent of the Kuok Group. The investment portfolio also included 6,072,968 ordinary shares in Kerry Properties Limited ("KPL") with a market value of US$16.1 million as at 31 December 2005. Subsequent to the year-end and up to the date of this report, the Group further disposed of part of its investment portfolio for US$1.9 million and recorded realised gains of US$0.4 million (both before and after adjustment of minority interests).

6. DEVELOPMENT PROGRAMMES

Construction work of the following hotels is progressing satisfactorily:

	Rooms	Projected Opening
In Mainland China		
Shangri-La Hotel, Pazhou, Guangzhou	728	Late 2006
Shangri-La Hotel, Chengdu	568	Early 2007
Shangri-La Hotel, Xian	397	Mid 2007
Shangri-La Hotel, Baotou	360	Mid 2007
Shangri-La Hotel, Huhhot	373	Mid 2007
Shangri-La Hotel, Qingdao (Phase II)	190	Late 2007
Shangri-La Futian, Shenzhen	550	Late 2007
Shangri-La Hotel, Wenzhou	360	Early 2008
Shangri-La Hotel, Ningbo	562	Early 2008
Shangri-La Hotel, Manzhouli	200	Mid 2008
In other countries		
Shangri-La Hotel & Spa, Chiangmai, Thailand	280	Mid 2007
Shangri-La Resort & Spa, Boracay, The Philippines	214	Early 2008

The construction of the hotel in Guilin, Mainland China is expected to commence in second half 2006 and to be completed in 2009. The 304-room Shangri-La's Rasa Sayang Resort & Spa, Penang, currently under redevelopment, is due to re-open in the last quarter of 2006.

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 four connected sites in Jingan District, Shanghai in which the Group and KPL will have an interest up to a maximum of 49% and 51%, respectively. It is intended to build a high-end composite development consisting of offices, high end retail and two luxury hotels. Each of the Group and KPL own a piece of land in the area. As at 31 December 2005, the Group and KPL have already acquired the entire interest in the other two parcels of land. In respect of the land which was held by a subsidiary in which the Group originally has 99% equity interest, 50.5% interest thereof has also been disposed to KPL. It is expected that development would commence in the second half of 2006 after KPL transfers 48.5% out of its 99% interest in its land to the Group and the local party transfers its remaining 1% interest in two pieces of land equally to the Group and KPL. The maximum total investment in the entire project is not expected to exceed US$700 million. Phase I of this project is expected to be completed in 2010.

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. Ground work has commenced and the building is expected to be completed in 2008. 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, scheduled to open in late 2010. This marks the Group's foray into the European market. The hotel will be the first new-build five-star hotel to open in the Central London area in over a decade. Designed by the acclaimed architect Renzo Piano, the iconic 310 meter tall, 70-storey London Bridge Tower is situated on the South Bank of the Thames River, minutes from the City of London, easily accessible to Canary Wharf and close to key tourist attractions, making it an ideal location both for business and leisure travellers. The deluxe, 195-room, 18-floor Shangri-La will occupy floors 34 to 52 of the Tower. The Tower will have direct access to a key transport interchange providing extensive mainline railway, bus and underground stations. The Group's investment for fit-out costs and pre-opening expenses is estimated at US$40 million and will be largely incurred in 2009.

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 luxury resort in the Island of Villingili in Addu Atoll. This resort will open for business with 90 rooms in early 2008. The Group has 70% equity interest in this project with the balance 30% owned by the Maldivian Government. 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.

In January 2006, the Group acquired the entire interest in the historic palace of Prince Roland Bonaparte at a consideration of EUR 92 million. It plans to convert it to a 140 deluxe guestrooms Shangri-La Hotel, Paris in late 2008, making the Group's European debut. Located at 10, avenue d'Iena, near the Trocadero, the building offers some of the city's finest views of the River Seine and the Eiffel Tower, which is a 15-minute walk away. The historic and architectural integrity of the building exterior will be maintained and the Group will work with top interior designers to renew and enhance the inner space.

