



Report of the Directors

The Directors submit their report together with the audited accounts for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding.

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

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

An analysis of the Group's performance for the year by geographical and business segments is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated profit and loss account on page 62.

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

RESERVES

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

DONATIONS

Charitable donations and other donations made by the Group during the year amounted to US\$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 investment properties are set out in note 34 to the accounts.

SHARE CAPITAL

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



SUBSIDIARIES AND ASSOCIATED COMPANIES

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

PARTICULARS OF BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

The particulars of bank loans, overdrafts and other borrowings as at 31 December 2003 are set out in notes 20 and 27 to the accounts.

RESULTS, ASSETS AND LIABILITIES

The results, assets and liabilities of the Group for the last five financial years are set out on page 124.

DIRECTORS

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

Mr KUOK Khoon Loong, Edward (<i>Chairman</i>)	(appointed as Director on 21 March 2003 and as Chairman on 1 August 2003)
Mr YE Longfei (<i>Deputy Chairman</i>)	(resigned as Chairman and appointed as Deputy Chairman on 1 August 2003)
Mr Giovanni ANGELINI	
Mr LUI Man Shing	
Mr NG Si Fong, Alan	
# Madam KUOK Oon Kwong	
# Mr HO Kian Guan	
# Mr LEE Yong Sun	
# Mr Roberto V. ONGPIN	(appointed as Director on 22 August 2003)
+ Mr Alexander Reid HAMILTON	
+ Mr TOW Heng Tan	(appointed as Director on 1 January 2003)
+ Mr Timothy David DATTELS	(appointed as Director on 1 February 2004)
# Mr HO Kian Cheong (<i>Alternate to Mr HO Kian Guan</i>)	
Mr Thaddeus Thomas BECZAK	(resigned as Director on 30 May 2003)
Mr KUOK Khoon Ho	(resigned as Director on 1 February 2004)
Mr John David HAYDEN	(resigned as Director on 1 February 2004)

Non-executive Directors

* *Independent Non-executive Directors*

Mr Giovanni ANGELINI, Mr LUI Man Shing and Mr HO Kian Guan retire by rotation in accordance with Bye-Law 99(A) and Mr Roberto V. ONGPIN and Mr Timothy David DATTELS retire in accordance with Bye-Law 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 KUOK Khoon Loong, Edward, aged 51, is the Chairman of the Company. He was appointed as an executive Director of the Company in March 2003 and was appointed as the Chairman of the Company in August 2003. He is also the Chairman and Managing Director of Shangri-La International Hotels (Pacific Place) Limited and Shangri-La Hotel (Kowloon) Limited and a Vice Chairman of Kerry Holdings Limited. Mr Kuok is also the Chairman of the Boards of EDSA Properties Holdings Inc. and Kuok Philippine Properties, Inc. He has been with the Kuok Group since 1978. He has a Master's degree in Economics from the University of Wales in the United Kingdom. Mr Kuok is a brother of Madam Kuok Oon Kwong.

Mr YE Longfei, aged 62, is the Deputy Chairman of the Company. He was appointed as an executive Director of the Company in December 1997 and was the Chairman of the Company from October 2000 to August 2003. He is also the Chairman of Kerry Holdings (China) Co., Ltd. and a Director of Kerry Beverages Limited and Kerry Holdings Limited. Prior to joining the Kuok Group, Mr Ye was the Chief Executive of the "Shanghai Desk" in Hong Kong, a co-operative arrangement between the Shanghai Municipal Government and Arthur Andersen & Co. (HK), from 1991 to 1995. Before taking up his assignment in Hong Kong, Mr Ye had served in various positions in the Shanghai Municipal Government. Mr Ye graduated from the Shanghai Fudan University in physics and is a graduate of the research institute of physics at the Shanghai Fudan University.

Mr Giovanni ANGELINI, aged 58, was appointed as an executive Director of the Company in June 1999. He joined the Shangri-La Asia Group in August 1993 and at present, is the Managing Director and Chief Executive Officer of Shangri-La International Hotel Management Limited and a Director of a number of companies within the Shangri-La Asia Group. 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 39 years in the industry, he has managed quality hotels in Hong Kong, Singapore, Korea, Mexico, Bermuda and in his native country, Italy.

Mr LUI Man Shing, aged 60, was appointed as an executive Director of the Company in March 2002. Mr Lui joined the Kuok Group in 1977. He was previously Managing Director of Kerry (Thailand) Co. Ltd. and Shangri-La Hotel Public Company Limited ("SHPCCL"), both companies incorporated in Thailand. SHPCCL is a company listed on the Stock Exchange of Thailand. In 1992, Mr Lui returned to Hong Kong to oversee the planning and development of the Kuok Group's investments and hotel projects in China. At present, he is the Vice Chairman of SHPCCL, the Managing Director of Kerry Beverages Limited and a Director of a number of companies within the Shangri-La Asia Group and the Kuok Group (including Kerry Holdings Limited and Kerry Trading Co. Limited).

