

For the year ended 31 December 2005

## 1 GENERAL INFORMATION

Shangri-La Asia Limited (the "Company") and its subsidiaries (together the "Group") owns and operates hotels and associated properties; and provides hotel management and related services.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited with secondary listing on the Singapore Stock Exchange.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standard ("HKFRS") and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, financial assets (excluding available-for-sale financial assets) and financial liabilities (including derivative financial instruments) and investment properties are stated at fair value.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

### (a) Effect of adopting new HKFRS

In 2005, the Group adopted the following new/revised HKFRS, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

|         |   |
|---------|---|
| HKAS 1  | Presentation of Financial Statements                            |
| HKAS 2  | Inventories   |
| HKAS 7  | Cash Flow Statements  |
| HKAS 8  | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date                             |
| HKAS 16 | Property, Plant and Equipment                                   |

|         |   |
|---------|---|
| HKAS 17 | Leases  |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates    |
| HKAS 23 | Borrowing Costs                                     |
| HKAS 24 | Related Party Disclosures                           |
| HKAS 27 | Consolidated and Separate Financial Statements      |
| HKAS 28 | Investments in Associates                           |
| HKAS 31 | Investments in Joint Ventures                       |
| HKAS 32 | Financial Instruments: Disclosures and Presentation |
| HKAS 33 | Earnings per Share                                  |
| HKAS 36 | Impairment of Assets                                |
| HKAS 38 | Intangible Assets                                   |
| HKAS 39 | Financial Instruments: Recognition and Measurement  |
| HKAS 40 | Investment Property                                 |

|             |   |
|-------------|---|
| HKAS-Int 12 | Scope of HKAS-Int 12 Consolidation – Special Purpose Entities |
| HKAS-Int 15 | Operating Leases – Incentives                                 |
| HKAS-Int 21 | Income Taxes – Recovery of Revalued Non-Depreciated Assets    |
| HKFRS 2     | Share-based Payments  |
| HKFRS 3     | Business Combinations   |

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 21, 23, 24, 27, 28, 31, 33 and HKAS-Ints 12 and 15 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures.
- HKASs 2, 7, 8, 10, 23, 27, 28, 31, 33 and HKAS-Ints 12 and 15 had no material effect on the Group's policies
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group's principal subsidiaries have the same functional currency as the presentation currency for respective entity financial statements.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (a) Effect of adopting new HKFRS (continued)

- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

As specified by HKAS 40, hotel properties were no longer to be accounted for as investment properties but should adopt HKAS 16. The adoption of HKAS 16 has resulted in a change in accounting policy relating to hotel properties and retrospective application is required. Hotel properties were previously classified under investment properties and the changes in the valuation were dealt with in the investment properties revaluation reserves. In accordance with the provisions of HKAS 16, the underlying buildings and integral plant and machinery of a hotel property have been classified under property, plant and equipment and carried at cost less accumulated depreciation and impairment. The underlying freehold land of a hotel property has also been classified as property, plant and equipment and carried at cost less impairment while the underlying leasehold land of a hotel property is accounted for in accordance with the provisions of HKAS 17.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases and retrospective application is required. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. A lease of land and building is split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The lease of land is stated at cost and amortised over the period of the lease whereas the building is stated at cost less accumulated depreciation. In prior years, the leasehold land of a hotel property was included as part of the hotel property while other leasehold land was classified under property, plant and equipment at cost less impairment.

The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments.

Under HKAS 32, convertible bonds issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value which is determined using a market interest rate for equivalent non-convertible bonds and attributing to the equity component the difference between the proceeds from the issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the convertible bonds reserve until the bond is either converted (in which case it is transferred to share premium) or the bond is redeemed (in which case it is released directly to retained earnings). In prior years, convertible bonds were stated at face value plus the accrued redemption premium. The redemption premium was accrued using effective interest rate method. The issuance costs incurred for the arrangement of convertible bonds were capitalised and amortised on a straight-line basis over the period of the convertible bonds. Retrospective application is required for adoption of HKAS 32.

Under HKAS 39, equity investments held on a continuing basis for an identifiable long-term purpose are classified as available-for-sale financial assets and are continued to be stated at cost less impairment as the fair value cannot be reliably measured. If there is objective evidence that an individual investment has been impaired, such impairment would be recognised in the income statement. Listed equity securities held for trading purpose are classified as financial assets held for trading and are continued to be stated at closing price with all realised and unrealised gains or losses to be recognised in the income statement. Long term receivables are classified as other receivables and are recognised initially at cost and subsequently measured at amortised cost using the effective interest method, less provision for impairment with changes in carrying value to be recognised in the income statement. All non-hedging derivative financial instruments entered are stated at fair value with changes recognised in the income statement. In prior years, equity investments for long term purpose were disclosed as long term investments and stated at cost less impairment through profit or loss. Listed equity securities held for trading purpose were disclosed as other investments and were stated at market value with changes to such value accounted through profit or loss. Long term receivables were stated at cost less impairment which, if any, was accounted through profit or loss. Derivative financial instruments entered were recognised on a cash basis. Prospective application is required for adoption of HKAS 39 by way of adjustments to the opening balance of retained earnings as at 1 January 2005. Comparative amounts have not been restated.

For the year ended 31 December 2005

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (a) Effect of adopting new HKFRS (continued)

The adoption of revised HKAS 40 has resulted in a change in the accounting policy for investment properties of which the changes in fair values are recorded in the income statement as part of other income and retrospective application is required. In prior years, the increases in fair value were credited to the investment properties revaluation reserves. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

The adoption of HKAS-Int 21 has resulted in a change in accounting policy relating to the measurement of deferred income tax liabilities arising from the revaluation of investment properties. Such deferred income tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use except for those under investment properties held on freehold land. In prior years, the carrying amount of all the investment properties were expected to be recovered through sale.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. With effect from 1 January 2005, the Group recognises the fair value of share options granted as an expense in the income statement over the vesting period with a corresponding increase being recognised in an option reserve. The related option reserve is transferred to share capital and share premium, together with the exercise price, when the option holder exercises its rights. In prior years, no amount was recognised when options were granted. If the option holders chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable. The Group has taken advantage of the transitional provisions in HKFRS 2 under which the new recognition and measurement policies have not been applied to all options granted on or before 7 November 2002 as all the outstanding options as at 31 December 2004 were granted before 7 November 2002. Accordingly, only the cost of new share options granted in 2005 will be expensed in the income statement (Note 2.23).

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for positive goodwill and negative goodwill and prospective application is required. Until 31 December 2004,

- positive goodwill was amortised on a straight line basis over its useful life of 15 years and was subject to impairment testing when there were indications of impairment; and
- negative goodwill was amortised over the weighted average useful life of 15 years of the non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred.

