



The Directors submit their report together with the audited accounts for the year ended 31 December 2000.

PRINCIPAL ACTIVITIES

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.

TURNOVER AND CONTRIBUTION TO OPERATING PROFIT

An analysis of the turnover and contribution to operating profit of the Company and its subsidiaries is set out below:

	Company and subsidiaries	
	Turnover <i>US\$ million</i>	Contribution to operating profit <i>US\$ million</i>
Hotel operation:		
Room rentals	329	55
Food and beverage sales	269	22
Ancillary hotel services	58	8
Hotel management and related services fees	10	4
Property rentals	18	3
Deficit on valuation of investment properties	-	(1)
	684	91



Report of the Directors

An analysis of the turnover of the Company, its subsidiaries and associated companies by geographical location is set out below:

	Company and subsidiaries <i>US\$ million</i>	Associated companies <i>US\$ million</i>
The People's Republic of China		
Hong Kong	171	–
Mainland China	175	367
The Philippines	102	–
Singapore	101	32
Malaysia	80	2
Thailand	39	–
Fiji	11	–
Indonesia	–	26
Myanmar	5	–
	<hr/>	
	684	427
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RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated profit and loss account on page 52.

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.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to US\$22,000.

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 19 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.



CONVERTIBLE BONDS

During the year ended 31 December 2000, the Company repurchased and cancelled principal value of US\$14,125,000 of the 2.875% convertible bonds issued by Shangri-La Asia Capital Limited, a wholly-owned subsidiary of the Company (the "Convertible Bonds"), by private treaties at a gain of US\$177,000. The remaining Convertible Bonds with a total principal amount of US\$221,290,000 were redeemed as scheduled on 16 December 2000.

PARTICULARS OF BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

The particulars of bank loans, overdrafts and other borrowings as at 31 December 2000 are set out in notes 18 and 26 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 pages 99 and 100.

DIRECTORS

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

Mr YE Longfei (Chairman)	(appointed as Chairman on 3 October 2000)
Mr KUOK Khoon Ho (Deputy Chairman and Managing Director)	(appointed as Deputy Chairman on 3 October 2000)
Mr Thaddeus Thomas BECZAK	(resigned as Deputy Chairman on 3 October 2000)
Mr Tomas Campos ZITA, JR. Mr Giovanni ANGELINI	
Mr John Louis SEGRETI	(appointed on 1 July 2000)
Mr YOUNG Chun Hui	(appointed on 1 July 2000)
# Madam KUOK Oon Kwong	
# Mr John David HAYDEN	
# Mr HO Kian Guan	
* Mr Eoghan Murray McMILLAN	
* Mr QUEK Poh Huat	
# Mr HO Kian Cheong (Alternate to Mr HO Kian Guan)	
Mr KUOK Khoon Chen	(resigned on 3 October 2000)
# Mr Paul J.C. BUSH	(resigned on 3 October 2000)
# Mr Roberto V. ONGPIN	(retired on 26 May 2000)
# <i>Non-executive Directors</i>	
* <i>Independent Non-executive Directors</i>	

Messrs Thaddeus Thomas BECZAK, John David HAYDEN and Eoghan Murray McMILLAN retire by rotation in accordance with Article 99(A) and Messrs John Louis SEGRETI and YOUNG Chun Hui 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 59, 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 (“KHL”). 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 with Bachelor of Science and Master of Science degrees from the Shanghai Fudan University.