Mr NG Si Fong, Alan, aged 50, was appointed as an executive Director of the Company in August 2002. Mr Ng is currently the Senior Group Director of Projects of Shangri-La International Hotel Management Limited, overseeing the Shangri-La Asia Group's new hotel developments and the refurbishment of existing hotels. Prior to taking up the current position in March 2002, Mr Ng was the Project Director of Kerry Properties (H.K.) Limited and a Director of Kerry Project Management (H.K.) Limited, both wholly-owned subsidiaries of Kerry Properties Limited. He joined the Kerry Group in 1990 and has since handled over twenty project developments, many of which have been the Kerry Group's signature projects, including hotels, top-end luxury residential developments and grade A commercial properties. Mr Ng is a chartered engineer by profession and has over 25 years of experience in design, construction and project management of various types of building and civil engineering projects.



Non-executive Directors

Madam KUOK Oon Kwong, aged 57, 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 Shangri-La Asia Group including Shangri-La Hotel Public Company Limited, Thailand and Shangri-La Hotels (Malaysia) Berhad, Malaysia (both of which she currently holds the position of Managing Director) and certain subsidiaries of SHL. Madam Kuok is a sister of Mr Kuok Khoon Loong, Edward.

Mr HO Kian Guan, aged 58, 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 Malaysia Securities Exchange Berhad (the "MSE")) and Keck Seng Investments (Hong Kong) Limited (a company listed on The Stock Exchange of Hong Kong Limited). Mr Ho is a Director of Petaling Garden Berhad, Pelangi Berhad (both companies listed on the MSE) and Parkway Holdings Ltd. (a company listed on the Singapore Exchange Securities Trading Limited). He also serves on the boards of Shangri-La Hotel (Kowloon) Limited, Shangri-La International Hotels (Hangzhou) Limited, Shangri-La Hotel Limited, Singapore and Shangri-La Hotel Public Company Limited, Thailand (a company listed on the Stock Exchange of Thailand). He is a brother of Mr Ho Kian Cheong.

Mr LEE Yong Sun, aged 59, was appointed as a non-executive Director of the Company in December 2001. He is a Vice Chairman of Kerry Holdings Limited and also a Director of Kerry Group Limited. He has been with the Kuok Group since 1971. He graduated from the University of Singapore with a degree in Accountancy (B. Acc. Honours). He is a Certified Public Accountant (Singapore) and has extensive experience in banking, accounting and management.

Mr Roberto V. ONGPIN, aged 67, was appointed as a non-executive Director of the Company in August 2003. He is Deputy Chairman of SCMP Group Limited and Director of E2-Capital (Holdings) Limited, both listed on The Stock Exchange of Hong Kong Limited. He is also the Chairman of PhilWeb Corporation and ISM Communications Corporation, listed companies in the Philippines. Prior to 1979, Mr Ongpin was the Chairman and Managing Partner of the SGV Group, one of the largest accounting and consulting firms in Asia. He was the Minister of Trade and Industry of the Republic of the Philippines from 1979 to 1986. He has an MBA from Harvard University and is a Certified Public Accountant (Philippines).

Mr Alexander Reid HAMILTON, aged 62, was appointed as an independent non-executive Director of the Company in November 2001. He is a Director of a number of companies including CITIC Pacific Limited, COSCO International Holdings Limited, COSCO Pacific Limited and Esprit Holdings Limited. He is a member of the Institute of Chartered Accountants of Scotland, a fellow member of the Hong Kong Society of Accountants and a fellow member of the Institute of Directors. He was a partner in Price Waterhouse for 16 years and has more than 20 years of audit and accounting experience. Mr Hamilton is the Chairman of the Board's Audit Committee.



Report of the Directors

Mr TOW Heng Tan, aged 48 was appointed as an independent non-executive Director of the Company in January 2003. He is presently the Managing Director of Strategic Development (ASEAN investments) of Temasek Holdings (Private) Limited, covering ASEAN investments and development initiatives for knowledge-based businesses and promising local enterprises. In addition, he was appointed as a Director of Cress Limited and International Enterprise Singapore in September 2002 and January 2003 respectively. He was also appointed as a Director of ComfortDelGro Corporation Limited in February 2003 and serves on the Audit and Remuneration Committees of the Company. Mr Tow started his career with the then Coopers & Lybrand. He was later an investment banker with Schroders International Merchant Bankers Ltd in Singapore and the Managing Director of Lum Chang Securities Pte Ltd. He was a Senior Director of DBS Vickers Securities (Singapore) Pte Ltd, after Lum Chang Securities was folded into Vickers Ballas which then merged with DBS Securities to form DBS Vickers. Mr Tow is a Fellow of the Association of Chartered Certified Accountants (UK), a Fellow of the Chartered Institute of Management Accountants (UK) and is a member of the Institute of Certified Public Accountants of Singapore.