In accordance with the provisions of HKFRS 3 (Note 2.7):

- the Group ceased amortisation of positive goodwill from 1 January 2005;
- accumulated amortisation as at 31 December 2004 has been deducted from the cost of positive goodwill;
- from the year ending 31 December 2005 onwards, positive goodwill will be tested annually for impairment, as well as when there is indication of impairment.
- in accordance with the transitional provisions in HKFRS 3, all negative goodwill was derecognised at 1 January 2005 with a corresponding increase in retained earnings.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

For the year ended 31 December 2005

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (a) Effect of adopting new HKFRS (continued)

- (i) The adoption of HKAS 16, revised HKAS 17, HKAS 40 and HKAS-Int 21 resulted in a decrease in opening retained earnings and other reserves at 1 January 2004 by US\$355,022,000 and US\$611,845,000, respectively.

|   | <b>As at 31 December</b> |                          |
|---|--------------------------|--------------------------|
|   | <b>2005<br/>US\$'000</b> | <b>2004<br/>US\$'000</b> |
| Increase in property, plant and equipment                                     | 1,337,670                | 1,399,304                |
| Increase in leasehold land and land use rights                                | 371,129                  | 379,516                  |
| Decrease in investment properties   | 3,129,401                | 3,129,401                |
| Decrease in interest in associates  | 141,591                  | 136,990                  |
| Increase in deferred income tax assets  | 2,389                    | 2,389                    |
| Decrease in deferred income tax liabilities                                   | 200,671                  | 200,059                  |
| Decrease in investment properties revaluation reserve                         | 599,555                  | 579,732                  |
| Decrease in share of investment properties revaluation reserves in associates | 241,572                  | 225,309                  |
| Increase in exchange fluctuation reserve                                      | 36,698                   | 36,698                   |
| Decrease in minority interests  | 141,467                  | 136,281                  |
| Decrease in retained earnings   | 393,237                  | 380,499                  |

|  | <b>For the year ended<br/>31 December</b> |                          |
|--|---|--------------------------|
|  | <b>2005<br/>US\$'000</b>                  | <b>2004<br/>US\$'000</b> |
| Increase/(decrease) in other gains                     | 26,410                                    | (2,319)                  |
| Increase in other operating expenses                   | 70,021                                    | 50,345                   |
| Increase in share of profit of associates (net of tax) | 11,731                                    | 11,060                   |
| Decrease in deferred income tax                        | 15,219                                    | 14,067                   |
| Decrease in profit attributable to minority interests  | 3,923                                     | 2,060                    |
| Decrease in basic earnings per share (in US cents)     | 0.518                                     | 1.088                    |
| Decrease in diluted earnings per share (in US cents)   | 0.517                                     | 1.086                    |

- (ii) The adoption of HKFRS 2 resulted in:

|                               | <b>As at<br/>31 December<br/>2005<br/>US\$'000</b> |
|-------------------------------|--|
| Increase in other reserves    | 3,468  |
| Decrease in retained earnings | 3,468  |

For the year ended 31 December 2005

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (a) Effect of adopting new HKFRS (continued)

|  | <b>For the<br/>year ended<br/>31 December<br/>2005<br/>US\$'000</b> |
|--|---|
| Increase in other operating expenses                 | 3,468   |
| Decrease in basic earnings per share (in US cents)   | 0.141   |
| Decrease in diluted earnings per share (in US cents) | 0.141   |

There was no impact on opening retained earnings at 1 January 2004 and 1 January 2005 from the adoption of HKFRS 2.

- (iii) The adoption of HKAS 32 resulted in a decrease in retained earnings and an increase in other reserves as at 1 January 2005 by US\$2,491,000 and US\$20,075,000, respectively:

|   | <b>As at 31 December</b> |                          |
|---|--------------------------|--------------------------|
|   | <b>2005<br/>US\$'000</b> | <b>2004<br/>US\$'000</b> |
| Increase in convertible bonds reserve                         | 6,122                    | 20,075                   |
| Decrease in retained earnings                                 | 2,929                    | 2,491                    |
| Decrease in convertible bonds                                 | 4,885                    | 20,199                   |
| Decrease in accounts receivables,<br>prepayments and deposits | 639                      | 2,615                    |
| Increase in share capital                                     | 1,053                    | –                        |

### **For the year ended 31 December**

|   | <b>2005<br/>US\$'000</b> | <b>2004<br/>US\$'000</b> |
|---|--------------------------|--------------------------|
| Increase in finance costs                               | 438                      | 2,491                    |
| Decrease in basic earnings per share<br>(in US cents)   | 0.018                    | 0.106                    |
| Decrease in diluted earnings per share<br>(in US cents) | –                        | –                        |

- (iv) The adoption of HKFRS 3 and HKAS 38 resulted in an increase in opening retained earnings at 1 January 2005 by US\$184,471,000 and the details of the adjustments to the balance sheet at 31 December 2005 and profit and loss for the year ended 31 December 2005 are as follows:

|                               | <b>As at<br/>31 December<br/>2005<br/>US\$'000</b> |
|-------------------------------|--|
| Increase in intangible assets | 179,059  |
| Increase in retained earnings | 179,059  |

|  | <b>For the<br/>year ended<br/>31 December<br/>2005<br/>US\$'000</b> |
|--|---|
| Increase in other operating expenses                 | 5,412   |
| Decrease in basic earnings per share (in US cents)   | 0.220   |
| Decrease in diluted earnings per share (in US cents) | 0.220   |

There was no impact on opening retained earnings at 1 January 2004 from the adoption of HKFRS 3.

For the year ended 31 December 2005

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (a) Effect of adopting new HKFRS (continued)

- (v) The adoption of HKAS 39 resulted in a decrease in opening retained earnings at 1 January 2005 by US\$12,196,000 and the details of the adjustments to the balance sheet at 31 December 2005 and profit and loss for the year ended 31 December 2005 are as follows:

|  | <b>As at<br/>31 December<br/>2005<br/>US\$'000</b> |
|--|--|
| Decrease in other receivables                              | 883  |
| Decrease in accounts payable and accruals                  | 3,512  |
| Increase in derivative financial instruments (liabilities) | 1,531  |
| Increase in retained earnings                              | 1,098  |

|  | <b>For the<br/>year ended<br/>31 December<br/>2005<br/>US\$'000</b> |
|--|---|
| Increase in other gains – net                        | 3,657   |
| Decrease in finance costs                            | 9,637   |
| Increase in basic earnings per share (in US cents)   | 0.540   |
| Increase in diluted earnings per share (in US cents) | 0.539   |

The Group believes that the following Standards or Interpretations which will become effective for accounting periods commencing on or after 1 January 2006 will not apply to the Group or will not result in substantial changes to the Group's accounting policies.

|                     |  |
|---------------------|--|
| HKAS 19 (Amendment) | Actuarial Gains and Losses, Group Plans and Disclosures  |
| HKFRS 6             | Exploration for and Evaluation of Mineral Resources  |
| HKFRS-Int 3         | Emission Rights  |
| HKFRS-Int 4         | Determining whether an Arrangement contains a Lease  |
| HKFRS-Int 5         | Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds |

- (b) The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

### 2.1 Consolidation

The consolidated financial statements included the financial statements of the Company and all its subsidiaries made up to 31 December.

#### (a) Subsidiary

Subsidiaries are entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

For the year ended 31 December 2005

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Consolidation (continued)

#### (a) Subsidiary (continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

#### (b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2.7).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividend received and receivable.

### 2.2 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

In accordance with the Group's internal financial reporting the Group has determined that geographical segment be presented as the primary reporting format and business segment as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash, and mainly exclude intangible assets and investments in securities. Segment liabilities comprise operating liabilities and exclude items such as taxation and all borrowings. Capital expenditure comprises additions to fixed assets.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's principal subsidiaries are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in US dollars, which is the Company's functional and presentation currency.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as financial assets held for trading held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the exchange fluctuation reserve in the equity.

#### (c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### 2.4 Property, plant and equipment

Buildings comprise mainly hotel properties. All other property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation is calculated to write off the cost on a straight-line basis over the expected useful lives. The useful lives or principal annual rates used are:

|                                     |   |
|-------------------------------------|---|
| Hotel buildings and other buildings | Lower of underlying land lease term or 50 years |
| Furniture, fixtures and equipment   | 10% to 33 $\frac{1}{3}$ %                       |
| Motor vehicles                      | 25%   |
| Plant and machinery                 | 5% to 10%                                       |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

For the year ended 31 December 2005

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 Property, plant and equipment (continued)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

No depreciation is provided on freehold land for hotel properties and such land is stated at cost less accumulated impairment, if any.