Mr KUOK Khoon Ho, aged 50, 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 KHL and a non-executive Director of South China Morning Post (Holdings) Limited (“SCMP”). 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 50, was appointed as an executive Director of the Company in August 1997. He is also an executive Director of KHL and Kerry Properties Limited, the Vice Chairman of Kuok Philippine Properties Inc. and the Deputy Chairman of SCMP. 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 the Hong Kong Exchanges and Clearing Limited after the merger. 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 Tomas Campos ZITA, JR. aged 55, was appointed as an executive Director of the Company in August 1997. He is the Managing Director of Shangri-La Hotel Public Company Limited, Thailand (“SHPCL”) and also a director of a number of companies within the Group in Hong Kong, China, Fiji and the Philippines, including Fiji Resorts Limited, Edsa Shangri-La Hotel & Resort, Inc., Mactan Shangri-La Hotel & Resort, Inc. and Makati Shangri-La Hotel & Resort, Inc. in which he is the Chairman. Prior to that and since January 1990, he was President of ZPA Associates, New Jersey, a company which provided consulting services to a group of Spanish investors with extensive holdings in real estate, commodities and winery. From September 1976 to December 1989, he was the Managing Partner of Topaz Trading Corp., New York and President of Philippine Sugar Trading Corp., New York, both companies being engaged in the international trading of sugar. He has an MBA from New York University, NY, majoring in International Business.



Mr Giovanni ANGELINI, aged 55, 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 (“SLIM”). 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 36 years in the industry, he has managed quality hotels in Hong Kong, Singapore, Korea, Mexico, Bermuda and in his native country, Italy.

Mr John Louis SEGRETI, aged 47, was appointed as an executive Director of the Company in July 2000. He joined the Group in 1991 as a manager of Kowloon Shangri-La, Hong Kong and was later appointed as the General Manager of Shangri-La Hotel, Jakarta. He was then appointed Vice President for seven properties in Singapore and Indonesia managed by SLIM, based at the Shangri-La Hotel, Singapore and also played the role of the General Manager of that hotel. Mr Segreti was appointed as the Chief Operating Officer of SLIM in April 2000. Mr Segreti has over 20 years’ experience in the hotel/hospitality industry.

Mr YOUNG Chun Hui, aged 49, was appointed as an executive Director of the Company in July 2000. Mr Young joined Shangri-La Hotel, Singapore in 1977 and was a corporate officer with SLIM since 1985. His last position was a Vice President. Mr Young is currently the Chairman of Beihai Shangri-La Hotel Ltd., Changchun Shangri-La Hotel Co., Ltd., Dalian Shangri-La Hotel Co., Ltd., Harbin Shangri-La Hotel Co., Ltd., Qingdao Kerry Real Estate Development Co., Ltd., Shenyang Traders Hotel Ltd., Wuhan Shangri-La Hotel Co., Ltd. and Xian Shangri-La Golden Flower Hotel Co., Ltd., and the Managing Director of Traders Yangon Company Limited. He is also a Director of a number of other companies within the Group including Pantai Dalit Beach Resort Sdn Bhd and Dalit Bay Golf & Country Club Berhad. Mr Young graduated with a Bachelor of Science degree from Cornell University, U.S.A.

Non-executive Directors

Madam KUOK Oon Kwong, aged 54, 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 Hotels (Malaysia) Berhad, Malaysia (“SHMB”), 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 59, 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 SLIM 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 55, 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 HKSE). He also serves on the boards of Shangri-La Hotel (Kowloon) Limited, Shangri-La International Hotels (Hangzhou) Limited, SHL and SHPCL. He is a brother of Mr HO Kian Cheong.



Report of the Directors

Mr Eoghan Murray McMILLAN, aged 65, was appointed as an independent non-executive Director of the Company in December 1994. He is the Chairman and Chief Executive of Rodamco Asia N.V., a Fellow of the Chartered Association of Certified Accountants in the United Kingdom and a Fellow of the Hong Kong Society of Accountants. He was with Arthur Andersen & Co. from 1959 until 1993 and served as Country Managing Partner for its practices in Hong Kong and the PRC from 1979 until 1993. During that time he also served as Regional Managing Partner for South East Asia and was deeply involved in the establishment of the firm's network of offices in Asia. In 1989, Mr McMillan was appointed by the Hong Kong Government to serve as an Independent Director of the Hong Kong Futures Exchange and from then until 1992 he also served as Chairman of the Hong Kong Futures Exchange and a Director of its wholly-owned subsidiary, Hong Kong Futures Exchange Clearing Corporation. Mr McMillan is a Director of Amway Asia Pacific Ltd, Vitasoy International Holdings Limited, Land Development Corporation and Pengurusan Danaharta Nasional Berhad as well as a director of a number of private companies and other subsidiary and associated companies of Rodamco Asia.