Mr Timothy David DATTELS, aged 46, was appointed as an independent non-executive Director of the Company in February 2004. Mr Dattels is currently a Senior Advisor to Newbridge Capital, LLC, the Asian investment vehicle for Texas Pacific Group. He serves as a Director of Global China Group Holdings Limited, a Hong Kong based media company listed on The Stock Exchange of Hong Kong Limited and is a Board member of Primedia Inc., a publishing company listed on the New York Stock Exchange. He is a trustee of the Asian Art Museum of San Francisco and the San Francisco Ballet and also serves on the Dean's Advisory Board of the Rotman School of Business at the University of Toronto. Mr Dattels retired as Managing Director of Goldman Sachs in January 2003. He has held various management positions at Goldman Sachs since joining the firm from First Boston in 1990. He was elected Partner in 1996 and was Head of Investment Banking for all Asian countries outside of Japan from 1996 to 2000 where he advised several of Asia's leading entrepreneurs and governments. In addition, he served on the firm's Management Committee in Asia. From 2001 to 2003 he served as the Head of the firm's Menlo Park office. He holds a BA (Honors) from The University of Western Ontario and an MBA from Harvard Business School.

Mr HO Kian Cheong, aged 54, 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.



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

As at 31 December 2003, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (the "Associated Corporations") as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "HKSE") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

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

Name of Company	Name of Director	Class of Shares	Number of Shares held				Total	Percentage of Total Issued Share Capital of the Relevant Company as at 31 December 2003
			Personal Interests (Note 1)	Family Interests	Corporate Interests	Other Interests		
(i) The Company	Mr KUOK Khoon Loong, Edward	Ordinary	3,456	-	297,410 (Note 2)	-	300,866	0.01%
	Mr KUOK Khoon Ho	Ordinary	3,510	-	-	385,150 (Note 3)	388,660	0.02%
	Mr Giovanni ANGELINI	Ordinary	100,000	-	-	-	100,000	0.00%
	Madam KUOK Oon Kwong	Ordinary	151,379	192,011 (Note 4)	-	-	343,390	0.02%
	Mr HO Kian Guan	Ordinary	167,475	-	69,976,457 (Notes 5 and 6)	-	70,143,932	3.22%
	Mr HO Kian Cheong (Alternate to Mr HO Kian Guan)	Ordinary	24,515	-	66,907,292 (Note 5)	-	66,931,807	3.07%
(ii) Associated Corporation								
Shangri-La Hotels (Malaysia) Berhad	Mr KUOK Khoon Ho	Ordinary	-	-	10,000 (Note 7)	-	10,000	0.00%
	Madam KUOK Oon Kwong	Ordinary	-	-	10,000 (Note 7)	-	10,000	0.00%
Shangri-La Hotel Public Company Limited	Mr LUI Man Shing	Ordinary	10,000	-	-	-	10,000	0.01%

Notes:

- These shares were held by the relevant Directors as beneficial owner.
- These shares represent the interest of a controlled corporation.
- These shares were held by the relevant Director through a discretionary trust.
- These shares were held by the spouse of the relevant Director.
- 66,907,292 shares were held through companies which are controlled as to 33.33% by each of Mr HO Kian Guan and Mr HO Kian Cheong.
- 3,069,165 shares were held through a company whose directors are accustomed to act in accordance with Mr HO Kian Guan's instruction.
- These shares were held through a company which is owned as to 50% by each of Mr KUOK Khoon Ho and Madam KUOK Oon Kwong.



Report of the Directors

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

As at 31 December 2003, details of share options granted under the Executive Option Scheme and the New Option Scheme to the Directors/former Directors of the Company who held office during the year were stated in the section headed "Share Options" of this report.

Save as mentioned above, as at 31 December 2003, none of the Directors had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its Associated Corporations which had been recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

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

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



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

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

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

SHARE OPTIONS

Executive Share Option Scheme

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

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

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

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

At the Special General Meeting of the Company held on 24 May 2002 (the "Adoption Date"), the Shareholders approved the adoption of a new share option scheme (the "New Option Scheme") (details of which are set out below) and the termination of the operation of the Executive Option Scheme (such that no further options shall thereafter be offered under the Executive Option Scheme but in all other respects the provisions of the Executive Option Scheme shall remain in full force and effect).