### 2.5 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating lease or freehold and buildings.

Land held under operating leases are classified and accounted for as investment property without amortisation when the rest of the definition of investment property is met.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value reviewed annually by external professional valuers. Changes in fair values are recognised in the income statement.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

### 2.6 Leasehold land and land use rights

Prepaid leasehold land premiums or land use rights for hotel properties or for development of hotel properties are classified and accounted for as leasehold land and land use rights and are stated at cost and amortised over the period of the lease on a straight line basis to the income statement.

### 2.7 Intangible assets

#### (a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

#### (b) Trademarks and licences

Trademarks and licences are shown at historical cost. Trademarks and licences have a definite useful life and are carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 20 years.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.8 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, but are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

### 2.9 Investments

*From 1 January 2004 to 31 December 2004:*

The Group classified its investments in securities, other than subsidiaries and associates, as long-term investments and receivables and other investments.

#### (a) Long-term investments and receivables

Investments which were held for non-trading purpose were stated at cost less impairment, if any, at the balance sheet date.

#### (b) Other investments

Trading securities were carried at market closing price. At each balance sheet date, the net unrealised gains or losses arising from the changes in value of other investments were recognised in the income statement. Profits or losses on disposal of these investments, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the income statement as they arose.

*From 1 January 2005 onwards:*

The Group classifies its investments in the following categories: financial assets held for trading, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this classification at every reporting date.

#### (a) Financial assets held for trading

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

#### (b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 2.11).

For the year ended 31 December 2005

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.9 Investments (continued)

#### (c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date and are stated at cost less impairment as the fair value of these unlisted financial assets cannot be reliably measured

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at cost plus transaction costs for all financial assets. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets held for trading are subsequently carried at fair value based on current market closing prices with realised and unrealised gains and losses arising from changes in the fair value included in the income statement in the period in which they arise. Loans and receivables are carried at amortised cost using the effective interest method less impairment with changes in carrying value to be recognised in the income statement. Available-for-sale financial assets are stated at cost less impairment (which is charged to the income statement) as the fair value cannot be reliably measured.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of loans and receivables and available-for-sale financial assets, a significant or prolonged decline in the expected recoverable value of the asset below its cost is considered in determining whether the asset is impaired. If any such evidence exists, the carrying value is reduced to its estimated recoverable amount.

### 2.10 Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost, being cost of purchase, is determined on a weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expense.

### 2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

### 2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within bank loans in current liabilities on the balance sheet.

### 2.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### 2.15 Convertible bonds

Convertible bonds issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value which is determined using a market interest rate for equivalent non-convertible bonds and attributing to the equity component the difference between the proceeds from the issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the convertible bonds reserve until the bond is either converted (in which case it is transferred to share premium) or the bond is redeemed (in which case it is released directly to retained earnings).

### 2.16 Pre-operating expenditure

Pre-operating expenditure is charged to income statement in the year in which it is incurred.

### 2.17 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

### 2.18 Employee benefits

#### (i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

For the year ended 31 December 2005

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.18 Employee benefits (continued)

#### (ii) Pension obligations

The Group operates a number of defined benefit and defined contribution plans, most of the assets of which are generally held in separate trustee administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies, taking account of the recommendations of independent qualified actuaries for defined benefit plans.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions, whenever applicable.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

For defined benefit plans, pension costs are assessed using the project unit credit method: the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans at least every 3 years. The pension obligation is measured as the present value of the estimated future cash outflows. Actuarial gains and losses arising from funded plans are recognised over the average remaining service lives of employees. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

The Group's contributions to defined benefits pension plans are charged to the income statement in the period to which the contributions relate.

### 2.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of an amount can be made. Provisions are not recognised for future operating losses.

### 2.20 Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

Sales:

- (i) Hotel revenue from rooms rental, food and beverage sales and other ancillary services is recognised when the services are rendered.
- (ii) Revenue in respect of hotel management and related services is recognised when the services are rendered.
- (iii) Rental revenue from properties is recognised on a straight-line basis over the periods of the respective leases.

Other revenue:

- (iv) Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.
- (v) Dividend income from other investments is recognised when the right to receive payment is established.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.21 Operating leases (as the lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the leases.

### 2.22 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

### 2.23 Share-based compensation

The Group operates two equity-settled, share-based compensation plans. For options granted after 7 November 2002, the fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

### 2.24 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the income statement in the year in which they are incurred.

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Group Treasury under guidance of the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides principles for overall risk management and covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.

#### (a) Market risk

##### (i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group has investments in different foreign operations, whose net assets are exposed to foreign currency translation risk.

The Group has an economic hedge in terms of currency risk to the extent that all the properties in Hong Kong, Mainland China, Singapore and Malaysia derive their revenue (and most of the expenses associated therewith) in local currencies. In addition, a substantial portion of the hotels' room revenues in the Philippines, Thailand and Indonesia are priced in United States dollars. Revenues in Indonesia are also immediately converted into United States dollars upon realisation, to the maximum extent possible.

For the year ended 31 December 2005

### 3 FINANCIAL RISK MANAGEMENT (continued)

#### 3.1 Financial risk factors (continued)

##### (a) Market risk (continued)

###### (i) Foreign exchange risk (continued)

The Group attempts to align the currencies of its loan portfolio with the currency mix of the Group's investments and revenues in various countries. Given the general expectations about the strengthening of the Renminbi and in compliance with directives issued by the foreign exchange regulatory authorities, some subsidiaries in Mainland China have contracted bank loan facilities partly in Renminbi and partly in Hong Kong dollars. The Group has secured new corporate bank loans in dual-currencies (Hong Kong dollars/US dollars) to provide flexibility depending on the relative weakness of either currency. Moving forward, the Group plans to selectively increase the funding assistance provided to its subsidiaries in Mainland China in order to reduce their Renminbi borrowings.

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

###### (ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets held for trading and are stated at fair value through profit or loss. The Group is not exposed to commodity price risk.

##### (b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sale of rooms to wholesalers are made to customers with an appropriate credit history. Sales to retail customers are made via credit cards to a significant extent. The Group has policies that limit the amount of global credit exposure to any customer.

##### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

##### (d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash inflows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. Group policy is to maintain not less than 50% of its borrowings in fixed rate instruments. At the year end, 67% of borrowings were at fixed rates.

The Group manages its cash flow interest-rate risk by using floating-to-fixed interest-rate swaps. Such interest-rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rate. The Group closely monitors the movement of interest rate from time to time and enters into interest-rate swaps. Under the interest-rate swaps, the Group agrees with other parties to exchange, at monthly intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

For the year ended 31 December 2005

### 3 FINANCIAL RISK MANAGEMENT (continued)

#### 3.2 Accounting for interest rate swap contracts

The Group has sought to reduce its interest rate exposure by entering into interest rate swap contracts.

*From 1 January 2004 to 31 December 2004:*

Interest rate swap contracts, a kind of derivative financial instruments, are set up for the purpose of managing risk (since the Group's policy does not permit speculative transactions). The difference between contract rates to be received and paid is recorded in the income statement under financial income and expenses in accordance with the accrual method.

*From 1 January 2005 onwards:*

Interest rate swap contracts are initially recognised at fair value on the date a contract is entered into and are subsequently remeasured at their fair value.

The Group's interest rate swap contracts do not qualify for hedge accounting. Changes in the fair value of any contracts that do not qualify for hedge accounting are recognised immediately in the income statement.

#### 3.3 Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### 4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

##### (a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

##### (b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due in accordance with local tax practice and professional advice. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

##### (c) Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts or valuation carried out by independent firms of valuers annually. The Group's investment properties are stated at professional valuations at year end.

For the year ended 31 December 2005

#### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

##### 4.2 Critical judgements in applying the entity's accounting policies

###### **Distinction between investment properties and owner-occupied properties**

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgement.