In February 2006, the independent shareholders of the Company, at its special general meeting, approved the entering into of connected transactions with KPL and Allgreen Properties Limited ("Allgreen") (both connected persons to the Company) relating to the establishment of a joint venture company in Pudong, Shanghai to acquire a piece of prime land located adjacent to the Shanghai New International Expo Centre for a mixed-use development which is currently intended (subject to market conditions) to comprise a hotel, offices, serviced suites/serviced apartments, commercial and related ancillary facilities. The Group will have an interest of 23.2% in the joint venture company. Construction work will commence in the second half 2006 after securing necessary local approvals and is expected to be completed in late 2009. The total investment in the entire project is not expected to exceed US$590 million.

The estimated funding required directly at the corporate level for all the new projects is currently estimated at US$756 million and will be mainly financed by existing surplus cash on hand, operating fund flows and available borrowing facilities. Joint venture partners and locally contracted project loans will provide the balance of funds required for these developments.

The Group's "CHI" spa has been well received by the market since its debut at the Shangri-La Hotel, Bangkok in July 2004. Designed to create a sanctuary of tranquility inspired by the legend of "Shangri-La," the CHI spa features some of the largest and most luxurious private suites and villas in the hotel sector. CHI spas offer a range of specialised therapies based on Chinese and Himalayan healing traditions, philosophies and rituals. The essence of "CHI" symbolises Shangri-La's definition of a complete well-being concept within an Asian context. The "CHI" spa village at MAC and the CHI spa at SLPU opened for business in June 2005 and October 2005, respectively. There are at present plans for more than ten CHI spas to be introduced in various hotels and resorts managed by the Group over the next few years.

Over the past few years, nearly all of the Group's flagship hotels have been fully renovated and are positioned to benefit from the upturn in business. Nevertheless, there are still some renovations being undertaken by some of the Group's subsidiaries which will involve capital expenditure of approximately US$65 million. This expenditure will be financed mainly from operating cash flows of the individual hotels, supplemented by locally contracted short-term bank loans, where appropriate.

7. SALE OF NON-CORE ASSETS

The Group intends to sell all those assets that it considers "non-core" at favourable 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, 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. The Group recorded a net loss on disposal of US$2.1 million (after adjustment of minority interests).

In December 2005, the Group's subsidiary also completed the disposal of the Fiji Mocambo, Nadi and recorded a net gain on disposal of US$1.7 million (after adjustment of minority interests).

8. MANAGEMENT CONTRACTS

The Group has embarked on a rapid pace of expansion by also entering into management contracts for third-party-owned hotels that do not require capital commitment. Four new hotels opened for business in 2005 and the total number of operating hotels under management contracts increased to 11 with 3,614 rooms, after excluding the Shangri-La Dingshan, Nanjing the management contract in respect of which was terminated in January 2006.

In addition, the Group has contracts on hand for development of 15 new hotels as at the date of this report. These represent an inventory of 6,009 rooms. The development projects are located in Macau (2 hotels), Doha (Qatar), Kuala Lumpur, Vancouver, Chicago, Las Vegas, Seychelles, Bangalore (India) (3 hotels), Suzhou, Dongguan, Sunny Bay – Sanya, and Urumqi (all in Mainland China).

In late 2005, the Group acquired the trademarks and licences from an independent third party thus enabling it to provide hotel management and related services in the USA under the "Shangri-La" and "Traders" brand names.

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

9. CORPORATE SOCIAL RESPONSIBILITY

Corporate Philanthropy

The Group is committed to supporting the communities in which it operates. Apart from contributions to the Red Cross in the immediate aftermath of the tsunami disaster that struck the southeast Asia region in December 2004, the Group's subsidiaries have also teamed up with various social charitable organisations in different countries. The Company donated HK$500,000 to the "President's Relief Fund for Earthquake Victims – 2005" in October 2005 following the earthquake in Pakistan. The Company is also a regular donor under the Corporate Contribution Program of The Community Chest of Hong Kong. The Company donated HK$180,000 in March 2005 and again in March 2006.