Report of the Directors

New Option Scheme

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

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

As at the date of this report, a total of 201,345,991 Shares (representing approximately 8.51% of the existing issued share capital thereof) are available for issue under the New Option Scheme.

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

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

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



Notes:

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



Report of the Directors

Details of the outstanding option shares as at 31 December 2003 which have been granted under the Executive Option Scheme are as follows:

	Date of grant	Tranche	No. of option shares held as at 1 January 2003	No. of option shares granted during the year	No. of option shares exercised during the year	No. of option shares lapsed during the year	Transfer from other category during the year	Transfer to other category during the year	No. of option shares held as at 31 December 2003	Exercise price per option share HK\$	Exercisable Period	
1. Directors												
Mr YE Longfei	1 May 1998	I	96,760	-	-	-	-	-	96,760	8.26	1 May 1999 – 30 April 2008	
	1 May 1998	II	96,760	-	-	-	-	96,760	8.26	1 May 2000 – 30 April 2008		
	1 May 1998	III	96,760	-	-	-	-	96,760	8.26	1 May 2001 – 30 April 2008		
	15 January 2000	I	193,822	-	-	-	-	193,822	8.82	15 January 2001 – 14 January 2010		
	15 January 2000	II	193,822	-	-	-	-	193,822	8.82	15 January 2002 – 14 January 2010		
	15 January 2001	I	339,606	-	-	-	-	339,606	8.18	15 January 2002 – 14 January 2011		
	15 January 2001	II	339,606	-	-	-	-	339,606	8.18	15 January 2003 – 14 January 2011		
Mr KUOK Khoon Ho	1 May 1998	I	387,041	-	-	-	-	387,041	8.26	1 May 1999 – 30 April 2008		
	1 May 1998	II	387,041	-	-	-	-	387,041	8.26	1 May 2000 – 30 April 2008		
	1 May 1998	III	387,041	-	-	-	-	387,041	8.26	1 May 2001 – 30 April 2008		
	15 January 2000	I	242,278	-	-	-	-	242,278	8.82	15 January 2001 – 14 January 2010		
	15 January 2000	II	242,277	-	-	-	-	242,277	8.82	15 January 2002 – 14 January 2010		
	15 January 2001	I	145,545	-	-	-	-	145,545	8.18	15 January 2002 – 14 January 2011		
	15 January 2001	II	145,545	-	-	-	-	145,545	8.18	15 January 2003 – 14 January 2011		
Mr Thaddeus Thomas BECZAK (Note 1)	1 May 1998	I	387,041	-	-	-	-	(387,041)	-	8.26	1 May 1999 – 30 April 2008	
	1 May 1998	II	387,041	-	-	-	-	(387,041)	-	8.26	1 May 2000 – 30 April 2008	
	1 May 1998	III	387,041	-	-	-	-	(387,041)	-	8.26	1 May 2001 – 30 April 2008	
	15 January 2000	I	242,278	-	-	-	-	(242,278)	-	8.82	15 January 2001 – 14 January 2010	
	15 January 2000	II	242,277	-	-	-	-	(242,277)	-	8.82	15 January 2002 – 14 January 2010	
	15 January 2001	I	48,515	-	-	-	-	(48,515)	-	8.18	15 January 2002 – 14 January 2011	