Mr McMillan has been Chairman of the Audit Committee and a member of the Remuneration Committee since 1998 and 1997 respectively.

Mr QUEK Poh Huat, aged 54, 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 HO Kian Cheong, aged 51, 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 2000, 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 Khoo Ho	3,456	1
	379,167	2
Mr Thaddeus Thomas BECZAK	300,000	1
Mr Tomas Campos ZITA, JR.	2,000	1
Mr Giovanni ANGELINI	100,000	1
Mr John Louis SEGRETI	Nil	–
Mr YOUNG Chun Hui	66,000	1
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 Eoghan Murray McMILLAN	Nil	–
Mr QUEK Poh Huat	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.

Save as mentioned above, as at 31 December 2000, 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.



Report of the Directors

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on 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. 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 the 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., an associated company of the Kuok Group, which owns the 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.

- (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, high-quality services.

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



DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under an executive share option scheme approved by the shareholders of the Company ("the Option Scheme") on 16 December 1997, the Directors may, at their discretion, grant to executive Directors and key employees of the Company and its subsidiaries options to subscribe for shares in the capital of the Company, subject to terms and conditions stipulated therein.

As at 31 December 2000, details of options granted to the Directors/former Directors of the Company who held office during the year were as follows:

Name of Director	Date of grant	Number of ordinary shares granted under the option	Exercise price per option share HK\$	Note
Mr YE Longfei	1 May 1998	300,000	8.00	1
	15 January 2000	400,000	8.55	2
Mr KUOK Khoon Ho	1 May 1998	1,200,000	8.00	1
	15 January 2000	500,000	8.55	2
Mr Thaddeus Thomas BECZAK	1 May 1998	1,200,000	8.00	1
	15 January 2000	500,000	8.55	2
Mr Tomas Campos ZITA, JR.	1 May 1998	300,000	8.00	1
	15 January 2000	400,000	8.55	2
Mr Giovanni ANGELINI	1 May 1998	450,000	8.00	1
	15 January 2000	550,000	8.55	2
Mr John Louis SEGRETI	1 May 1998	270,000	8.00	1
	15 January 2000	330,000	8.55	2
	6 April 2000	400,000	8.55	3
Mr YOUNG Chun Hui	1 May 1998	450,000	8.00	1
	15 January 2000	200,000	8.55	2
Mr John David HAYDEN	1 May 1998	1,200,000	8.00	1
Mr KUOK Khoon Chen*	1 May 1998	1,500,000	8.00	1
	15 January 2000	500,000	8.55	2
Mr Paul J. C. BUSH*	1 May 1998	300,000	8.00	1

Notes:

- 1 The share options granted on 1 May 1998 are exercisable based on an approved vesting scale from 1 May 1999 to 30 April 2008.
 - 2 The share options granted on 15 January 2000 are exercisable based on an approved vesting scale from 15 January 2001 to 14 January 2010.
 - 3 The share options granted on 6 April 2000 are exercisable based on an approved vesting scale from 6 April 2001 to 5 April 2010.
- * Messrs KUOK Khoon Chen and Paul J. C. BUSH resigned as Directors of the Company with effect from 3 October 2000. Pursuant to the terms of the Option Scheme, the Board of Directors approved the extension of the options granted to Mr KUOK Khoon Chen until the expiry dates of the option period. The option granted to Mr Paul J.C. BUSH remains exercisable until the expiry date of the option period pursuant to the retirement clause of the Option Scheme.

