



# CORPORATE GOVERNANCE REPORT



The Company has always recognised the importance of transparency in governance and accountability to shareholders. The Board believes that shareholders can maximise their benefits from good corporate governance. Therefore, the Company continuously reviews its corporate governance framework to ensure that it aligns with generally acceptable practices and standards.

During the year, the Company has met the code provisions (those which became effective for the accounting period commencing 1 January 2005) as set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "HK Listing Rules"), except that the Company has not appointed a chief executive officer since Mr Giovanni Angelini is already, and has been since 1999, a chief executive officer of Shangri-La International Hotel Management Limited, which administers on a day-to-day basis the hotel business which accounts for a substantial portion of the Group's business interests. It therefore considers it unnecessary to appoint a chief executive officer of the Company. As for the management of the Board of Directors of the Company, this is a function already performed by Mr Kuok Khoon Loong, Edward as the Chairman of the Board of Directors of the Company. The Board of Directors of the Company considers that this structure will not impair the balance of power and authority between the Board and the Management.

The Board meets at least four times a year at quarterly intervals and meets more frequently as and when required. Mr Angelini, being an Executive Director of the Company, reports to the Board of Directors of the Company on the Group's affairs. The Board of Directors of the Company believes that this structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently.

## THE BOARD OF DIRECTORS

The Board of Directors is accountable to the shareholders for leading the Group in a responsible and effective manner. The Company's Board of Directors comprises 5 Executive Directors, 5 Non-Executive Directors (including one Alternate Director) and 3 Independent Non-Executive Directors (with at least one of the Independent Non-Executive Directors having appropriate professional qualifications or accounting or related financial management expertise), whose biographical details and relationship between members of the Board are set out on pages 30 to 33. The Board has a majority of Non-Executive Directors, thereby improving management control and ensuring that the Board takes into account the interests of all shareholders.

As mentioned above, the Board meets at least four times a year at quarterly intervals and meets more frequently as and when required. At the board meetings, the Directors actively participate and hold informed discussions. The Board held four meetings in 2005 and meetings attended by each of the Directors during the year 2005 were as follows:

<b>Name of Director</b>	<b>Meetings attended/ eligible to attend</b>
<b>Executive Directors</b>	
Mr Kuok Khoon Loong, Edward (Chairman)	3/4
Mr Ye Longfei	3/4
Mr Giovanni Angelini	4/4
Mr Lui Man Shing	2/4
Mr Ng Si Fong, Alan	4/4
<b>Non-Executive Directors</b>	
Madam Kuok Oon Kwong	4/4
Mr Ho Kian Guan	4/4
Mr Lee Yong Sun	3/4
Mr Roberto V. Ongpin	4/4
Mr Alexander Reid Hamilton*	4/4
Mr Tow Heng Tan*	3/4
Mr Timothy David Dattels*	2/4

\* Independent Non-Executive Directors

To facilitate the decision-making process, the Directors have unrestricted access to the management to make enquiries and obtain further information, when required. In addition, all Directors have unrestricted access to the advice and services of the Company Secretary to ensure that the Board procedures and all applicable rules and regulations are followed. The Board of Directors has adopted the procedures for the Directors to obtain independent professional advice at the Company's expense.

Board minutes kept by the Company Secretary are sent to the Directors for records and are open for inspection by the Directors.

The Company has arranged appropriate insurance cover for the Directors.

The Board has appointed Board committees to oversee particular aspects of the Company's affairs. Each Board committee is appointed with written terms of reference. However, certain matters are reserved to the full Board for decision including matters relating to the following:

- constitution and share capital
- corporate objectives and strategy
- corporate policies relating to securities transactions by Directors and senior management
- interim and annual results
- interim and annual reports
- budgets
- significant investments
- major financings, borrowings and guarantees
- corporate governance and internal controls
- risk management
- major acquisitions and disposals
- material contracts
- board members, auditors and employees
- any other significant matters that will affect the operations of the Group as a whole

The day-to-day running of the Company is delegated to the management, with divisional heads responsible for different aspects of the business.

#### **DIRECTORS' APPOINTMENT, RE-ELECTION AND REMOVAL**

The Company has not established a nomination committee. The Board as a whole is responsible for approving the appointment of its members and nominating them for election and re-election by the shareholders of the Company.

The Board of Directors has adopted the procedures for appointment of new Directors to ensure that the Board consists of members with the range of skills and qualities to meet its principal responsibilities in a way which ensures that the interests of shareholders are protected and promoted and the requirements of the HK Listing Rules are complied with. The procedures and criteria to select candidates are as follows:

1. The Company Secretary shall forthwith inform the Board as soon as the number of Directors (executive or non-executive) falls below the minimum required by the HK Listing Rules or the Company's Bye-Laws or if there are unfilled positions in any Board committees required to be constituted by the HK Listing Rules.
2. The Board identifies the need for a new Director based on whether or not the Company has an appropriate number of Directors to allow for effective decision-making.
3. The Board identifies potential candidates who may fill the role. Potential candidates should:
  - a. complement the existing Board composition to ensure that there is an appropriate mix of Directors with different abilities and experiences;
  - b. have the required skills, knowledge and expertise to add value to the Board; and
  - c. be able to commit the necessary time to their position.

