

# Report of the Directors

The Directors submit their report together with the audited accounts for the year ended 31 December 2004.

## 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 94.

The Directors have declared an interim dividend of HK9 cents per share for the year.

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\$676,000.

## 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, Other Borrowings and Convertible Bonds

The particulars of bank loans, overdrafts, other borrowings and convertible bonds as at 31 December 2004 are set out in notes 20 and 27 to the accounts respectively.



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## Results, Assets and Liabilities

The results, assets and liabilities of the Group for the last five financial years are set out on page 148.

## Directors

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

- Mr KUOK Khoon Loong, Edward (*Chairman*)
- Mr YE Longfei (*Deputy Chairman*)
- Mr Giovanni ANGELINI
- Mr LUI Man Shing
- Mr NG Si Fong, Alan
- # Madam KUOK Oon Kwong
- # Mr HO Kian Guan
- # Mr LEE Yong Sun
- # Mr Roberto V. ONGPIN
- + Mr Alexander Reid HAMILTON
- + Mr TOW Heng Tan
- + Mr Timothy David DATTELS (appointed as Director on 1 February 2004)
- # Mr HO Kian Hock (appointed as Alternate Director on  
(Alternate to Mr HO Kian Guan) 4 November 2004)
- Mr KUOK Khoon Ho (resigned as Director on 1 February 2004)
- # Mr John David HAYDEN (resigned as Director on 1 February 2004)
- # Mr HO Kian Cheong (resigned as Alternate Director on  
(Alternate to Mr HO Kian Guan) 29 October 2004)

# *Non-Executive Directors*

+ *Independent Non-Executive Directors*

Mr Ye Longfei, Mr Lee Yong Sun, Mr Alexander Reid Hamilton and Mr Tow Heng Tan retire by rotation in accordance with Bye-Law 99(A) of the Company's Bye-Laws. All retiring Directors, being eligible, offer themselves for re-election.

## Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2004, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (the "Associated Corporations") as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "HKSE") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

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

Name of Company	Name of Director	Class of Shares	Personal Interests (Note 1)	Number of Shares held			Other Interests	Total	Percentage of Total Issued Share Capital of the Relevant Company as at 31 December 2004
				Family Interests	Corporate Interests				
(i) The Company	Mr Kuok Khoon Loong, Edward	Ordinary	3,456	–	297,410 (Note 2)	–	300,866	0.01%	
	Mr Giovanni Angelini	Ordinary	100,000	–	–	–	100,000	0.00%	
	Madam Kuok Oon Kwong	Ordinary	151,379	192,011 (Note 3)	–	–	343,390	0.01%	
	Mr Ho Kian Guan	Ordinary	317,475	–	104,205,928 (Note 4)	–	104,523,403	4.35%	
	Mr Ho Kian Hock (Alternate to Mr Ho Kian Guan)	Ordinary	–	–	104,205,928 (Note 4)	–	104,205,928	4.33%	
(ii) Associated Corporation	Shangri-La Hotels (Malaysia) Berhad	Ordinary	–	–	10,000 (Note 5)	–	10,000	0.00%	
	Shangri-La Hotel Public Company Limited	Ordinary	10,000	–	–	–	10,000	0.01%	

# Report of the Directors

## Notes:

1. These shares were held by the relevant Directors as beneficial owners.
2. These shares represent the interest of a controlled corporation.
3. These shares were held by the spouse of the relevant Director.
4. 67,600,329 shares were held through companies which are controlled as to 33.33% by each of Mr Ho Kian Guan and Mr Ho Kian Hock.  
  
4,165,848 shares were held through a company which is controlled as to 21.88% by each of Mr Ho Kian Guan and Mr Ho Kian Hock.  
  
3,895,710 shares were held through companies which were controlled as to 13.30% and 7.08% by Mr Ho Kian Guan and Mr Ho Kian Hock respectively.  
  
28,544,041 shares were held through companies which were controlled as to 6.55% and 6.74% by Mr Ho Kian Guan and Mr Ho Kian Hock respectively.
5. These shares were held through a company which is owned as to 50% by Madam Kuok Oon Kwong.