As at 31 December 2000, none of the above options have been exercised.

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.



Report of the Directors

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:

A. Payment of office expenses

The Company reimbursed Kerry Trading Co. Limited, a company within the Kuok Group for US\$1,290,000 (1999: US\$1,025,000) on costs reimbursement basis and paid Kerry Holdings Limited, a substantial shareholder of the Company, US\$567,000 (1999: US\$142,000) for office rental, administration and related expenses.

B. Land rental

- (i) Payment of land rental amounting to US\$899,000 (1999: US\$824,000) 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 in the Philippines to an independent third party.
- (ii) Payment of land rental to Edsa Properties Holdings, Inc. ("EPHI") of US\$1,301,000 (US\$750,000 during June 1999 to December 1999 after EPHI became 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 basis for charging rental was not changed after EPHI became an associated company of the Kuok Group and is comparable to those paid by another subsidiary in the Philippines to an independent third party.

C. Unsecured shareholders' loans and guarantee

- (i) The Group advanced unsecured shareholders' loans of US\$900,000 during the year (1999: US\$13,932,000) to certain non-wholly owned subsidiaries (Harbin Shangri-La Hotel Co., Ltd., Changchun Shangri-La Hotel Co., Ltd., Shenyang Traders Hotel Ltd., Beihai Shangri-La Hotel Ltd. and Dalian Shangri-La Hotel Co., Ltd.) to finance their payment of outstanding project costs. These shareholders' loans are interest bearing at LIBOR plus 0.8% per annum and repayable after four years. The Group has waived all the current year's interest of the above five subsidiaries amounting to US\$8,792,000 (1999: US\$5,229,000). The subsidiaries repaid US\$13,906,000 during the year. The balance of these shareholders' loans as at 31 December 2000 was US\$112,983,000 (1999: US\$125,989,000).
- (ii) Before the acquisition by the Group, SHL executed a guarantee in favour of a bank for securing a bank loan facility granted to a non-wholly owned subsidiary, Sentosa Beach Resort Pte Ltd. ("SEN"). The facility balance as at 31 December 2000 of US\$3,460,000 was wholly repaid by SEN subsequent to the year end. A substantial shareholder of SEN is a connected person of the Company by virtue of his substantial holding in SEN and his being an alternate director of SEN.



D. Unsecured proportionate shareholders' loans and guarantees

- (i) The Company had unsecured proportionate shareholders' loans of US\$15,600,000 (1999: US\$17,160,000) due from a non-wholly owned subsidiary, Shangri-La International Hotels (Pacific Place) Limited as at 31 December 2000. These shareholders' loans are interest bearing at HIBOR plus 1% per annum.
- (ii) During the year, the Group advanced unsecured proportionate shareholders' loans totalling US\$9,672,000 (after acquisition by the Group in late 1999: US\$3,015,000) and US\$380,000 (after acquisition by the Group in late 1999: US\$1,048,000) to two non-wholly owned subsidiaries, Traders Yangon Company Limited ("TYCL") and Shangri-La Yangon Company Limited ("SYCL") (collectively referred to as "the Borrowers") respectively in which the Group has an effective interest of 53.47% to partially repay a bank loan of TYCL and to fund the operation of SYCL. Such loans are interest bearing at 5% per annum and repayable on demand by shareholders provided that such demand is made by shareholders holding not less than 51% shareholding interest in the respective Borrowers.

The amount of unsecured proportionate shareholders' loan with interest charged at 5% per annum made by a wholly-owned subsidiary of SHMB to TYCL before the acquisition of SHMB by the Group in late 1999 was US\$543,000.

The collective amount of unsecured proportionate interest-free shareholders' loans made by the wholly-owned subsidiaries of SHL, SHMB and SHPCL to TYCL, SYCL and Traders Square Company Limited before the acquisition by the Group in late 1999 were US\$32,859,000, US\$23,732,000 and US\$4,160,000 respectively. These loans have no fixed terms of repayment.