	15 January 2001	II	48,515	-	-	-	-	(48,515)	-	8.18	15 January 2003 – 14 January 2011	
Mr Giovanni ANGELINI	1 May 1998	I	145,141	-	-	-	-	145,141	8.26	1 May 1999 – 30 April 2008		
	1 May 1998	II	145,141	-	-	-	-	145,141	8.26	1 May 2000 – 30 April 2008		
	1 May 1998	III	145,139	-	-	-	-	145,139	8.26	1 May 2001 – 30 April 2008		
	15 January 2000	I	266,505	-	-	-	-	266,505	8.82	15 January 2001 – 14 January 2010		
	15 January 2000	II	266,505	-	-	-	-	266,505	8.82	15 January 2002 – 14 January 2010		
	15 January 2001	I	145,545	-	-	-	-	145,545	8.18	15 January 2002 – 14 January 2011		
	15 January 2001	II	145,545	-	-	-	-	145,545	8.18	15 January 2003 – 14 January 2011		
Mr John David HAYDEN	1 May 1998	I	387,041	-	-	-	-	387,041	8.26	1 May 1999 – 30 April 2008		
	1 May 1998	II	387,041	-	-	-	-	387,041	8.26	1 May 2000 – 30 April 2008		
	1 May 1998	III	387,041	-	-	-	-	387,041	8.26	1 May 2001 – 30 April 2008		
2. Continuous Contract Employees	1 May 1998	I	1,519,134	-	-	(87,084)	387,041	(145,141)	1,673,950	8.26	1 May 1999 – 30 April 2008	
	1 May 1998	II	1,519,134	-	-	(87,084)	387,041	(145,141)	1,673,950	8.26	1 May 2000 – 30 April 2008	
	1 May 1998	III	1,519,130	-	-	(87,084)	387,041	(145,139)	1,673,948	8.26	1 May 2001 – 30 April 2008	
	15 January 2000	I	2,156,269	-	-	(38,764)	242,278	(96,911)	2,262,872	8.82	15 January 2001 – 14 January 2010	
	15 January 2000	II	2,156,255	-	-	(38,764)	242,277	(96,911)	2,262,857	8.82	15 January 2002 – 14 January 2010	
	15 January 2001	I	1,450,611	-	-	(33,961)	48,515	(48,515)	1,416,650	8.18	15 January 2002 – 14 January 2011	
	15 January 2001	II	1,450,586	-	-	(33,960)	48,515	(48,515)	1,416,626	8.18	15 January 2003 – 14 January 2011	
3. Other Participants	1 May 1998	I	1,257,883	-	-	-	-	1,257,883	8.26	1 May 1999 – 30 April 2008		
	1 May 1998	I	-	-	-	-	145,141	-	145,141	8.26	1 May 1999 – 22 May 2004	
	1 May 1998	II	1,257,883	-	-	-	-	1,257,883	8.26	1 May 2000 – 30 April 2008		
	1 May 1998	II	-	-	-	-	145,141	-	145,141	8.26	1 May 2000 – 22 May 2004	
	1 May 1998	III	1,257,879	-	-	-	-	1,257,879	8.26	1 May 2001 – 30 April 2008		
	1 May 1998	III	-	-	-	-	145,139	-	145,139	8.26	1 May 2001 – 22 May 2004	
	15 January 2000	I	867,354	-	-	-	-	867,354	8.82	15 January 2001 – 14 January 2010		
	15 January 2000	I	-	-	-	-	96,911	-	96,911	8.82	15 January 2001 – 22 May 2004	
	15 January 2000	II	867,349	-	-	-	-	867,349	8.82	15 January 2002 – 14 January 2010		
	15 January 2000	II	-	-	-	-	96,911	-	96,911	8.82	15 January 2002 – 22 May 2004	
	15 January 2001	I	198,913	-	-	-	-	198,913	8.18	15 January 2002 – 14 January 2011		
	15 January 2001	I	-	-	-	-	48,515	-	48,515	8.18	15 January 2002 – 22 May 2004	
	15 January 2001	II	198,910	-	-	-	-	198,910	8.18	15 January 2003 – 14 January 2011		
	15 January 2001	II	-	-	-	-	48,515	-	48,515	8.18	15 January 2003 – 22 May 2004	
	Total:			<u>25,134,546</u>	<u>-</u>	<u>-</u>	<u>(406,701)</u>	<u>2,468,981</u>	<u>(2,468,981)</u>	<u>24,727,845</u>		