A special committee, the Corporate Social Responsibility Committee, comprising senior executives from various

HORIZON CLUB LOUNGE
SHANGRI-LA HOTEL, SYDNEY

divisions at the Group's corporate office seeks to widen the scope of the Group's support of worthy social and environmental causes.

Care for Children ("CFC"), a Beijing-based charity organisation, is the Group's corporate charity partner. A registered charity in Mainland China, the United Kingdom and the United States, CFC works in partnership with national and local governments in Mainland China to introduce foster care and other strategic initiatives to relieve hardship, distress and sickness and to enrich the lives of orphans and other needy children. Its vision is to place one million Chinese orphans into foster families by 2010.

Throughout 2005, the Group supported CFC by leveraging its substantial network, providing financial assistance through guest donation programmes, sponsoring venues for the charity's events and workshops, etc.

As part of a fundraising campaign dubbed "Dare to Care," donation envelopes designed in the traditional style of Chinese "hong baos" ("red packets") are placed in restaurant bill folders and on nightly guestroom turndown trays in Group's Mainland China and Hong Kong hotels. Donations can also be made directly upon guest check out. The programme will be rolled out in the Group's other hotels the second quarter of 2006. As CFC expands its efforts to other Asia Pacific areas, the Group will be developing additional supporting initiatives.

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 20 hotel properties receiving certification to ISO 14001, the international Environmental Management System standard. A number of Group hotels were the first to receive certification in their markets, and the Island Shangri-La, Hong Kong was the first to receive certification in the Asia Pacific region. Certification is only awarded to those organisations that are able to demonstrate the implementation of ISO 14001 throughout their operations.

The awarded hotels have also undertaken a number of environment-friendly measures benefiting their communities, including the installation of energy-saving light bulbs, sewage treatment facilities and the use of biodegradable cleaning materials and water restrictors.

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.

In March 2006, the Group donated HK$4 million to The Nature Conservancy, a leading global conservation organisation founded in 1951 by leading scientists in the USA. The Conservancy is now helping the Chinese government to develop a Biodiversity Conservation Blueprint for all of Mainland China – the first comprehensive and systematic assessment of biodiversity and conservation priorities in the nation's history. The Conservation Blueprint will lay a solid scientific and policy foundation for conservation work in Mainland China while helping to train the next generation of Chinese conservation science practitioners.

Community Affair

To support The Hong Kong Polytechnic University's initiatives and efforts in providing hotel management education, the Company donated HK$5 million to the University Development Fund.

10. MANAGEMENT STRATEGIES

General

The Asia Pacific region, and in particular Mainland China, which clearly presents tremendous opportunities for continuing growth, remain the Group's main focus for business and capital investments. The Group has been committed to the Mainland China market since opening its first hotel in Hangzhou, in 1984. Currently, the Group has equity interests in 18 hotels and manages 2 hotels in Mainland China with an inventory 9,816 rooms. In 2005, the Group was recognised for its contributions to the hotel industry in Mainland China and conferred 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 and also selectively enter into management contracts for third-party-owned hotels.

Mainland China's economic fundamentals continue to be sound and progressive relaxation of travel restrictions, coupled with rising urban incomes, is helping to create a boom in domestic and outbound travel. Foreign visitor arrivals continue to increase at around 8% per annum. The Group's plans for expansion are therefore timed to capitalise fully on Mainland China's economic advancement as well as specific developments including the country's entry into the World Trade Organization, Beijing's role as host of the 2008 Olympics and Shanghai as host of the World Expo 2010.

Where appropriate this strategy would involve participation in the development of large scale mixed-use property complexes (i.e. office, residential, serviced apartments, hotels and retail) in major cities. Taking into account the investment commitment and with a view to benefiting from synergies inherent in such developments, the Group has already participated in a few composite developments in conjunction with KPL and/or Allgreen. Both KPL and Allgreen are significant property groups and have experience and expertise in developing and managing large scale mixed-use property projects. The Group considers that this mode of partnership may be adopted for large scale high-end mixed-use property projects in future, where appropriate.