#### 5 SALES AND SEGMENT INFORMATION

The Group owns and operates hotels and associated properties and provides hotel management and related services. Sales recognised during the year are as follows:

|   | 2005<br>US\$'000 | 2004<br>US\$'000 |
|---|------------------|------------------|
| Sales                                     |                  |                  |
| Hotel operation:                          |                  |                  |
| Room rentals                              | 430,897          | 364,219          |
| Food and beverage sales                   | 316,954          | 280,022          |
| Rendering of ancillary services           | 59,062           | 50,855           |
| Hotel management and related service fees | 16,444           | 12,351           |
| Property rentals                          | 18,646           | 18,076           |
|   | 842,003          | 725,523          |

#### Primary reporting format – geographical segments

The Group is managed on a worldwide basis in six main geographical areas:

|                 |   |
|-----------------|---|
| Hong Kong       | – hotel ownership, operation and management   |
| Mainland China  | – hotel ownership, operation and management<br>– ownership and leasing of office, commercial and serviced apartments                                    |
| The Philippines | – hotel ownership, operation and management   |
| Singapore       | – hotel ownership, operation and management<br>– ownership and leasing of office, commercial and serviced apartments                                    |
| Thailand        | – hotel ownership, operation and management<br>– ownership and leasing of office, commercial and serviced apartments                                    |
| Malaysia        | – hotel ownership, operation and management, golf club ownership and operation<br>– ownership and leasing of office, commercial and serviced apartments |
| Other countries | – hotel ownership, operation and management   |

#### Secondary reporting format – business segments

The Group is organised on a worldwide basis into three main business segments:

|                  |   |
|------------------|---|
| Hotel operation  | – ownership and operation of hotel business                           |
| Hotel management | – provision of hotel management and related services                  |
| Property rentals | – ownership and leasing of office, commercial and serviced apartments |

For the year ended 31 December 2005

## 5 SALES AND SEGMENT INFORMATION (continued)

Primary reporting format – geographical segments

### Segment income statement

For year ended 31 December 2005 (US\$ million)

|   | Hong Kong | The People's<br>Republic of China<br>Mainland<br>China | The<br>Philippines | Singapore | Thailand | Malaysia | Other | Elimination | Group   |
|---|-----------|--|--------------------|-----------|----------|----------|-------|-------------|---------|
| <b>Sales</b>  |           |  |                    |           |          |          |       |             |         |
| External sales  | 182.0     | 266.5  | 104.3              | 120.1     | 49.3     | 74.6     | 45.2  | –           | 842.0   |
| Inter-segment sales   | 5.5       | 12.1   | 6.1                | 3.0       | 2.7      | 2.2      | 1.1   | (32.7)      | –       |
| <b>Total</b>  | 187.5     | 278.6  | 110.4              | 123.1     | 52.0     | 76.8     | 46.3  | (32.7)      | 842.0   |
| <b>Result</b>   |           |  |                    |           |          |          |       |             |         |
| Segment results   | 9.0       | 50.6   | 18.5               | 32.3      | 19.0     | 13.1     | 15.8  | –           | 158.3   |
| Interest income   |           |  |                    |           |          |          |       |             | 4.9     |
| Dividend income   |           |  |                    |           |          |          |       |             | 1.0     |
| Net realised and unrealised gains<br>on financial assets held for trading |           |  |                    |           |          |          |       |             | 7.5     |
| Fair value gains on investment properties                                 |           |  |                    |           |          |          |       |             | 26.4    |
| Fair value gains on derivative<br>financial instruments                   |           |  |                    |           |          |          |       |             | 3.5     |
| Unallocated corporate expenses  |           |  |                    |           |          |          |       |             | (13.0)  |
| Loss on disposal of associates  |           |  |                    |           |          |          |       |             | (2.9)   |
| Gain on disposal of interest in subsidiaries                              |           |  |                    |           |          |          |       |             | 0.3     |
| Gain on disposal of a hotel   |           |  |                    |           |          |          |       |             | 2.4     |
| <b>Operating profit</b>   |           |  |                    |           |          |          |       |             | 188.4   |
| Finance costs   |           |  |                    |           |          |          |       |             | (32.9)  |
| Share of profit of associates   | –         | 59.2   | –                  | 3.9       | –        | 1.5      | (0.3) | –           | 64.3    |
| <b>Profit before income tax</b>   |           |  |                    |           |          |          |       |             | 219.8   |
| Depreciation of property,<br>plant and equipment                          | (13.1)    | (42.8)   | (17.0)             | (11.5)    | (7.5)    | (9.3)    | (3.3) | –           | (104.5) |
| Amortisation of leasehold<br>land and land use rights                     | (1.9)     | (5.3)  | –                  | (0.6)     | –        | (0.3)    | (0.3) | –           | (8.4)   |
| Capital expenditures for fixed assets                                     | 17.3      | 201.3  | 30.4               | 5.2       | 5.3      | 9.8      | 14.0  | –           | 283.3   |

For the year ended 31 December 2005

5 SALES AND SEGMENT INFORMATION (continued)  
 Primary reporting format – geographical segments (continued)  
**Segment balance sheet**  
**As at 31 December 2005 (US\$ million)**

|                          | Hong Kong | The People's<br>Republic of China<br>Mainland<br>China | The<br>Philippines | Singapore | Thailand | Malaysia | Other  | Elimination | Group            |
|--------------------------|-----------|--|--------------------|-----------|----------|----------|--------|-------------|------------------|
| Segment assets           | 291.1     | 1,362.7  | 413.3              | 634.1     | 167.0    | 336.6    | 114.1  | (16.3)      | 3,302.6          |
| Interest in associates   | –         | 669.7  | –                  | 62.7      | –        | 23.3     | 34.8   | –           | 790.5            |
| Unallocated assets       |           |  |                    |           |          |          |        |             | 83.3             |
| Intangible assets        |           |  |                    |           |          |          |        |             | 86.7             |
| <b>Total assets</b>      |           |  |                    |           |          |          |        |             | <b>4,263.1</b>   |
| Segment liabilities      | (63.4)    | (94.2)   | (26.4)             | (20.5)    | (10.7)   | (16.1)   | (17.9) | 16.3        | (232.9)          |
| Unallocated liabilities  |           |  |                    |           |          |          |        |             | (1,400.0)        |
| <b>Total liabilities</b> |           |  |                    |           |          |          |        |             | <b>(1,632.9)</b> |

For the year ended 31 December 2005

## 5 SALES AND SEGMENT INFORMATION (continued)

Primary reporting format – geographical segments (continued)

### Segment income statement

For the year ended 31 December 2004 (US\$ million)