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

As at 31 December 2004, 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 2004, 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 Hock are substantial shareholders and Directors of the company which holds River View Hotel, Singapore (the “River View Holding Company”). Mr Ho Kian Cheong is a substantial shareholder of the River View Holding Company. Messrs Ho Kian Guan, Ho Kian Hock and Ho Kian Cheong are substantial shareholders of the company which holds Holiday Inn Riverside Wuhan (the “Holiday Inn Holding Company”). Mr Ho Kian Guan is a Director of the Holiday Inn Holding Company.

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

- the 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).

### New Option Scheme

The purpose of the New Option Scheme is to motivate Eligible Persons<sup>Note 1</sup> to optimise their future contribution to the Company, its Subsidiaries<sup>Note 2</sup> and Associates<sup>Note 2</sup>, and Invested Entities<sup>Note 2</sup> (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<sup>Note 2</sup>, to enable the Enlarged Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

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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 201,600,991 Shares (representing approximately 8.37% 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.

The New Option Scheme will expire on 23 May 2012.

*Notes:*

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

Details of the outstanding option shares as at 31 December 2004 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 2004	No. of option shares granted during the year	Transfer from other category during the year	Transfer to other category during the year	No. of option shares exercised during the year (Note 4)	No. of option shares lapsed during the year	No. of option shares held as at 31 December 2004	Exercise price per option share HK\$	Exercisable Period
<b>I. Directors</b>											
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 (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	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 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 (Note 2)	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

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	Date of grant	Tranche	No. of option shares held as at 1 January 2004	No. of option shares granted during the year	Transfer from other category during the year	Transfer to other category during the year	No. of option shares exercised during the year (Note 4)	No. of option shares lapsed during the year	No. of option shares held as at 31 December 2004	Exercise price per option share HK\$	Exercisable Period
2. Continuous Contract Employees (Note 3)	1 May 1998	I	1,673,950	–	–	(387,041)	(899,869)	–	387,040	8.26	1 May 1999 - 30 April 2008
	1 May 1998	II	1,673,950	–	–	(387,041)	(899,869)	–	387,040	8.26	1 May 2000 - 30 April 2008
	1 May 1998	III	1,673,948	–	–	(387,041)	(899,867)	–	387,040	8.26	1 May 2001 - 30 April 2008
	15 January 2000	I	2,262,872	–	–	(242,278)	(1,230,769)	–	789,825	8.82	15 January 2001 - 14 January 2010
	15 January 2000	II	2,262,857	–	–	(242,277)	(1,123,870)	–	896,710	8.82	15 January 2002 - 14 January 2010
	15 January 2001	I	1,416,650	–	–	(48,515)	(1,072,190)	–	295,945	8.18	15 January 2002 - 14 January 2011
15 January 2001	II	1,416,626	–	–	(48,515)	(1,072,173)	–	295,938	8.18	15 January 2003 - 14 January 2011	
3. Other Participants	1 May 1998	I	1,257,883	–	774,082	–	(662,505)	–	1,369,460	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	I	–	–	387,041	–	(387,041)	–	–	8.26	1 May 1999 - 31 December 2004
	1 May 1998	II	1,257,883	–	774,082	–	(522,505)	–	1,509,460	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	II	–	–	387,041	–	(387,041)	–	–	8.26	1 May 2000 - 31 December 2004
	1 May 1998	III	1,257,879	–	774,082	–	(522,505)	–	1,509,456	8.26	1 May 2001 - 30 April 2008
	1 May 1998	III	145,139	–	–	–	–	(145,139)	–	8.26	1 May 2001 - 22 May 2004
	1 May 1998	III	–	–	387,041	–	(387,041)	–	–	8.26	1 May 2001 - 31 December 2004
	15 January 2000	I	867,354	–	242,278	–	(58,147)	–	1,051,485	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	I	–	–	242,278	–	(242,278)	–	–	8.82	15 January 2001 - 31 December 2004
	15 January 2000	II	867,349	–	242,277	–	(58,146)	–	1,051,480	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 2000	II	–	–	242,277	–	(137,722)	–	104,555	8.82	15 January 2002 - 31 December 2004
	15 January 2001	I	198,913	–	145,545	–	(97,030)	–	247,428	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	I	–	–	48,515	–	(48,515)	–	–	8.18	15 January 2002 - 31 December 2004
15 January 2001	II	198,910	–	145,545	–	(97,030)	–	247,425	8.18	15 January 2003 - 14 January 2011	
15 January 2001	II	48,515	–	–	–	–	(48,515)	–	8.18	15 January 2003 - 22 May 2004	
15 January 2001	II	–	–	48,515	–	(48,515)	–	–	8.18	15 January 2003 - 31 December 2004	
<b>Total</b>			<b>24,727,845</b>	<b>–</b>	<b>4,840,599</b>	<b>(4,840,599)</b>	<b>(11,581,139)</b>	<b>(726,273)</b>	<b>12,420,433</b>		