With a view to further diversifying its portfolio, heightening the global awareness of the Group's brand name and, improving returns to shareholders, the Group is also steadily expanding in its youngest markets, South Asia and the Middle East, and has taken steps to plant the Shangri-La flag in key European and North American gateway cities.

The Group has set up development offices in Beijing and Dubai to facilitate execution of the development strategy in Mainland China and the Middle East/South Asia respectively.

Prospects

The operating performance of the hotels during the year has been encouraging. The Group's average RevPAR increased 16%, mainly from improving average room rates. The pricing momentum witnessed in 2005 has been maintained in the first quarter of 2006. This will help the Group to further improve its operating profit margins. Barring any major adverse developments in the global or regional economic situation, the Group remains optimistic about its financial performance in 2006.

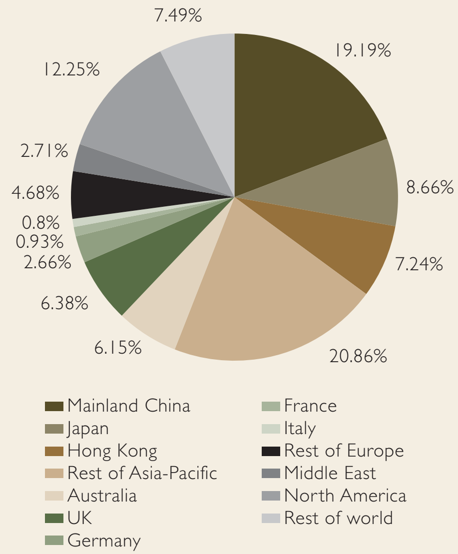
11. MARKETING

Sales and Marketing

The year 2005 saw a continuation of strong business from all major source markets, with a year-on-year increase of 5% in total room nights for all the Group's managed hotels.

Commercial travel accounted for 63% of total revenue.

The following chart sets out the revenue contribution to the Group's hotels (owned and/or managed) by country of guest residence:



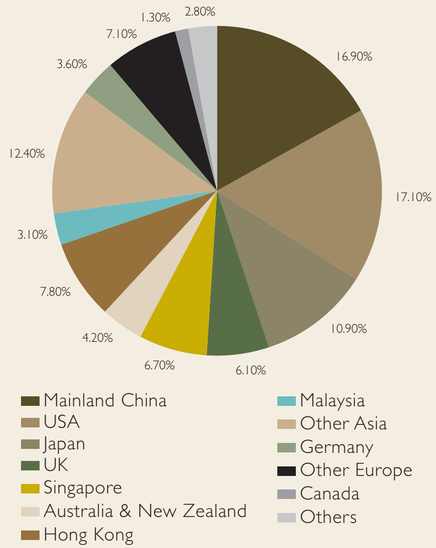
The Group's emphasis on revenue management was supported by an extensive training programme to develop in-house personnel as dedicated revenue management experts at the hotel level.

Group-wide sales and catering sales force automation systems were launched in 2005. These enabled the individual hotels and regional sales offices to share sales leads, consolidate and track revenues and generally streamline the sales process.

Shangri-La's exclusive guest recognition programme, Golden Circle, remained a strong marketing focus in 2005. Unlike other loyalty programmes, Golden Circle does not offer points. Instead, members are individually recognised and each stay tailored to include the services and amenities important to them.

The year concluded with over 800,000 Golden Circle members worldwide. Golden Circle members accounted for more than 27% of total folio revenue for the Group. The average spend per stay of a member was 15% higher than that of non-members.

The breakdown of the membership is as follows:



In 2005, the Group maintained its well-established relationships with 33 airlines worldwide through productive frequent flyer programme partnerships.

The television advertising campaign "Where will you find your Shangri-La" continued its regional run on CNN, Discovery, ESPN and BBC, as well as Mainland China and Hong Kong local television stations. This was complemented by in-flight TV on key global airline networks.