|   | The People's<br>Republic of China |                   | The         | Singapore | Thailand | Malaysia | Other | Elimination | Group  |
|---|-----------------------------------|-------------------|-------------|-----------|----------|----------|-------|-------------|--------|
|   | Hong Kong                         | Mainland<br>China | Philippines |           |          |          |       |             |        |
| <b>Sales</b>  |                                   |                   |             |           |          |          |       |             |        |
| External sales  | 155.2                             | 219.2             | 88.4        | 102.1     | 46.9     | 82.7     | 31.0  | –           | 725.5  |
| Inter-segment sales   | 5.3                               | 10.4              | 4.8         | 2.5       | 2.1      | 2.4      | 0.8   | (28.3)      | –      |
| <b>Total</b>  | 160.5                             | 229.6             | 93.2        | 104.6     | 49.0     | 85.1     | 31.8  | (28.3)      | 725.5  |
| <b>Result</b>   |                                   |                   |             |           |          |          |       |             |        |
| Segment results   | 5.7                               | 49.7              | 13.5        | 25.3      | 17.1     | 5.6      | 5.4   | –           | 122.3  |
| Interest income   |                                   |                   |             |           |          |          |       |             | 4.7    |
| Dividend income   |                                   |                   |             |           |          |          |       |             | 1.4    |
| Net realised and unrealised gains<br>on financial assets held for trading |                                   |                   |             |           |          |          |       |             | 20.9   |
| Fair value losses on<br>investment properties                             |                                   |                   |             |           |          |          |       |             | (1.4)  |
| Unallocated corporate expenses  |                                   |                   |             |           |          |          |       |             | (9.8)  |
| Amortisation of negative goodwill   |                                   |                   |             |           |          |          |       |             | 5.5    |
| Loss on disposal of<br>interest in a subsidiary                           |                                   |                   |             |           |          |          |       |             | (0.9)  |
| <b>Operating profit</b>   |                                   |                   |             |           |          |          |       |             | 142.7  |
| Finance costs   |                                   |                   |             |           |          |          |       |             | (48.3) |
| Share of profit of associates   | –                                 | 35.0              | –           | 3.8       | –        | 2.9      | (0.7) | –           | 41.0   |
| <b>Profit before income tax</b>   |                                   |                   |             |           |          |          |       |             | 135.4  |
| Depreciation of property,<br>plant and equipment                          | (10.9)                            | (33.6)            | (15.1)      | (12.1)    | (7.1)    | (9.2)    | (2.9) | –           | (90.9) |
| Amortisation of leasehold<br>land and land use rights                     | (1.9)                             | (4.2)             | –           | (0.1)     | –        | (0.3)    | (0.3) | –           | (6.8)  |
| Capital expenditures for fixed assets                                     | 20.1                              | 169.3             | 14.2        | 5.7       | 6.0      | 4.3      | 11.0  | –           | 230.6  |

For the year ended 31 December 2005

5 SALES AND SEGMENT INFORMATION (continued)  
 Primary reporting format – geographical segments (continued)

**Segment balance sheet**

As at 31 December 2004 (US\$ million)

|                          | Hong Kong | The People's<br>Republic of China<br>Mainland<br>China | The<br>Philippines | Singapore | Thailand | Malaysia | Other  | Elimination | Group            |
|--------------------------|-----------|--|--------------------|-----------|----------|----------|--------|-------------|------------------|
| Segment assets           | 280.0     | 1,228.9  | 393.3              | 628.0     | 165.2    | 334.5    | 101.1  | (10.0)      | 3,121.0          |
| Interest in associates   | –         | 492.6  | –                  | 59.8      | –        | 39.0     | 35.0   | –           | 626.4            |
| Unallocated assets       |           |  |                    |           |          |          |        |             | 81.7             |
| Intangible assets        |           |  |                    |           |          |          |        |             | (109.0)          |
| <b>Total assets</b>      |           |  |                    |           |          |          |        |             | <u>3,720.1</u>   |
| Segment liabilities      | (55.5)    | (66.9)   | (20.2)             | (22.9)    | (9.9)    | (18.6)   | (18.5) | 10.0        | (202.5)          |
| Unallocated liabilities  |           |  |                    |           |          |          |        |             | <u>(1,352.2)</u> |
| <b>Total liabilities</b> |           |  |                    |           |          |          |        |             | <u>(1,554.7)</u> |

For the year ended 31 December 2005

## 5 SALES AND SEGMENT INFORMATION (continued)

Secondary reporting format – business segments

**For the year ended/as at 31 December 2005 (US\$ million)**

|                                    | Sales  | Segment results | Total assets | Capital expenditures |
|------------------------------------|--------|-----------------|--------------|----------------------|
| Hotel operation                    |        |                 |              |                      |
| – Room rentals                     | 430.9  |                 |              |                      |
| – Food and beverage sales          | 317.0  |                 |              |                      |
| – Renderings of ancillary services | 59.1   |                 |              |                      |
|                                    | 807.0  | 153.6           | 2,861.2      | 281.1                |
| Hotel management                   | 49.1   | (1.7)           | 38.9         | 2.1                  |
| Property rentals                   | 18.6   | 6.4             | 418.8        | 0.1                  |
| Elimination                        | (32.7) | –               | (16.3)       | –                    |
|                                    | 842.0  | 158.3           | 3,302.6      | 283.3                |
| Interest in associates             |        |                 | 790.5        | –                    |
| Unallocated assets                 |        |                 | 83.3         | –                    |
| Intangible assets                  |        |                 | 86.7         | –                    |
| <b>Total</b>                       |        |                 | 4,263.1      | 283.3                |

For the year ended/as at 31 December 2004 (US\$ million)

|                                    | Sales  | Segment results | Total assets | Capital expenditures |
|------------------------------------|--------|-----------------|--------------|----------------------|
| Hotel operation                    |        |                 |              |                      |
| – Room rentals                     | 364.2  |                 |              |                      |
| – Food and beverage sales          | 280.0  |                 |              |                      |
| – Renderings of ancillary services | 50.9   |                 |              |                      |
|                                    | 695.1  | 112.0           | 2,686.3      | 227.6                |
| Hotel management                   | 40.6   | 3.4             | 28.1         | 2.3                  |
| Property rentals                   | 18.1   | 6.9             | 416.6        | 0.7                  |
| Elimination                        | (28.3) | –               | (10.0)       | –                    |
|                                    | 725.5  | 122.3           | 3,121.0      | 230.6                |
| Interest in associates             |        |                 | 626.4        | –                    |
| Unallocated assets                 |        |                 | 81.7         | –                    |
| Intangible assets                  |        |                 | (109.0)      | –                    |
| <b>Total</b>                       |        |                 | 3,720.1      | 230.6                |

For the year ended 31 December 2005

**6 PROPERTY, PLANT AND EQUIPMENT**

| <b>Group</b>                                | <b>Freehold<br/>land and<br/>buildings<br/>US\$'000</b> | <b>Vehicles &amp;<br/>machinery<br/>US\$'000</b> | <b>Furniture,<br/>fixtures &amp;<br/>equipment<br/>US\$'000</b> | <b>Properties<br/>under<br/>development<br/>US\$'000</b> | <b>Total<br/>US\$'000</b> |
|---|---|--|---|--|---------------------------|
| At 1 January 2004,<br>as restated           |   |  |   |  |                           |
| Cost  | 2,153,194   | 121,368  | 388,737   | 123,752  | 2,787,051                 |
| Accumulated depreciation                    | (513,921)   | (74,936)   | (276,352)   | –  | (865,209)                 |
| <b>Net book amount</b>                      | <b>1,639,273</b>  | <b>46,432</b>                                    | <b>112,385</b>  | <b>123,752</b>   | <b>1,921,842</b>          |
| Year ended 31 December 2004,<br>as restated |   |  |   |  |                           |
| Opening net book amount                     | 1,639,273   | 46,432   | 112,385   | 123,752  | 1,921,842                 |
| Exchange differences                        | 15,095  | 198  | 177   | 1,260  | 16,730                    |
| Transfer                                    | 71,532  | 3,887  | 16,421  | (91,840)   | –                         |
| Additions                                   | 19,355  | 6,215  | 33,313  | 101,782  | 160,665                   |
| Disposals                                   | (10,936)  | (790)  | (3,517)   | (6,606)  | (21,849)                  |
| Depreciation                                | (53,613)  | (10,854)   | (26,507)  | –  | (90,974)                  |
| <b>Closing net book amount</b>              | <b>1,680,706</b>  | <b>45,088</b>                                    | <b>132,272</b>  | <b>128,348</b>   | <b>1,986,414</b>          |
| At 31 December 2004,<br>as restated         |   |  |   |  |                           |
| Cost  | 2,244,331   | 126,695  | 391,300   | 128,348  | 2,890,674                 |
| Accumulated depreciation                    | (563,625)   | (81,607)   | (259,028)   | –  | (904,260)                 |
| <b>Net book amount</b>                      | <b>1,680,706</b>  | <b>45,088</b>                                    | <b>132,272</b>  | <b>128,348</b>   | <b>1,986,414</b>          |