4. Suitable candidate(s) are appointed in accordance with the Company's Bye-Laws and the HK Listing Rules. All Directors should be appointed subject to re-election and to the HK Listing Rules, the Company's Bye-Laws and laws concerning removal of a Director.

All Non-Executive Directors are appointed for a term commencing from the date of their last re-election as Directors at the Annual General Meeting ("AGM") of the Company until the earlier of (a) the third year after their last re-election or (b) the third AGM after their last re-election. The Non-Executive Directors are subject to the retirement provision in accordance with the Company's Bye-Laws. Under the Company's Bye-Laws, every Director is subject to retirement no later than the third AGM after he was last elected or re-elected. Besides, one-third of the Directors shall retire from office at each AGM. The retiring Directors shall be eligible for re-election.

#### INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board has received from each of the Independent Non-Executive Directors confirmation of his independence according to the guidelines set out in Rule 3.13 of the HK Listing Rules. The Board is of the view that all Independent Non-Executive Directors of the Company are independent and is grateful for the contribution and independent advice and guidance that they have been giving to the Board and for their participation in the Board committees.

#### REMUNERATION COMMITTEE

A Remuneration Committee of the Board of Directors was set up on 17 October 1997 to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The Committee comprises three members including the Chairman and two Independent Non-Executive Directors. The current Committee members are Messrs Kuok Khoon Loong, Edward (who acts as chairman of the Committee), Alexander Reid Hamilton and Tow Heng Tan. The Remuneration Committee met one time in 2005 and meeting attended by each of the members during the year 2005 was as follows:

<b>Name of Member</b>	<b>Meeting attended/ eligible to attend</b>
Mr Kuok Khoon Loong, Edward	1/1
Mr Alexander Reid Hamilton	1/1
Mr Tow Heng Tan	1/1

The Remuneration Committee assessed the performance of the Executive Directors in the context of the financial performance of the Group and its development strategy in the medium term. In approving the terms of remuneration of the Executive Directors, including the grant of share options, the Committee considered the financial results of the Group, its growth plans, the competitive environment in the hotel industry for obtaining competent management talent and the need to adequately reward outstanding performances.

The terms of reference of the Remuneration Committee are available in the Group's corporate website ([www.shangri-la.com](http://www.shangri-la.com)).

## DIRECTORS' REMUNERATION

The remuneration for the Executive Directors comprises salary, annual bonus, pensions, housing and annual leave fare for expatriate Executive Directors. Salaries are reviewed annually. Salary increases are made where the Remuneration Committee believes that adjustments are appropriate to reflect performance, contribution, increased responsibilities and/or by reference to market/sector trends. In addition to salary, Executive Directors and employees of the Company and its subsidiaries are eligible to receive a discretionary bonus taking into consideration factors such as market conditions as well as corporate and individual performances. In order to attract, retain and motivate executives and key employees serving any member of the Group or other persons contributing to the Group, the Company has instituted share option schemes. Such incentive schemes enable the eligible persons to obtain an ownership interest in the Company and thus will motivate them to optimize their contributions to the Group.

The Directors' emoluments paid or payable to the Directors during the year are set out on an individual and named basis, in note 28 to the financial statements of this Annual Report and details of the share option schemes are set out in the 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 current Committee members are Messrs Alexander Reid Hamilton (who acts as chairman of the Committee), Ho Kian Guan and Tow Heng Tan. The Committee members have professional qualifications and experience in financial matters that enable the Committee to exercise its powers effectively and provide the Board with independent views and recommendations in relation to financial matters.

The main duties of the Audit Committee include, inter alia, the following:

- (i) reviewing the half-year and annual financial statements before they are submitted to the Board for approval;
- (ii) making recommendations to the Board on, the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
- (iii) reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- (iv) reviewing and monitoring the integrity of the interim and annual financial statements, reports and accounts of the Company, and reviewing significant financial reporting judgements contained in them, before submission to the Board;
- (v) reviewing the Company's financial controls, internal control and risk management systems;
- (vi) reviewing the Group's financial and accounting policies and practices;
- (vii) reviewing the internal audit programme, ensuring co-ordination between the internal and external auditors, and reviewing and monitoring the effectiveness of the internal audit function.