Details of the outstanding option shares as at 31 December 2004 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 2004	No. of option shares granted during the year	Transfer from other category during the year	Transfer to other category during the year	No. of option shares exercised during the year (Note 4)	No. of option shares lapsed during the year	No. of option shares held as at 31 December 2004	Exercise price per option share HK\$	Exercisable Period
I. Directors	Mr Ye Longfei	29 May 2002	500,000	–	–	–	(500,000)	–	–	6.81	29 May 2003 - 28 May 2012
		29 May 2002	500,000	–	–	–	(350,000)	–	150,000	6.81	29 May 2004 - 28 May 2012
Mr Kuok Khoon Ho (Note 1)	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 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 (Note 2)	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

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2. Continuous Contract Employees (Note 3)	29 May 2002	I	5,200,000	–	–	(75,000)	(3,816,500)	(130,000)	1,178,500	6.81	29 May 2003 - 28 May 2012
	29 May 2002	II	5,200,000	–	–	(75,000)	(3,816,500)	(130,000)	1,178,500	6.81	29 May 2004 - 28 May 2012
3. Other Participants	29 May 2002	I	665,000	–	500,000	–	(370,000)	–	795,000	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	I	–	–	75,000	–	(75,000)	–	–	6.81	29 May 2003 - 31 December 2004
	29 May 2002	I	–	–	75,000	–	(75,000)	–	–	6.81	29 May 2003 - 31 January 2005
	29 May 2002	II	665,000	–	500,000	–	(370,000)	–	795,000	6.81	29 May 2004 - 28 May 2012
	29 May 2002	II	75,000	–	–	–	–	–	75,000	6.81	29 May 2004 - 22 May 2005
	29 May 2002	II	–	–	75,000	–	(75,000)	–	–	6.81	29 May 2004 - 31 December 2004
	29 May 2002	II	–	–	75,000	–	(75,000)	–	–	6.81	29 May 2004 - 31 January 2005
<b>Total</b>			<b>16,400,000</b>	<b>–</b>	<b>1,300,000</b>	<b>(1,300,000)</b>	<b>(11,173,000)</b>	<b>(335,000)</b>	<b>4,892,000</b>		

Notes:

1. Mr Kuok Khoon Ho resigned as Director of the Company with effect from 1 February 2004. The options granted to Mr Kuok remain exercisable following his resignation as he is still a Director in some of the Company's subsidiaries. Those options were re-classified to the category of "Other Participants" during the year.
2. Mr John David Hayden retired as an Executive of the Group at the time after the options were granted to him under the Executive Option Scheme. Pursuant to the Executive Option Scheme, those options remain exercisable following his retirement until the expiry of the relevant exercisable period. Mr Hayden resigned as a Non-Executive Director of the Company with effect from 1 February 2004. The Board of Directors of the Company has approved that the exercisable period of those options granted to Mr Hayden under the New Option Scheme shall be extended up to 31 January 2005. All the options granted to Mr Hayden under the Executive Option Scheme and the New Option Scheme were re-classified to the category of "Other Participants" during the year.
3. Mr Thaddeus Thomas Beczak, a former Director of the Company, resigned from the Group with effect from 1 January 2004. The Board of Directors of the Company has approved that the exercisable period of all the options granted to Mr Beczak under the Executive Option Scheme and the New Option Scheme shall be extended up to 31 December 2004. Those options on 1,742,708 shares granted under the Executive Option Scheme and 150,000 shares granted under the New Option Scheme were re-classified from the category of "Continuous Contract Employees" to the category of "Other Participants" during the year.
4. The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$9.59.
5. No options were cancelled under the Executive Option Scheme and the New Option Scheme during the year and subsequent to 31 December 2004.
6. Options on 104,555 shares have lapsed under the Executive Option Scheme subsequent to 31 December 2004. No options were lapsed under the New Option Scheme subsequent to 31 December 2004.
7. Options on 1,028,242 shares were exercised under the Executive Option Scheme and options on 1,816,000 shares were exercised under the New Option Scheme subsequent to 31 December 2004.