Details of the outstanding option shares as at 31 December 2003 which have been granted under the New Option Scheme are as follows:

	Date of grant	Tranche	No. of option shares held as at 1 January 2003	No. of option shares granted during the year	No. of option shares exercised during the year	No. of option shares lapsed during the year	Transfer from other category during the year	Transfer to other category during the year	No. of option shares held as at 31 December 2003	Exercise price per option share HK\$	Exercisable Period	
1. Directors												
Mr YE Longfei	29 May 2002	I	500,000	-	-	-	-	-	500,000	6.81	29 May 2003 – 28 May 2012	
	29 May 2002	II	500,000	-	-	-	-	-	500,000	6.81	29 May 2004 – 28 May 2012	
Mr KUOK Khoon Ho	29 May 2002	I	500,000	-	-	-	-	-	500,000	6.81	29 May 2003 – 28 May 2012	
	29 May 2002	II	500,000	-	-	-	-	-	500,000	6.81	29 May 2004 – 28 May 2012	
Mr Thaddeus Thomas BECZAK (Note 1)	29 May 2002	I	75,000	-	-	-	-	(75,000)	-	6.81	29 May 2003 – 28 May 2012	
	29 May 2002	II	75,000	-	-	-	-	(75,000)	-	6.81	29 May 2004 – 28 May 2012	
Mr Giovanni ANGELINI	29 May 2002	I	600,000	-	-	-	-	-	600,000	6.81	29 May 2003 – 28 May 2012	
	29 May 2002	II	600,000	-	-	-	-	-	600,000	6.81	29 May 2004 – 28 May 2012	
Mr LUI Man Shing	29 May 2002	I	150,000	-	-	-	-	-	150,000	6.81	29 May 2003 – 28 May 2012	
	29 May 2002	II	150,000	-	-	-	-	-	150,000	6.81	29 May 2004 – 28 May 2012	
Mr NG Si Fong, Alan	29 May 2002	I	60,000	-	-	-	-	-	60,000	6.81	29 May 2003 – 28 May 2012	
	29 May 2002	II	60,000	-	-	-	-	-	60,000	6.81	29 May 2004 – 28 May 2012	
Madam KUOK Oon Kwong	29 May 2002	I	150,000	-	-	-	-	-	150,000	6.81	29 May 2003 – 28 May 2012	
	29 May 2002	II	150,000	-	-	-	-	-	150,000	6.81	29 May 2004 – 28 May 2012	
Mr John David HAYDEN	29 May 2002	I	75,000	-	-	-	-	-	75,000	6.81	29 May 2003 – 28 May 2012	
	29 May 2002	II	75,000	-	-	-	-	-	75,000	6.81	29 May 2004 – 28 May 2012	
Mr HO Kian Guan	29 May 2002	I	75,000	-	-	-	-	-	75,000	6.81	29 May 2003 – 28 May 2012	
	29 May 2002	II	75,000	-	-	-	-	-	75,000	6.81	29 May 2004 – 28 May 2012	
Mr LEE Yong Sun	29 May 2002	I	75,000	-	-	-	-	-	75,000	6.81	29 May 2003 – 28 May 2012	
	29 May 2002	II	75,000	-	-	-	-	-	75,000	6.81	29 May 2004 – 28 May 2012	
Mr Alexander Reid HAMILTON	29 May 2002	I	75,000	-	-	-	-	-	75,000	6.81	29 May 2003 – 28 May 2012	
	29 May 2002	II	75,000	-	-	-	-	-	75,000	6.81	29 May 2004 – 28 May 2012	
2. Continuous Contract Employees	29 May 2002	I	5,405,000	-	-	(205,000)	75,000	(75,000)	5,200,000	6.81	29 May 2003 – 28 May 2012	
	29 May 2002	II	5,405,000	-	-	(205,000)	75,000	(75,000)	5,200,000	6.81	29 May 2004 – 28 May 2012	
3. Other Participants	29 May 2002	I	695,000	-	-	(30,000)	-	-	665,000	6.81	29 May 2003 – 28 May 2012	
	29 May 2002	I	-	-	-	-	75,000	-	75,000	6.81	29 May 2003 – 22 May 2004	
	29 May 2002	II	695,000	-	-	(30,000)	-	-	665,000	6.81	29 May 2004 – 28 May 2012	
	29 May 2002	II	-	-	-	-	75,000	-	75,000	6.81	29 May 2004 – 22 May 2005	
Total:		<u>16,870,000</u>	<u>-</u>	<u>-</u>	<u>(470,000)</u>	<u>300,000</u>	<u>(300,000)</u>	<u>16,400,000</u>				

Notes:

- Mr Thaddeus Thomas BECZAK retired by rotation pursuant to the Bye-Laws of the Company. As Mr Beczak did not offer himself for re-election, he retired from his office as Director of the Company at the Annual General Meeting of the Company held on 30 May 2003. The options granted to Mr Beczak remain exercisable following his retirement as he is still an executive Director in several of the Company's subsidiaries during the year and therefore, an Executive of the Group. Those options were re-classified to the category of "Continuous Contract Employees" during the year.
- No options were cancelled under the Executive Option Scheme and the New Option Scheme during the year.
- Subsequent to 31 December 2003, options on 80,000 shares have lapsed under the New Option Scheme.



Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

As at 31 December 2003, details of options granted under the Executive Option Scheme and the New Option Scheme to the Directors/former Directors of the Company who held office during the year were stated in the previous section headed "Share Options" of this report.

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

CONNECTED TRANSACTIONS

During the year and in the normal course of business, the Company and its subsidiaries had various commercial transactions with certain connected persons including member companies of the Kuok Group. The Kuok Group has a controlling interest in the share capital of the Company. These transactions are considered to be connected transactions under the HK Listing Rules and all these transactions, except for items 3(i)(a) and (3)(ii)(a), are regarded as related party transactions under the Hong Kong Statement of Standard Accounting Practice No. 20 "Related Party Disclosures". Details of these transactions are as follows:

1 Payment of office expenses

The Company reimbursed Kerry Trading Co. Limited, a company within the Kuok Group, and Kerry Holdings Limited, a substantial shareholder of the Company, for US\$1,293,000 (2002: US\$1,202,000) and US\$347,000 (2002: US\$527,000), respectively on costs reimbursement basis for office premises, administration and related expenses.