The global print advertising campaign "Heaven & Earth" was expanded to include additional advertising creative for the Shangri-La brand and ran in key business, lifestyle and travel publications in Asia, Europe and North America.

With the introduction of CHI Spa in late 2004, a supporting advertising campaign was developed in 2005 and ran in premium lifestyle titles in Hong Kong and Singapore as well as regional Asia and Spa titles.

The Traders advertising campaign shared the travel secrets of the smart traveler and highlighted the brand as the smart choice for travelers looking for practicality and efficiency in a convenient location.

In public relations, the traditionally sales-oriented "road shows" by general managers to Europe and the USA changed focus in 2005 to a public relations approach, designed to reach and influence (1) all levels of target media; (2) upper echelon clients and decision-makers; and (3) market opinion leaders.

The European and North American PR Tours represented the first time the hotel group reached out to all three core audiences through events marketing, in London, Hamburg, Paris, Los Angeles and New York.

12. FOOD AND BEVERAGE OPERATIONS

With a significant contribution to food and beverage profits from catering sales, this aspect was a top priority for the food and beverage operations, in terms of both product and service. Many of the hotels' ballrooms and function facilities were renovated. Ongoing training programmes reinforced the objectives of securing customer satisfaction and establishing market leadership in catering at all locations.

With approximately 80% of restaurant guests comprising external (non-hotel) guests, the Group has continued to develop restaurants that appeal to the local community and respect the local heritage. These new restaurants continue to re-invent themselves as the group moves forward. "Satoo" in SLJ and "Heat" in ESL are two examples of former "hotel coffee shops" which have been recreated to embrace local culture and food requirements, whilst also offering great diversity and choice for internal hotel guests. Along these lines was also developed the Yi Cafe at SLPU coincidental with the commissioning of the new Tower 2.

The highly acclaimed opening of 2005 took place in arguably the most focused food capital in Asia. "The Line" in the Shangri-La Hotel, Singapore transformed a successful "coffee shop" into one of the most talked-about restaurants globally, for 2005.

Likewise, the Jade on the 36th Restaurant and Bar at the new Tower 2 in SLPU was developed with local cultural sensitivity, but its design expanded boundaries in its modern interpretation of a Chinese icon, the rice bowl.

Resorts have also seen new creative and interactive restaurants becoming the norm. These changes have created vibrant entertainment hubs.

The Traders brand was updated with the new restaurant design in the Traders Hotel, Singapore. This trend will be maintained at the Traders Hotel, Kuala Lumpur, scheduled for opening in mid-2006.

Food Safety

With increasing global concerns of the H5N1 virus and its potential for causing major health problems for human beings, the Group has initiated several processes and training programmes to improve staff awareness of the need to maintain a good overall health environment both at the workplace and at home. This supplements the already stringent and comprehensive Shangri-La Food Safety Management System which has been in place for over five years and covers processes from receiving to preparing, cooking and serving food items and safeguards against cross contamination of products.

Each hotel has a qualified hygienist in its employment responsible for monitoring the implementation of the Food Safety Management System at the hotel. Compliance is also independently audited by a qualified third party agency.

13. HUMAN RESOURCES

The number of employees in the Group continues to increase. As of 31 December 2005, the Company and its subsidiaries had approximately 18,400 employees. The headcount of all the Group's managed hotels totalled 29,000. 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.