### Directors' Rights to Acquire Shares or Debentures

As at 31 December 2004, 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 financial year ended 31 December 2004 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<sup>1</sup>. The Kuok Group is a group of companies which the Company has, since its listing, treated as being connected persons of the Company and 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 item 4(A)(a), are regarded as related party transactions of the Group under the Hong Kong Statement of Standard Accounting Practice No. 20 "Related Party Disclosures". Details of these transactions are as follows:

1. On 13 April 2004, the Company entered into a Master Agreement with Kerry Properties Limited ("KPL") relating to the joint acquisition, ownership and development of certain sites in Jingan District, Shanghai (the "Project"). It was intended that KPL, the Group and an independent third party would have 50.5%, 48.5% and 1% interest in the Project respectively. KPL is a subsidiary of Kerry Holdings Limited which is a substantial shareholder of the Company. The transaction constituted a discloseable and connected transaction of the Company and approval was given by the independent shareholders of the Company at the Special General Meeting held on 29 June 2004. As at the date of this annual report, not all the underlying contracts contemplated by the Master Agreement have been signed.

<sup>1</sup> The Company defines "Kuok Group" as companies which are owned or controlled by Mr Kuok Hock Nien and/or interests associated with him.

# Report of the Directors

2. On 14 June 2004, the Company executed two guarantees in favour of Bank of China, Beijing Branch ("BOC") guaranteeing the repayment of (i) 23.75% of the monies (up to US\$6,650,000) owed by Beijing Jia Ao Real Estate Development Co., Ltd. ("Beijing Jia Ao") (in which the Company has an indirect 23.75% interest and which is a 71.25% owned subsidiary of KPL) to BOC under the loan facility of US\$28,000,000 made available by BOC to Beijing Jia Ao (the "Beijing Jia Ao Facility"), and the related interests and expenses; and (ii) 23.75% of the monies (up to US\$5,652,500) owed by Beijing Kerry Centre Hotel Co., Ltd. ("BKCH") (in which the Company has an indirect 23.75% interest and a 71.25% owned subsidiary of KPL) to BOC under the loan facility of US\$23,800,000 made available by BOC to BKCH (the "BKCH Facility"), and the related interests and expenses. The Beijing Jia Ao Facility and the BKCH Facility were granted to Beijing Jia Ao and BKCH for financing the repayment of shareholders' loans advanced to Beijing Jia Ao and BKCH respectively.
3. On 24 December 2004, the Company executed a guarantee in favour of BOC guaranteeing the repayment of 23.75% of the monies (up to US\$4,037,500) owed by Beijing Jia Ao to BOC under the loan facility of US\$17,000,000 made available by BOC to Beijing Jia Ao (the "Facility"), and the related interests and expenses. The Facility was granted to Beijing Jia Ao for financing the repayment of shareholders' loans advanced to Beijing Jia Ao.

4. Unsecured shareholders' loans and guarantees  
The Group provided financial assistance to certain companies in prior years. The balances of these financial assistance as at the respective year end date of 2004 and 2003 are listed below:

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

		Loan balance	
		2004	2003
		US\$'000	US\$'000
a.	Non-wholly owned subsidiaries		
	– Traders Yangon Company Limited		
	: interest bearing portion <sup>ii</sup>	35,854	36,237
	: non-interest bearing portion	34,021	32,859
	– Shangri-La Yangon Company Limited		
	: interest bearing portion <sup>ii</sup>	1,992	1,992
	: non-interest bearing portion	23,732	23,732
	– Traders Square Company Limited		
	: non-interest bearing	4,406	4,160
b.	Associated company		
	– Cuscaden Properties Pte Ltd ("CPPL")	32,581	31,316
c.	Investee company		
	– P.T. Sariपुरi Permai Hotel	1,230	1,470

(B) Guarantees executed in favour of banks for securing bank loans/facilities granted<sup>iii</sup>

	Amount of guarantees given	
	2004 US\$'000	2003 US\$'000
a. Associated companies		
– CPPL <sup>iv</sup>	1,965	–
– Beijing Jia Ao <sup>v</sup>	4,940	–
– BKCH <sup>vi</sup>	4,726	–