Before the acquisition by the Group in late 1999, the wholly-owned subsidiaries of SHL, SHMB and SHPCL executed a proportionate guarantee in favour of a bank for securing a bank loan granted to TYCL. The balance of this bank loan as at 31 December 2000 was US\$28,400,000.

- (iii) SHL advanced unsecured proportionate interest-free shareholders' loan of US\$1,533,000 to PT Saripuri Permai Hotel ("SUR"), a company within the Kuok Group, during the year (1999: Nil). SUR also repaid US\$317,000 to SHL during the year. The loan has no fixed term of repayment.

The amount of unsecured proportionate interest-free shareholders' loan made by SHL to SUR before the acquisition by the Group in late 1999 was US\$1,090,000.

- (iv) SHL and a wholly-owned subsidiary of SHPCL collectively advanced unsecured proportionate shareholders' loans of US\$30,702,000 to Cuscaden Properties Pte Ltd ("CPPL"), an associated company of the Group and also a company within the Kuok Group before the acquisition by the Group in late 1999. These loans remained outstanding as at 31 December 2000. These loans, originally being interest-free, have changed to interest bearing loans at 1.25% per annum on 1 January 2000. These loans have no fixed terms of repayment.



Report of the Directors

During the year, SHL and a wholly-owned subsidiary of SHPCL also executed a proportionate guarantee in favour of a bank for securing loan facilities of up to US\$31,719,000 granted to CPPL. The balance of the bank loans as at 31 December 2000 was US\$30,565,000.

Before the acquisition by the Group in late 1999, SHL and a wholly-owned subsidiary of SHPCL executed a proportionate guarantee in favour of a bank for securing the interest expenses of facilities granted to CPPL. The bank loan balance as at 31 December 2000 was US\$51,903,000.

- (v) A wholly-owned subsidiary of SHL advanced an unsecured proportionate shareholders' loan of US\$6,920,000 at an interest rate of 1.25% per annum to SEN before the acquisition by the Group in late 1999. This loan remained outstanding as at 31 December 2000. This loan has no fixed term of repayment.

Before the acquisition by the Group, SHL also executed a proportionate guarantee in favour of a bank for securing the interest expenses of a bank loan and overdraft facility granted to SEN. The facility balance as at 31 December 2000 of US\$13,049,000 was wholly repaid by SEN subsequent to the year end.

- (vi) A wholly-owned subsidiary of SHL and SEN advanced unsecured proportionate shareholders' loans of US\$865,000 at an interest rate of 1.25% per annum to a non-wholly owned subsidiary, Central Laundry Pte Ltd. ("CLPL") before the acquisition by the Group in late 1999. These loans remained outstanding as at 31 December 2000. These loans have no fixed terms of repayment.

Before the acquisition by the Group, SHL and SEN also executed a proportionate guarantee in favour of a bank for securing a bank loan and overdraft facility granted to CLPL and balance of the utilised facility as at 31 December 2000 was US\$303,000.

- (vii) During the year, the Company executed a proportionate guarantee in favour of a bank for securing a standby Documentary Credit Facility of up to US\$7,500,000 granted to a non-wholly owned subsidiary, Wuhan Shangri-La Hotel Co., Ltd. The liability of the Company under the guarantee is up to US\$6,900,000 together with any default interest on that sum and expenses of the bank in enforcing the guarantee.
- (viii) The Company executed a proportionate guarantee in favour of a bank for securing banking facilities granted to an associated company (Beijing Jia Ao Real Estate Development Co., Ltd.). The maximum amount guaranteed by the Company is US\$29,759,000 together with any default interest on that sum. This associated company is a subsidiary of Kerry Properties Limited, a company within the Kuok Group.



E. During the year, there were other connected transactions covering fees paid and received and insurance premiums which need to be disclosed herein in accordance with the requirements of the waivers previously granted by The Stock Exchange of Hong Kong Limited.