| <b>Group</b>                       | <b>Freehold<br/>land and<br/>buildings<br/>US\$'000</b> | <b>Vehicles &amp;<br/>machinery<br/>US\$'000</b> | <b>Furniture,<br/>fixtures &amp;<br/>equipment<br/>US\$'000</b> | <b>Properties<br/>under<br/>development<br/>US\$'000</b> | <b>Total<br/>US\$'000</b> |
|------------------------------------|---|--|---|--|---------------------------|
| <b>Year ended 31 December 2005</b> |   |  |   |  |                           |
| Opening net book amount            | 1,680,706   | 45,088   | 132,272   | 128,348  | 1,986,414                 |
| Exchange differences               | 892   | (910)  | 740   | 2,149  | 2,871                     |
| Additions                          | 101,525   | 22,286   | 48,702  | 107,107  | 279,620                   |
| Disposals                          | (4,763)   | (738)  | (2,753)   | (603)  | (8,857)                   |
| Transfer                           | 55,918  | 4,511  | 16,698  | (77,127)   | –                         |
| Depreciation                       | (58,569)  | (16,124)   | (29,952)  | –  | (104,645)                 |
| <b>Closing net book amount</b>     | <b>1,775,709</b>  | <b>54,113</b>                                    | <b>165,707</b>  | <b>159,874</b>   | <b>2,155,403</b>          |
| <b>At 31 December 2005</b>         |   |  |   |  |                           |
| Cost                               | 2,395,964   | 140,349  | 439,513   | 159,874  | 3,135,700                 |
| Accumulated depreciation           | (620,255)   | (86,236)   | (273,806)   | –  | (980,297)                 |
| <b>Net book amount</b>             | <b>1,775,709</b>  | <b>54,113</b>                                    | <b>165,707</b>  | <b>159,874</b>   | <b>2,155,403</b>          |

- (a) All depreciation expenses (net of amount capitalised) in 2005 and 2004 have been included as part of the other operating expenses.
- (b) Banking borrowings are secured on certain vehicles with closing net book amount of US\$93,000 (2004: US\$112,000) (Note 19).
- (c) Buildings comprise mainly hotel properties. Details of the hotel properties of the Company's subsidiaries are summarised in note 39(a).
- (d) Properties under development included construction work in progress in respect of the renovation of certain hotel properties.

For the year ended 31 December 2005

## 6 PROPERTY, PLANT AND EQUIPMENT (continued)

(e) Details of movements in property, plant and equipment of the Company are as follows:

|                                    | Furniture,<br>fitting &<br>equipment<br>US\$'000 | Motor<br>vehicles<br>US\$'000 | Total<br>US\$'000 |
|------------------------------------|--|-------------------------------|-------------------|
| <b>At 1 January 2004</b>           |  |                               |                   |
| Cost                               | 794  | 221                           | 1,015             |
| Accumulated depreciation           | (748)  | (157)                         | (905)             |
| Net book amount                    | 46   | 64                            | 110               |
| <b>Year ended 31 December 2004</b> |  |                               |                   |
| Opening net book amount            | 46   | 64                            | 110               |
| Additions                          | 14   | –                             | 14                |
| Depreciation                       | (22)   | (27)                          | (49)              |
| Closing net book amount            | 38   | 37                            | 75                |
| <b>At 31 December 2004</b>         |  |                               |                   |
| Cost                               | 808  | 221                           | 1,029             |
| Accumulated depreciation           | (770)  | (184)                         | (954)             |
| Net book amount                    | 38   | 37                            | 75                |
| <b>Year ended 31 December 2005</b> |  |                               |                   |
| Opening net book amount            | 38   | 37                            | 75                |
| Additions                          | 26   | –                             | 26                |
| Depreciation                       | (24)   | (27)                          | (51)              |
| Closing net book amount            | 40   | 10                            | 50                |
| <b>At 31 December 2005</b>         |  |                               |                   |
| Cost                               | 834  | 221                           | 1,055             |
| Accumulated depreciation           | (794)  | (211)                         | (1,005)           |
| Net book amount                    | 40   | 10                            | 50                |

## 7 INVESTMENT PROPERTIES

|   | 2005<br>US\$'000 | 2004<br>US\$'000 |
|---|------------------|------------------|
| At 1 January, as restated   | 407,291          | 399,846          |
| Exchange differences  | (1,933)          | 8,058            |
| Additions   | 114              | 838              |
| Disposal through selling of partial interest<br>in a subsidiary (Note 34) | (78,319)         | –                |
| Other disposals   | (404)            | (58)             |
| Fair value gains/(losses)<br>(included in other gains – net) (Note 26)    | 26,410           | (1,393)          |
| At 31 December  | 353,159          | 407,291          |

(a) The investment properties were revalued at 31 December 2005 by independent professionally qualified valuers on the basis of their market value as a fully operational entity for existing use.

(b) The fair values of investment properties comprised:

|                                    | 2005<br>US\$'000 | 2004<br>US\$'000 |
|------------------------------------|------------------|------------------|
| <b>Outside Hong Kong, held on:</b> |                  |                  |
| Freehold                           | 261,502          | 258,798          |
| Leases of between 10 to 50 years   | 91,657           | 148,493          |
|                                    | 353,159          | 407,291          |

(c) Details of investment properties of the Company's subsidiaries are summarised in note 40(a).

For the year ended 31 December 2005

**8 LEASEHOLD LAND AND LAND USE RIGHTS**

|   | <b>2005<br/>US\$'000</b> | <b>2004<br/>US\$'000</b> |
|---|--------------------------|--------------------------|
| At 1 January                                    |                          |                          |
| Cost  | 447,816                  | 378,205                  |
| Accumulated amortisation                        | (68,300)                 | (61,449)                 |
| Net book amount                                 | 379,516                  | 316,756                  |
| Opening net book amount                         | 379,516                  | 316,756                  |
| Exchange differences                            | 4,228                    | 483                      |
| Additions                                       | 3,585                    | 69,102                   |
| Disposal  | (3,799)                  | –                        |
| Amortisation of prepaid operating lease payment | (8,387)                  | (6,825)                  |
| Closing net book value                          | 375,143                  | 379,516                  |
| At 31 December                                  |                          |                          |
| Cost  | 451,681                  | 447,816                  |
| Accumulated depreciation                        | (76,538)                 | (68,300)                 |
| Net book amount                                 | 375,143                  | 379,516                  |

All amortisation expenses in 2005 and 2004 have been included as part of the other operating expenses.

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

|                                  | <b>2005<br/>US\$'000</b> | <b>2004<br/>US\$'000</b> |
|----------------------------------|--------------------------|--------------------------|
| In Hong Kong held on:            |                          |                          |
| Leases of between 10 to 50 years | 87,205                   | 88,570                   |
| Outside Hong Kong, held on:      |                          |                          |
| Leases of over 50 years          | 79,995                   | 132,363                  |
| Leases of between 10 to 50 years | 207,943                  | 158,583                  |
|                                  | 375,143                  | 379,516                  |