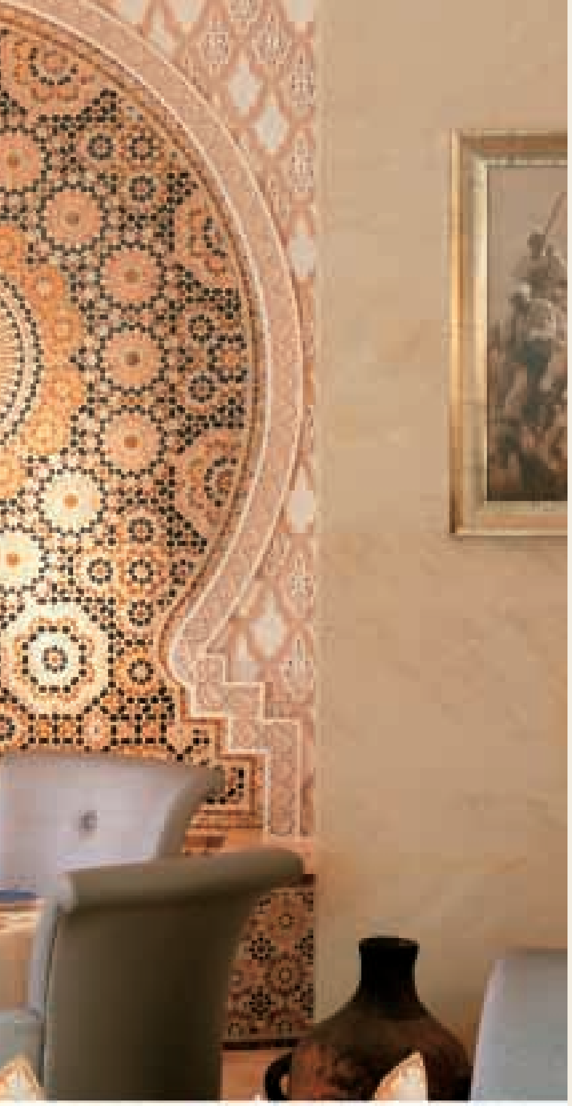
The Company has two share option schemes. Details of these two schemes are provided in the section headed "Share Options" of the Report of the Directors. As of this date, options outstanding under the two schemes are as follows:

	Executive Option Scheme			**New Option Scheme**	
Grant Date	1 May 1998	15 January 2000	15 January 2001	29 May 2002	28 April 2005
Exercise price per option share	HK$8.26	HK$8.82	HK$8.18	HK$6.81	HK$11.60
Balance as at 1 January 2005	5,839,776	4,814,709	1,765,948	4,892,000	–
Granted in 2005	–	–	–	–	18,150,000
Lapsed in 2005	–	(104,555)	–	(75,000)	(330,000)
Exercised in 2005	(2,153,064)	(1,027,254)	(271,684)	(2,477,000)	–
Balance as at 31 December 2005	**3,686,712**	**3,682,900**	**1,494,264**	**2,340,000**	**17,820,000**
Lapsed subsequent to 31 December 2005	–	–	–	–	(210,000)
Exercised subsequent to 31 December 2005	–	–	–	(60,000)	–
Balance as at 4 April 2006	3,686,712	3,682,900	1,494,264	2,280,000	17,610,000

The Group charged US$3,468,000 in its 2005 income statement for the new options granted during the year.

The Board's remuneration committee reviews matters relating to the compensation and the incentives proposed for senior management and executive directors.

Employee satisfaction and morale remains high. This is indicated by the Group's low staff turnover rate relative to industry norms.



People Development

The Shangri-La Academy in Beijing which opened in December 2004, saw a total of 700 service and supervisory level employees graduating from its four core certificate programs and its diploma program. The Shangri-La Academy will continue to accelerate and intensify employee training in keeping with the Group's expansion, especially in Mainland China where the workforce is expected to double to 20,000 in four years' time. The establishment of this Academy is integral to the Group's efforts at standardising the delivery of its brand promise throughout its network of hotels worldwide.

The development of managerial staff with high potential continued under the Group's three core talent development programs – the 18-month Corporate Management Trainee Program (CMT), 12-month Corporate Executive Training Program (CET) and the 18-month Corporate Trainee Program (CT). Through these three programmes, existing employees are systematically supervised through on-the-job training and cross-hotel exposure. In 2005, a total of 48 trainees were enrolled into these programs.