The Audit Committee met four times in 2005 and meetings attended by each of the members during the year 2005 were as follows:

Name of Member	Meetings attended/ eligible to attend
Mr Alexander Reid Hamilton	4/4
Mr Ho Kian Guan	4/4
Mr Tow Heng Tan	3/4

Special meetings may be convened at the discretion of the chairman of the Committee to review significant control or financial issues.

The Audit Committee focussed on the review of the Group's financial controls and in particular the conduct of the internal audit at various operational units in the Group. They recommended the appointment and remuneration payable to the Company's external auditor and satisfied themselves on the external auditor's independence and objectivity. They also reviewed the half yearly and annual financial statements before these were submitted to the Board for approval and in the context of the new accounting and financial reporting standards introduced by the Hong Kong Institute of Certified Public Accountants effective 1 January 2005, they reviewed the effects of these new standards on the Group's financial statements.

The Audit Committee reviewed the financial statements of the Group for the year ended 31 December 2005 prior to recommending them to the Board for approval.

The terms of reference of the Audit Committee are available at the Group's corporate website.

## FINANCIAL REPORTING

The Directors acknowledge their responsibility for the preparation of the financial statements of the Group. In preparing the financial statements, the generally accepted accounting standards in Hong Kong have been adopted, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made.

The Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Auditors' Report on page 101.

## INTERNAL FINANCIAL CONTROLS

In performing its duties, the Board of Directors also acknowledges its responsibility for the Group's system of internal financial control. Internal financial systems have been designed to allow the Board to monitor the Group's overall financial position, to protect the Group's assets and to mitigate against material financial misstatement or loss.

## INTERNAL AUDIT

The Board also monitors its internal financial control systems through management reviews and a programme of internal audits. The internal audit team reviews the major operational and financial systems of the Group on a continuing basis and aims to cover all major operations within every division on a rotational basis. The scope of its review and the audit programme is determined and approved by the Audit Committee at the beginning of each financial year in conjunction with the external auditors. The internal audit function reports directly to the Audit Committee and submits regular reports for its review in accordance with the approved programme.





HOTEL LOBBY  
SHANGRI-LA HOTEL, FUZHOU

## EXTERNAL AUDITORS

The Company's external auditors are PricewaterhouseCoopers, Hong Kong.

During the year, PricewaterhouseCoopers, Hong Kong and its other member firms provided the following audit and non-audit services to the Group:

<u>Services</u>	<u>Fees charged</u> US\$'000
Audit services (including interim review)	463
Non-audit services	
(a) Tax services	59
(b) Other advisory services	4

Total fees for audit services provided by other external auditors to the subsidiaries of the Group were approximately US\$272,000.

PricewaterhouseCoopers, Hong Kong will retire and offer themselves for re-appointment at the Annual General Meeting of the Company to be held in May 2006.

## INVESTOR RELATIONS

The Board and senior management recognise their responsibility to look after the interests of the shareholders of the Company.

With a view to developing and maintaining continuing good relations with the Group's shareholders and investors, various communication channels have been established.

The Company reports on its financial and operating performance to shareholders through interim and annual reports. At the Annual General Meeting, shareholders can raise any questions relating to the performance and future direction of the Company with the Directors.

In addition, press conferences and analysts briefings are held at least twice a year subsequent to the interim and final results announcements at which the Executive Directors are available to answer queries on the Group. Shareholders and investors may visit our website for up-to-date financial and other information about the Group and its activities.

As at 31 December 2005, sufficient shares of the Company were on public float as required by the HK Listing Rules.

## SECURITIES TRANSACTIONS BY DIRECTORS

The Board of Directors of the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the HK Listing Rules as the Code for Securities Transactions by Directors of the Company (the "Directors' Securities Dealing Code").

The Directors who had securities transactions in the Company's shares during the year had informed the Chairman of their intention of dealing prior to the transactions and provided the Company with details of the transactions thereafter in compliance with the Directors' Securities Dealing Code. Interests in the Company's shares and share options held by the Directors as at 31 December 2005 are set out in the Report of Directors section of this Annual Report.

The Company has made specific enquiry of all the Directors who confirmed compliance with the required standard set out in the Directors' Securities Dealing Code throughout the year.

## SECURITIES TRANSACTIONS BY RELEVANT EMPLOYEES

The Board of Directors of the Company has adopted the Model Code for Securities Transactions by Relevant Employees (the "Employees' Securities Dealing Code") setting out the guidelines for relevant employees (the "Relevant Employees") in respect of their dealings in the securities of the Company.

The Relevant Employees who had securities transactions in the Company's shares during the year had informed the Chairman or the Chief Financial Officer of their intention of dealing prior to the transactions and provided the Company with details of the transactions thereafter in compliance with the Employees' Securities Dealing Code.

The Company has made specific enquiry of all the Relevant Employees who confirmed compliance with the required standard set out in the Employees' Securities Dealing Code throughout the year.