Notes:

- i. Please refer to 2000 annual report for other details of the financial assistance provided. Terms of such financial assistance (except those set out in Note ii below) remain unchanged as at year end of 2004.
- ii. Under a supplementary agreement, the loan interest rate has been changed from 5% per annum to 2.5% per annum commencing 1 April 2002.
- iii. The amount of guarantee disclosed is stated with reference to the utilised bank loans/facilities balance.
- iv. This guarantee was for securing certain banking facilities granted in 2001. Please refer to 2001 annual report for details. Terms of such financial assistance remain unchanged as at year end of 2004.
- v. Details of the guarantees provided to bank for securing loan facilities granted to Beijing Jia Ao during the year 2004 were stated in items (2) and (3) above.
- vi. Details of the guarantee provided to bank for securing loan facility granted to BKCH during the year 2004 were stated in item (2) above.

### Continuing Connected Transactions

Set out below are the continuing connected transactions and potentially continuing connected transactions of the Group in effect during the financial year ended 31 December 2004. All these transactions are also regarded as related party transactions under the Hong Kong Statement of Standard Accounting Practice No. 20 “Related Party Disclosures”.

Unless otherwise stated, transactions which are exempt from reporting, announcement and independent shareholders’ approval requirements under the HK Listing Rules which came into effect on 31 March 2004 (the “New Listing Rules”) are not disclosed herein.

Most of these transactions were entered into with members of the Kuok Group.

1. On 28 January 1995, the Company entered into a discloseable and connected transaction to acquire various hotel interests of the Kuok Group. Included in these hotel interests are (i) Shangri-La’s Edsa Plaza Hotel, Manila (now known as Edsa Shangri-La, Manila) (“ESL”), and (ii) Shangri-La’s Mactan Island Resort, Cebu (“MAC”). ESL is built on land leased from Shangri-La Properties Inc. (now known as Edsa Properties Holdings, Inc.) (a Kuok Group company) under a 25 years lease commencing in 1992, with option to renew the lease for two additional terms of 25 years each. MAC is built on land leased from Brown Swallow Development Corporation and Green Mangrove Realty Inc. (both of which are Kuok Group companies) under a 25 years lease commencing in 1990, with option to renew the lease for an additional 25 years. Further information regarding these leases are set out in the Company’s circular dated 13 February 1995.

For the year ended 31 December 2004, an aggregate amount of US\$1,001,000 was paid to Edsa Properties Holdings, Inc. and an aggregate amount of US\$882,000 was paid to Brown Swallow Development Corporation and Green Mangrove Realty Inc.

2. Shangri-La International Hotel Management Limited (“SLIM”) and its fellow subsidiaries provided hotel management, marketing, communication and reservation services (“Hotel Management Services”) to five hotels/clubs owned by companies which are members of the Kuok Group pursuant to hotel management, marketing and related agreements entered into between various SLIM entities and the relevant Kuok Group members. SLIM is a wholly owned subsidiary of the Company. Accordingly, the provision of the Hotel Management Services constitutes continuing connected transactions of the Company under the New Listing Rules.

# Report of the Directors

Details of these hotels/clubs are set out below:

Name of property	Date of transaction	Nature of agreement	Counterparty	Aggregate amount received by SLIM and its fellow subsidiaries for the year ended 31 December 2004 (US\$)
Traders Hotel, Singapore	Principal agreement signed on 1 March 1994. Various related agreements signed on various dates in 1994.	Management Agreement, Marketing and Reservations Agreement and Licence Agreements	Cuscaden Properties Pte Ltd	852,000
Traders Hotel, Yangon*	24 June 1995	Management Agreement, Marketing and Reservations Agreement and Licence Agreements	Traders Yangon Company Limited	214,000
Shangri-La Hotel, Surabaya*	27 October 1994	Management Agreement, Marketing and Reservations Agreement and Licence Agreement	P.T. Saripuri Permai Hotel	471,000
The Kerry Centre Hotel, Beijing	30 June 1998	Management and Marketing Agreement	Beijing Kerry Centre Hotel Co., Ltd	1,384,000
Aberdeen Marina Club, Hong Kong*	20 February 1993	Operators Agreement	Aberdeen Marina Holdings Limited	193,000

\* For information purposes only. The value of this transaction is below the disclosure threshold set out in the New Listing Rules.