The year 2005 also saw the launch of two key internal and external training programmes. The Group's own sales training program – Shangri-La's Training for Aggressive Revenues (STAR) – ensures Shangri-La's sales teams are fully equipped with the knowledge, skills and concepts to maximise revenue performance of their units. As well, e-learning courses for management staff were launched with eCornell, in which 57 online courses will be made available for employees over the next five years.

Proprietary Service Culture Training

The Group's service culture training, through its Shangri-La Care Programme, has continued to create a competitive advantage and enhance its reputation for award-winning, highly personalised service. The latest module, Shangri-La Care 4, was rolled out to all the Group's managed hotels in August 2005. The module's main theme is "Taking Ownership – The Shangri-La Way". All new employees undergo training in the four modules of the programme within six months of joining. The Shangri-La Care Programme is designed to develop a consistent style of service that will deliver the Shangri-La experience for the guest and build brand loyalty.

The Group views the development and retention of the best and brightest talent in our industry as a strategic imperative.

14. INFORMATION TECHNOLOGY

The Group is an industry leader in its astute use of information technology. It was the first hotel operator in the region to deploy a distributed reservation, trilingual point of sale and sophisticated yield management systems. These strategically co-developed applications enable the Group to deploy IT applications across the various geographies it operates in, regardless of infrastructural or other limitations in these places. The Group is continuing its plan to upgrade its information technology infrastructure with the aim of maximising revenue potential, improving productivity and further strengthening customer relations.

Online Booking

The Group's proprietary bilingual web booking engine now allows bookings for a wider range of negotiated rates, and also offers a best rate guarantee to the bookers. The Group's Revenue Management System now also covers the online bookings.

The Group is also in the process of completely revamping its website (www.shangri-la.com) to further strengthen its online brand image, and to make the online bookings process even easier. The new website is scheduled for launch in the first quarter of 2007.

Sales Force Automation

The roll-out of a new Group-wide Sales Force Automation System is in progress and scheduled for completion by the end of 2006. The System is being installed at the hotels as well as the Regional Sales Offices. A custom-developed Chinese enabled version is in progress. The Sales & Catering software fully interfaces with the hotel Property Management System for the exchange of Group bookings and customer profiles.

Other Management Systems

OPERA PMS, the new generation Property Management System, is being introduced to all new hotels. Migration of existing properties is targeted for completion in 2009. All key properties have been equipped with an electronic yield management system which exchanges last available rate / room data with the Central Reservation System including on-line reservations on the internet. This enables the Group to offer the best rate guarantee for the internet bookings. New software solutions in the areas of Materials Management and Human Resources, and upgraded systems for Restaurant Table Management are also being rolled out.

Data Warehouse

The Group has embarked on a Data Warehouse project, leveraging on the various central systems already installed. The first development is a Management Dashboard, a steering instrument for senior management to help analyse the on-book situation and business development opportunities. The tool was developed internally in 2005 and it will be deployed to the hotels in 2006.

IT Staff Training

The Group emphasises training for all IT staff, covering technical as well as managerial aspects. Specific training sessions and workshops have been organised on a regional basis. The Group has also made available a wide range of comprehensive training courses including the management program, eCornell, provided and conducted by Cornell University.

Broadband Internet Access

High speed internet access is a standard across the Group. This includes wired access in the guest rooms and wireless access in public areas. Wireless broadband access in the rooms is being rolled out as warranted in specific locations. These systems are also being enhanced to improve internet access performance and security.

Information Security

Information Security, especially customer data protection, remains a top priority. The Group has engaged security experts to conduct industry standard penetration tests on its internal systems to ensure they are sufficiently protected. The Systems tested include email, web-booking engine, Central Reservation System, the Shangri-La website and the Intranet. A new Anti-Virus and Anti-Spyware software is being deployed Groupwide which will provide centralized management ability to ensure complete Anti-Virus protection for the whole Group.

Business Continuity Plan

A Groupwide business continuity plan has been implemented for the hotels. This includes revamped operating procedures, formation of crisis management teams, greater emphasis on vital service redundancy, additional data protection measures and an enhanced understanding of the measures needed to quickly recover the operations from disaster situations.