For the year ended 31 December 2005

## 9 INTANGIBLE ASSETS

|  | (Negative<br>Goodwill)<br>US\$'000 | Goodwill<br>US\$'000 | Trademark<br>& licences<br>US\$'000 | Total<br>US\$'000 |
|--|------------------------------------|----------------------|-------------------------------------|-------------------|
| At 1 January 2004  |                                    |                      |                                     |                   |
| Cost   | (261,394)                          | 161,624              | –                                   | (99,770)          |
| Accumulated amortisation                                     | 58,930                             | (75,425)             | –                                   | (16,495)          |
| Net book amount  | (202,464)                          | 86,199               | –                                   | (116,265)         |
| Year ended 31 December 2004                                  |                                    |                      |                                     |                   |
| Opening net book amount                                      | (202,464)                          | 86,199               | –                                   | (116,265)         |
| Exchange differences   | (105)                              | –                    | –                                   | (105)             |
| Additions  | 522                                | –                    | –                                   | 522               |
| Release upon disposal of<br>partial interest in a subsidiary | 1,295                              | –                    | –                                   | 1,295             |
| Amortisation expenses  | 16,281                             | (10,775)             | –                                   | 5,506             |
| Closing net book amount                                      | (184,471)                          | 75,424               | –                                   | (109,047)         |
| At 31 December 2004  |                                    |                      |                                     |                   |
| Cost   | (259,083)                          | 161,624              | –                                   | (97,459)          |
| Accumulated amortisation                                     | 74,612                             | (86,200)             | –                                   | (11,588)          |
| Net book amount  | (184,471)                          | 75,424               | –                                   | (109,047)         |
| <b>Year ended 31 December 2005</b>                           |                                    |                      |                                     |                   |
| Opening net book amount                                      | (184,471)                          | 75,424               | –                                   | (109,047)         |
| Opening adjustment on<br>adoption of HKAS 38                 | 184,471                            | –                    | –                                   | 184,471           |
| Additions  | –                                  | 1,393                | 10,000                              | 11,393            |
| Amortisation expenses  | –                                  | –                    | (125)                               | (125)             |
| Closing net book amount                                      | –                                  | 76,817               | 9,875                               | 86,692            |
| <b>At 31 December 2005</b>                                   |                                    |                      |                                     |                   |
| Cost   | –                                  | 76,817               | 10,000                              | 86,817            |
| Accumulated amortisation                                     | –                                  | –                    | (125)                               | (125)             |
| Net book amount  | –                                  | 76,817               | 9,875                               | 86,692            |

The principal component of goodwill represented the excess of cost of acquisition of the hotel management group, SLIM International Limited, over the fair value of the identified net assets acquired. Due to the synergies of the combination of the hotel operation and hotel management sub-groups, the goodwill impairment assessment is based on the future cashflows generated from these sub-groups. In view of the overall performance of the Group, provision for impairment losses is not considered necessary.

## 10 INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES

|                      | 2005<br>US\$'000 | 2004<br>US\$'000 |
|----------------------|------------------|------------------|
| Company              |                  |                  |
| Investments, at cost |                  |                  |
| Unlisted shares      | 1,698,370        | 1,698,358        |
| Equity loans         | 554,398          | 582,651          |
|                      | 2,252,768        | 2,281,009        |

Equity loans are unsecured, interest free with no fixed repayment terms.

### (a) Amounts due from subsidiaries

|             | 2005<br>US\$'000 | 2004<br>US\$'000 |
|-------------|------------------|------------------|
| Non-current | 70,875           | 3,120            |
| Current     | 328,810          | 201,204          |
|             | 399,685          | 204,324          |

For the year ended 31 December 2005

**10 INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES**  
(continued)

## (a) Amounts due from subsidiaries (continued)

Non-current balance comprised:

|  | <b>2005</b>     | <b>2004</b>     |
|--|-----------------|-----------------|
|  | <b>US\$'000</b> | <b>US\$'000</b> |
| Interest bearing at  |                 |                 |
| – HIBOR plus 1% per annum effective<br>1 January 2006 with no fixed<br>repayment terms | 70,875          | –               |
| – HIBOR plus 1% per annum with<br>fixed repayment term                                 | –               | 3,120           |
|  | 70,875          | 3,120           |

Current balance comprised:

|  | <b>2005</b>     | <b>2004</b>     |
|--|-----------------|-----------------|
|  | <b>US\$'000</b> | <b>US\$'000</b> |
| Interest bearing at                                    |                 |                 |
| – HIBOR plus 1% per annum with<br>fixed repayment term | 3,120           | 6,240           |
| – 4% per annum repayable on demand                     | –               | 640             |
| Interest free repayable on demand                      | 325,690         | 194,324         |
|  | 328,810         | 201,204         |

Amounts due from subsidiaries are unsecured.

(b) Amounts due to subsidiaries as at 31 December 2005 and 2004 are unsecured, interest-free and repayable on demand.

(c) Details of principal subsidiaries are set out in note 38(a).

**11 INTEREST IN ASSOCIATES AND DUE FROM ASSOCIATES**

|   | <b>2005</b>     | <b>2004</b>     |
|---|-----------------|-----------------|
|   | <b>US\$'000</b> | <b>US\$'000</b> |
| Interest in associates                                    |                 |                 |
| At 1 January, as restated                                 | 517,948         | 486,155         |
| Share of associates' results                              |                 |                 |
| – profit before taxation                                  | 95,361          | 63,413          |
| – taxation  | (31,044)        | (22,384)        |
|   | 64,317          | 41,029          |
| Exchange difference                                       | 803             | 3,188           |
| Acquisition of associates                                 | 42,388          | –               |
| Dividend declared by associates                           | (37,153)        | (12,424)        |
| Disposal of partial interest<br>in a subsidiary (Note 34) | 36,860          | –               |
| Disposal of interest in associates                        | (17,266)        | –               |
| Investment in associates under equity method              | 607,897         | 517,948         |
| Equity loans (a)  | 128,804         | 52,799          |
| Other long term shareholder loans (b)                     | 53,765          | 55,687          |
|   | 790,466         | 626,434         |

For the year ended 31 December 2005

## 11 INTEREST IN ASSOCIATES AND DUE FROM ASSOCIATES (continued)

Notes:

- (a) Equity loans are unsecured, interest-free and with no fixed repayment terms.
- (b) Other long term shareholder loans are interest bearing at

|                               | 2005<br>US\$'000 | 2004<br>US\$'000 |
|-------------------------------|------------------|------------------|
| – HIBOR plus 2% per annum     | 9,769            | 11,123           |
| – SIBOR plus 0.217% per annum | 11,983           | –                |
| – SIBOR plus 0.55% per annum  | –                | 11,983           |
| – 1.25% per annum             | 32,013           | 32,581           |
|                               | 53,765           | 55,687           |

Other long term shareholder loans are unsecured and with no fixed repayment terms except for a loan to an associate of US\$4,110,000 (2004: nil) which will be wholly repayable by 31 December 2015.

- (c) Due from associates are unsecured, interest free and repayable within one year.

- (d) The Group's interest in its associates, all of which are unlisted, pursuant to HKAS 28 "Investments in Associates", after making appropriate adjustments to conform with the Group's accounting policies, were as follows:

| Name                          | Paid up capital<br>US\$'000 | Country of incorporation    | Assets<br>US\$'000 | Liabilities<br>US\$'000 | Revenues<br>US\$'000 | Profit/<br>(loss)<br>US\$'000 | %<br>interest held |
|-------------------------------|-----------------------------|-----------------------------|--------------------|-------------------------|----------------------|-------------------------------|--------------------|
| <b>2005</b>                   |                             |                             |                    |                         |                      |                               |                    |
| China World Trade Center Ltd. | 240,000                     | The People's Republic China | 764,909            | 329,515                 | 95,735               | 39,815                        | 50                 |
| Others                        | –                           |                             | 486,794            | 131,722                 | 106,223              | 24,502                        | –                  |
|                               |                             |                             | 1,251,703          | 461,237                 | 201,958              | 64,317                        |                    |
| <b>2004</b>                   |                             |                             |                    |                         |                      |                               |                    |
| China World Trade Center Ltd. | 240,000                     | The People's Republic China | 659,301            | 310,131                 | 81,778               | 19,964                        | 50                 |
| Others                        | –                           |                             | 425,622            | 148,358                 | 97,206               | 21,065                        | –                  |
|                               |                             |                             | 1,084,923          | 458,489                 | 178,984              | 41,029                        |                    |