3. During the financial year:
  - A. Members of the Group in Malaysia purchased insurance products from Jerneh Insurance Berhad ("Jerneh"). Jerneh is a member of the Kuok Group.
  - B. Members of the Group (other than the companies mentioned in A above and under 4 below) purchased insurance products from Jerneh Insurance (HK) Limited ("Jerneh (HK)"). Jerneh (HK) is a fellow subsidiary of Jerneh and is therefore a member of the Kuok Group.

For the year ended 31 December 2004, the aggregate payment made to Jerneh and Jerneh (HK) in respect of the insurance products amounted to US\$576,000 and US\$72,000, respectively.

4. In August 2003, SLIM purchased a master insurance policy from Jerneh (HK) covering all the hotels managed by SLIM (the "Discontinued Insurance Policy"). The period of insurance cover extended from August 2003 to end July 2004. SLIM did not renew the insurance in 2004 upon expiry. Based on the apportionment of costs for the financial year end 31 December 2004, the total value of insurance premium paid by SLIM to Jerneh (HK) was US\$705,000.
5. Central Laundry Pte Ltd ("CLPL"), a 75% subsidiary of the Company in Singapore, operates a commercial laundry. The other 25% of CLPL is owned by Cuscaden Properties Pte Ltd which is, in turn, 55.4% owned by Allgreen Properties Limited ("Allgreen") and 40.75% owned by the Group. Allgreen is a company listed on the Singapore Exchange Securities Trading Limited and which is considered by the Company to be a member of the Kuok Group. Accordingly, the provision of services by CLPL to the Kuok Group and/or the Group constitutes continuing connected transactions of the Company under the New Listing Rules.

# Report of the Directors

As part of its business, CLPL provides commercial laundry services to various properties owned by members of the Kuok Group and the Group pursuant to Master Agreements signed between CLPL and the relevant entities owning or operating those properties. Details of the transactions are set out below:

Name of property	Date of transaction	Nature of agreement	Counterparty	Aggregate amount received by CLPL for the year ended 31 December 2004 (US\$)
Great World Serviced Apartments <sup>###</sup>	15 October 1997 and 16 October 1997	Master Agreement for laundry services	Great World Serviced Apartments and Worldwide Apartment Services Pte Ltd	225,000
Traders Hotel, Singapore <sup>##</sup>	1 April 1995	Master Agreement for laundry services	Traders Hotel, Singapore	652,000
Shangri-La's Rasa Sentosa Resort, Singapore <sup>#</sup>	16 April 1994	Master Agreement for laundry services	Shangri-La's Rasa Sentosa Resort, Singapore	645,000
Shangri-La Hotel, Singapore <sup>#</sup>	10 May 1994	Master Agreement for laundry services	Shangri-La Hotel Limited	1,641,000

<sup>#</sup> Owned by a member of the Group

<sup>##</sup> Owned by a member of the Kuok Group

<sup>\*</sup> For information purposes only. The value of this transaction is below the disclosure threshold set out in the New Listing Rules.

The continuing connected transactions mentioned in (1) to (5) above have been reviewed by the Independent Non-Executive Directors of the Company. The Independent Non-Executive Directors of the Company have confirmed that the transactions have been entered into:

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

In relation to the transactions set out in (1) to (5) above, the auditors have confirmed that the transactions:

- a. have received the approval of the Company's Board of Directors;
- b. involving the provision of goods and services by the Group, are in accordance with the pricing policies of the Group; and
- c. have been entered into in accordance with the relevant agreements governing the transactions.

The transactions mentioned in (1) above have previously been disclosed in the annual reports of the Company as connected transactions, not on-going connected transactions. The Company has been advised that, under the New Listing Rules, the Company may have to re-classify these transactions as continuing connected transactions. The Company is consulting the HKSE how these transactions should be treated under the New Listing Rules and, if they were to be treated as continuing connected transactions, whether it is necessary for the Company to conform to the requirements of the New Listing Rules in view of the fact that there is no contractual right for the Company to unilaterally terminate these long term leases and enter into new arrangements with the land owners.

For the financial year ended 31 December 2004, the aggregate amount paid in respect of each of ESL and MAC is more than 0.1% but less than 2.5% of the applicable percentage ratios (as defined under the New Listing Rules).