- (i) The Group received hotel management and related services and royalty fees totalling US\$2,356,000 (1999: US\$5,756,000) 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.
- (ii) Payment of insurance premium, godown and transportation rental amounting to US\$864,000 (1999: US\$917,000) to various companies within the Kuok Group (other than a Malaysian company as mentioned in (iii) below). The fees are determined with reference to relevant industry practices.
- (iii) Payment of insurance premium amounting to US\$578,000 (US\$15,000 during November 1999 to December 1999 after acquisition by the Group) by SHMB Group of companies to a Malaysian company within the Kuok Group. The fees are determined with reference to relevant industry practices.
- (iv) Payment of project consultancy services fees and reimbursable expenses amounting to US\$164,000 (1999: US\$1,060,000) to a subsidiary of Kerry Properties Limited for development of a hotel project within the Group. The scale of fees charged is comparable to those charged by independent project consultants.
- (v) Payment of renovation project services fees and reimbursement of staff cost amounting to US\$234,000 (US\$990,000 during September 1999 to December 1999 after acquisition by the Group) by SHL to a company within the Kuok Group. The project services fees are comparable to those charged by independent project consultants.
- (vi) Receipt of laundry services fees of US\$904,000 (US\$297,000 during September 1999 to December 1999 after acquisition of SHL) by CLPL from two companies within the Kuok Group on normal commercial terms.

Receipt of laundry services fees of US\$534,000 (US\$183,000 during September 1999 to December 1999 after acquisition of SHL) by CLPL from SEN on normal commercial terms.

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

(a) In relation to all the items E(i) to E(vi)

- these transactions were entered into in the ordinary and usual course of business of the Company;
- these transactions were entered into on normal commercial terms; and



Report of the Directors

(b) In relation to items E(i), E(ii), E(iii), E(v) and E(vi)

- these transactions were fair and reasonable so far as the shareholders of the Company were concerned; and

(c) In relation to items E(i), E(iii), E(iv) E(v) and E(vi)

- these transactions were entered into in accordance with the terms of the agreements governing such transactions; and

(d) In relation to items E(iii), E(v) and E(vi)

- these transactions were conducted in the interest of the Company as a whole and the aggregate value of each of the ongoing connected 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 was the higher; and

(e) In relation to item E(i)

- these transactions were conducted on an arm's length basis.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2000, as far as the Directors were aware, the interests of the substantial shareholders in the shares of the Company were as follows:

Name	Number of Ordinary shares
Kerry Group Limited	1,048,540,077
Kerry Holdings Limited	1,048,540,077

Notes:

- 1 Kerry Holdings Limited is a subsidiary of Kerry Group Limited and, accordingly, the shares in which Kerry Holdings Limited is shown to be interested are also included in the shares in which Kerry Group Limited is shown to be interested.
- 2 The shares in which Kerry Group Limited and Kerry Holdings Limited are shown to be interested include those shares held by the respective subsidiaries of SHL and SHPCL.

Apart from the aforesaid, as at 31 December 2000, 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 19 and under "Convertible Bonds" of this Report, neither the Company nor any of its subsidiaries has purchased, sold or redeemed 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.

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 accounting period covered by this annual report.

The term of office for the non-executive Directors of the Company is subject to retirement by rotation and re-election at the annual general meeting in accordance with the Bye-Laws of the Company.

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 independent non-executive Directors of the Company. The Remuneration Committee met once during 2000.

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 Eoghan Murray McMILLAN, Mr HO Kian Guan and Mr QUEK Poh Huat. The Committee reviewed the Group's 2000 audited accounts before they were tabled for the Board's review and approval.



Report of the Directors

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

A handwritten signature in black ink, appearing to read 'Ye Longfei'.

YE Longfei
Director

A handwritten signature in black ink, appearing to read 'Kuok Khoon Ho'.

KUOK Khoon Ho
Director

Hong Kong, 22 March 2001