2 Land rental

- (A) Payment of land rental amounting to US\$653,000 (2002: US\$683,000) to Brown Swallow Development Corporation and Green Mangrove Realty Inc., companies within the Kuok Group, for lease of land where Shangri-La's Mactan Island Resort, Cebu is constructed. Rental payments are computed at a certain percentage of the hotel's rooms, food and beverage and dry goods and service revenues under a contract for 25 years which commenced on 12 March 1990. The percentages are comparable to those paid by another subsidiary of the Company in the Philippines to an independent third party.
- (B) Payment of land rental amounting to US\$915,000 (2002: US\$1,035,000) to Edsa Properties Holdings, Inc., an associated company of the Kuok Group, for lease of land where Edsa Shangri-La, Manila is constructed. Rental payments are computed at a certain percentage of the hotel's rooms, food and beverage and dry goods and service revenues under a contract for 25 years which commenced on 28 August 1992. The percentage is comparable to those paid by another subsidiary of the Company in the Philippines to an independent third party.



3 Unsecured shareholders' loans and guarantees

The Group provided financial assistance to certain companies in prior years. The balances of these financial assistance as at the respective year end date of 2003 and 2002 are listed below:

(i) *Unsecured shareholders' loans¹*

	Loan balance	
	2003 US\$'000	2002 US\$'000
a. Non-wholly owned subsidiaries		
- Harbin Shangri-La Hotel Co., Ltd. ²	11,400	14,993
- Changchun Shangri-La Hotel Co., Ltd. ³	19,140	24,540
- Shenyang Traders Hotel Ltd. ³	25,050	27,350
- Beihai Shangri-La Hotel Ltd. ³	22,880	23,130
- Shangri-La International Hotels (Pacific Place) Limited ⁴	15,600	15,600
- Traders Yangon Company Limited ("THYN")		
: interest bearing portion ⁵	36,237	36,624
: non-interest bearing portion	32,859	32,859
- Shangri-La Yangon Company Limited		
: interest bearing portion ⁵	1,992	1,733
: non-interest bearing portion	23,732	23,732
- Traders Square Company Limited	4,160	4,160
- Central Laundry Pte Ltd ("CLPL")	-	86
b. Associated company		
- Cuscaden Properties Pte Ltd ("CPPL")	31,316	30,631
c. Investee company		
- PT Saripuri Permai Hotel	1,470	1,640



Report of the Directors

(ii) *Guarantees executed in favour of banks for securing bank loans/facilities granted⁶*

		Amount of guarantees given	
		2003	2002
		<i>US\$'000</i>	<i>US\$'000</i>
a.	Non-wholly owned subsidiaries		
	- Wuhan Shangri-La Hotel Co., Ltd.	-	3,623
	- Zhongshan Shangri-La Hotel Co., Ltd. ⁷	12,504	-
b.	Associated companies		
	- CPPL	-	3,144
	- Beijing Jia Ao Real Estate Development Co., Ltd.	-	29,759

Notes:

- Please refer to 2000 annual report for other details of the financial assistance provided. Terms of such financial assistance (except those set out in Notes 2 to 5 below) remain unchanged as at year end of 2003.
- Under a supplementary agreement, this loan will be non-interest bearing for all the years from year 2001 to 2003.
- The Group has waived all the current year's loan interest of these subsidiaries amounting to US\$1,462,000 (2002: US\$2,088,000).
- Under a supplemental agreement, the quarterly instalment repayments of the loan have been deferred commencing from the 31 March 2003 and will be resumed on 31 March 2004.
- Under a supplementary agreement, the loan interest rate has been changed from 5% per annum to 2.5% per annum commencing 1 April 2002.
- The amount of guarantees disclosed is stated with reference to the utilised bank loans/facilities balance.
- During the year, the Company executed a proportionate repayment guarantee and a completion guarantee in favour of a bank for securing the RMB310,000,000 Dual Currency Term Loan Facility granted to Zhongshan Shangri-La Hotel Co., Ltd., a non-wholly owned subsidiary of the Company.