Each of the transactions mentioned in (2), being transactions entered into by members of the Group prior to the New Listing Rules coming into effect, is for a period longer than 3 years and is not subject to an annual cap. The Company is consulting the HKSE whether it is necessary for the Company to conform to the requirements of the New Listing Rules in respect of each of these transactions in view of the fact that there is no contractual right for the Company to unilaterally terminate these transactions and enter into new arrangements with the counterparties.

For the financial year ended 31 December 2004, the aggregate amount paid in respect of each of the properties mentioned in (2) above (other than the Traders Hotel, Yangon, the Shangri-La Hotel, Surabaya and the Aberdeen Marina Club, Hong Kong) is more than 0.1% but less than 2.5% of the applicable percentage ratios (as defined under the New Listing Rules).

# Report of the Directors

The transactions mentioned in (3) consist of a large number of discrete purchases of insurance products by various entities within the Group from Jerneh during the financial year. Each purchase amounts to less than 0.1% of the applicable percentage ratios (as defined under the New Listing Rules). However, on an aggregated basis, the amount is more than 0.1% but less than 2.5% of the applicable percentage ratios (as defined under the New Listing Rules). The Company is consulting the HKSE whether the purchases of such insurance products ought to be aggregated in view of the fact that there is no obligation on the Group to purchase insurances from Jerneh, the consideration for each purchase was made on a standalone basis taking into consideration the requirements of the relevant entity within the Group at the relevant time and the available insurance products in the market. No overall annual cap was set in respect of such purchases of insurance products for the financial year ended 31 December 2004.

For the financial year ended 31 December 2004, the amount paid in respect of the Discontinued Insurance Policy is more than 0.1% but less than 2.5% of the applicable percentage ratios (as defined under the New Listing Rules).

For the financial year ended 31 December 2004, the aggregate amount paid to CLPL in respect of each of the laundry services agreements referred to in (5) above (other than in respect of Great World Serviced Apartments) is more than 0.1% but less than 2.5% of the applicable percentage ratios (as defined under the New Listing Rules). No annual caps were set in respect of these agreements for the financial year ended 31 December 2004.

## Substantial Interests in the Share Capital of the Company

As at 31 December 2004, 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 2004
<b>Substantial Shareholders</b>			
Kerry Group Limited ("KGL")	Interest of controlled corporations	1,078,887,701	44.87%
Kerry Holdings Limited ("KHL") (Notes 1 and 2)	Interest of controlled corporations	1,078,887,701	44.87%
Caninco Investments Limited ("Caninco") (Notes 2 and 3)	Beneficial owner Interest of a controlled corporation	479,424,818 96,330,633	23.95%
<b>Persons other than Substantial Shareholders</b>			
Darmex Holdings Limited ("Darmex") (Notes 2 and 3)	Beneficial owner	239,302,975	9.95%
Temasek Holdings (Private) Limited ("Temasek")	Interest of a controlled corporation	166,284,498	6.92%
Cress Limited ("Cress") (Note 4)	Beneficial owner	166,284,498	6.92%

Notes:

1. Out of KHL's interest in 1,078,887,701 shares, 1,053,481,123 shares were held through its wholly-owned subsidiaries, 13,601,523 shares were held through companies in which KHL controls more than one third of the voting power (other than those wholly-owned subsidiaries as aforementioned) and 11,805,055 shares were held through a wholly-owned subsidiary of Shangri-La Hotel Public Company Limited, Thailand, a 73.61% owned subsidiary of the Company.
2. 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.
3. 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.
4. Cress is a wholly-owned subsidiary of Temasek and its interest in the shares of the Company is included in the interest held by Temasek.

Save as mentioned above, as at 31 December 2004, 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 except for 1,390,000 ordinary shares of the Company sold by a non-wholly owned subsidiary during the year as disclosed in note 18 to the accounts, 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 (effective prior to 1 January 2005), 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 three members including the Chairman and two Independent Non-Executive Directors.

# Report of the Directors

## 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 2004 audited accounts before they were tabled for the Board's review and approval.

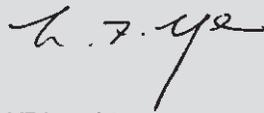
## Auditors

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

On behalf of the Board of Directors



**KUOK Khoon Loong, Edward**  
*Director*



**YE Longfei**  
*Director*

Hong Kong, 31 March 2005