- 4 During the year, there were other connected transactions covering fees paid and received which need to be disclosed herein in accordance with the requirements of the waivers granted by the Listing Division of HKSE.
- (A) The Group received hotel management and related services and royalty fees totalling US\$2,378,000 (2002: US\$1,670,000) from certain companies within the Kuok Group. The fees are charged by the Group at either a fixed amount or a certain percentage of the gross operating revenue/profit of the relevant companies. The terms under these agreements are comparable to other agreements with the Group's subsidiaries and associated companies and with third parties under management contracts.
- (B) Payment of insurance premium, godown and transportation rental amounting to US\$1,891,000 (2002: US\$1,256,000) to various companies within the Kuok Group (other than a Malaysian company as mentioned in (C) below). The fees are determined with reference to relevant industry practices.
- (C) Payment of insurance premium amounting to US\$446,000 (2002: US\$496,000) by Shangri-La Hotels (Malaysia) Berhad, Malaysia Group to a Malaysian company within the Kuok Group. The fees are determined with reference to relevant industry practices.
- (D) Payment of renovation project services fees and reimbursement of staff cost amounting to US\$420,000 (2002: US\$185,000) by Shangri-La Hotel Limited, Singapore to a company within the Kuok Group. The project services fees are comparable to those charged by independent project consultants.
- (E) Receipt of laundry services fees of US\$698,000 and US\$468,000 (2002: US\$749,000 and US\$477,000) by CLPL on normal commercial terms from two companies within the Kuok Group and Sentosa Beach Resort Pte Ltd, a wholly owned subsidiary of the Company, respectively.

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

- (a) In relation to all the items 4(A) to 4(E)
- these transactions were entered into in the ordinary and usual course of business of the Company;
 - these transactions were entered into in accordance with the terms of the agreement governing such transactions;
 - these transactions were conducted either on normal commercial terms or (where there is no available comparison) on terms that were fair and reasonable so far as the shareholders of the Company were concerned; and
- (b) In relation to items 4(C), 4(D) and 4(E)
- the aggregate value of each of such transactions in the financial year was less than HK\$10 million or 3% of the book value of the net tangible assets of the Company as disclosed in the latest published audited consolidated accounts, whichever is the higher.



Report of the Directors

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2003, the interests and short positions of those persons (other than the Directors) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long positions in shares of the Company

Name	Capacity in which Shares were Held	Number of Ordinary Shares Held	Percentage of Total Issued Share Capital of the Company as at 31 December 2003
Substantial Shareholders			
Kerry Group Limited ("KGL")	Interest of controlled corporations	987,306,500	45.26%
Kerry Holdings Limited ("KHL") (Notes 1 and 2)	Interest of controlled corporations	987,306,500	45.26%
Caninco Investments Limited ("Caninco") (Notes 2 and 3)	Beneficial owner	437,597,878	20.06%
Darmex Holdings Limited ("Darmex") (Notes 2 and 3)	Beneficial owner	218,425,226	10.01%
Persons other than Substantial Shareholders			
Temasek Holdings (Private) Limited ("Temasek")	Interest of a controlled corporation	166,284,498	7.62%
Cress Limited ("Cress") (Note 4)	Beneficial owner	166,284,498	7.62%
Templeton Global Advisors Ltd.	Investment manager	148,743,388	6.82%

Notes:

- Out of KHL's interest in 987,306,500 shares, 961,549,085 shares were held through its wholly-owned subsidiaries (including Caninco and Darmex), 12,562,360 shares were held through companies in which KHL controls more than one third of the voting power (other than those wholly-owned subsidiaries as aforementioned) and 13,195,055 shares were held through a wholly-owned subsidiary of Shangri-La Hotel Public Company Limited, Thailand, a 73.61% owned subsidiary of the Company.
- These companies are wholly-owned subsidiaries of KGL, and their interests in the shares of the Company are included in the interests held by KGL.
- These companies are wholly-owned subsidiaries of KHL, and their interests in the shares of the Company are included in the interests held by KHL.
- Cress is a wholly-owned subsidiary of Temasek and its interests in the shares of the Company are included in the interests held by Temasek.

Save as mentioned above, as at 31 December 2003, the Company had not been notified of any interests and short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.



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

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

PRE-EMPTIVE RIGHTS

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

SERVICE CONTRACTS

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

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

CODE OF BEST PRACTICE

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

REMUNERATION COMMITTEE

A Remuneration Committee of the Board of Directors was set up on 17 October 1997 to review matters relating to the compensation and the incentives proposed for senior management and executive Directors of the Company. The Committee currently comprises five members including the Chairman, the Deputy Chairman, one executive Director and two non-executive Directors, one of them being independent.

AUDIT COMMITTEE

The Company set up an Audit Committee of the Board of Directors on 25 August 1998. The Committee comprises three non-executive Directors, two of them being independent. The Committee acts in accordance with written terms of reference. The current Committee members are Mr Alexander Reid HAMILTON, Mr HO Kian Guan and Mr TOW Heng Tan. The Committee reviewed the Group's 2003 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

Handwritten signature of Kuok Khoon Loong in black ink.

KUOK Khoon Loong, Edward
Director

Handwritten signature of YE Longfei in black ink.

YE Longfei
Director

Hong Kong, 29 March 2004