## 12 AVAILABLE-FOR-SALE FINANCIAL ASSETS

|                                   | 2005<br>US\$'000 | 2004<br>US\$'000 |
|-----------------------------------|------------------|------------------|
| Equity securities:                |                  |                  |
| Overseas unlisted shares, at cost | 1,916            | 1,916            |
| – Exchange differences            | (175)            | (101)            |
| – Provision for impairment losses | (319)            | (245)            |
|                                   | 1,422            | 1,570            |

For the year ended 31 December 2005

### 13 OTHER RECEIVABLES

|  | 2005<br>US\$'000 | 2004<br>US\$'000 |
|--|------------------|------------------|
| Loan to an investee company (note (a)) | –                | 140              |
| Loans to a managed hotel (note (b))    | 3,522            | 4,678            |
|  | 3,522            | 4,818            |

Notes:

- (a) The loan is unsecured, interest-free and with no fixed repayment terms.
- (b) The loans were granted to a managed hotel in Australia owned by an independent third party under the provision of the hotel management agreement. The loans are secured by a second mortgage over that hotel property and wholly repayable by 2012 according to a fixed repayment schedule. These loans are interest-free except for a fixed amount of A\$2,000,000 (equivalent US\$1,468,000) which is interest bearing at LIBOR plus 1% per annum.

The effective interest rate applied to calculate the fair value upon initial recognition of the interest free portion is 5.74% per annum.

### 14 ACCOUNTS RECEIVABLES, PREPAYMENTS AND DEPOSITS

|   | 2005<br>US\$'000 | 2004<br>US\$'000 |
|---|------------------|------------------|
| Trade receivables   | 43,294           | 37,732           |
| Prepayments and deposits  | 30,579           | 16,910           |
| Account receivables   | 17,801           | 20,868           |
| Consideration receivables from disposed of partial interest in a subsidiary (Note 34) | 39,488           | –                |
|   | 131,162          | 75,510           |

- (a) The fair value of the trade and other receivables are not materially different from their carrying value.
- (b) A significant part of the Group's sales are by credit cards or against payment of deposits. The remaining amounts are with general credit term of 30 days. The Group has a defined credit policy. The ageing analysis of the trade receivables were as follows:

|               | 2005<br>US\$'000 | 2004<br>US\$'000 |
|---------------|------------------|------------------|
| 0 – 3 months  | 40,755           | 35,013           |
| 4 – 6 months  | 1,495            | 1,418            |
| Over 6 months | 1,044            | 1,301            |
|               | 43,294           | 37,732           |

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, internationally dispersed.

For the year ended 31 December 2005

## 15 FINANCIAL ASSETS HELD FOR TRADING

|                                    | 2005<br>US\$'000 | 2004<br>US\$'000 |
|------------------------------------|------------------|------------------|
| Equity securities, at market value |                  |                  |
| Shares listed in Hong Kong         | 35,829           | 33,143           |
| Shares listed outside Hong Kong    | 1,941            | 3,923            |
|                                    | 37,770           | 37,066           |

Equity securities listed in Hong Kong included 11,805,055 (31 December 2004: 11,805,055) ordinary shares in the Company ("such SA shares") with a carrying value of US\$19,726,000 (31 December 2004: US\$16,875,000) held by Shangri-La Hotel Public Company Limited, Thailand ("SHPCL"). Such SA shares, representing approximately 0.5% (31 December 2004: 0.5%) of the issued share capital of the Company as at 31 December 2005, were held by SHPCL before the Company acquired the controlling interests in SHPCL in late 1999. The Company has undertaken, subject to market conditions, to use its reasonable endeavours to procure SHPCL to dispose of all such SA shares to independent parties. In view of the temporary nature of this holding in such SA shares, they have been classified as financial assets held for trading in these financial statements.

## 16 CASH AND CASH EQUIVALENTS

|                          | Group            |                  | Company          |                  |
|--------------------------|------------------|------------------|------------------|------------------|
|                          | 2005<br>US\$'000 | 2004<br>US\$'000 | 2005<br>US\$'000 | 2004<br>US\$'000 |
| Cash at bank and in hand | 125,522          | 89,362           | 292              | 5,022            |
| Short-term bank deposits | 150,552          | 97,512           | 15,816           | 19,000           |
|                          | 276,074          | 186,874          | 16,108           | 24,022           |

The effective interest rate on short-term bank deposits was 3.2% (2004: 1.5%); these deposits have an average maturity of 30 days.

Cash and bank overdrafts include the following for the purposes of the cash flow statement:

|                           | 2005<br>US\$'000 | 2004<br>US\$'000 | 2005<br>US\$'000 | 2004<br>US\$'000 |
|---------------------------|------------------|------------------|------------------|------------------|
| Cash and cash equivalents | 276,074          | 186,874          | 16,108           | 24,022           |
| Bank overdrafts (Note 19) | (9,089)          | (147)            | –                | –                |
|                           | 266,985          | 186,727          | 16,108           | 24,022           |

For the year ended 31 December 2005

## 17 SHARE CAPITAL

|   | No. of<br>shares<br>( <sup>'000</sup> ) | Amount                                     |  | Total<br>US\$ <sup>'000</sup> |
|---|---|--|--|-------------------------------|
|   |   | Ordinary<br>shares<br>US\$ <sup>'000</sup> | Share<br>premium<br>US\$ <sup>'000</sup> |                               |
| <b>Authorised</b>   |   |  |  |                               |
| <b>– Ordinary shares of HK\$1 each</b>                          |   |  |  |                               |
| <b>At 31 December 2004 and 31 December 2005</b>                 | 5,000,000                               | 646,496                                    | –  | 646,496                       |
| <b>Issued and fully paid</b>                                    |   |  |  |                               |
| <b>– Ordinary shares of HK\$1 each</b>                          |   |  |  |                               |
| At 1 January 2005   | 2,404,292                               | 310,588                                    | 719,011                                  | 1,029,599                     |
| Allotment of shares upon exercise of share options (note (a))   | 5,929                                   | 760  | 5,131                                    | 5,891                         |
| Issue of shares upon conversion of convertible bonds (note (b)) | 117,218                                 | 15,029                                     | 130,598                                  | 145,627                       |
| <b>At 31 December 2005</b>                                      | <b>2,527,439</b>                        | <b>326,377</b>                             | <b>854,740</b>                           | <b>1,181,117</b>              |
| At 1 January 2004   | 2,181,329                               | 282,003                                    | 533,237                                  | 815,240                       |
| Issue of shares upon share placement (note (c))                 | 183,832                                 | 23,568                                     | 150,542                                  | 174,110                       |
| Allotment of shares upon exercise of share options (note (a))   | 22,754                                  | 2,917                                      | 19,278                                   | 22,195                        |
| Issue of scrip dividend shares (note (d))                       | 16,377                                  | 2,100                                      | 15,954                                   | 18,054                        |
| At 31 December 2004   | 2,404,292                               | 310,588                                    | 719,011                                  | 1,029,599                     |

- (a) The following option shares at various exercise prices granted to option holders of the Company under the Executive Option Scheme and the New Option Scheme were exercised:

|  | Number of option shares issued     |                                    |                                    |                                    | Total<br>consideration<br>US\$ <sup>'000</sup> |
|--|------------------------------------|------------------------------------|------------------------------------|------------------------------------|--|
|  | At HK\$8.26<br>per option<br>share | At HK\$8.82<br>per option<br>share | At HK\$8.18<br>per option<br>share | At HK\$6.81<br>per option<br>share |  |
| <b>In year 2005</b>                        |                                    |                                    |                                    |                                    |  |
| January                                    | 232,224                            | 204,439                            | 203,763                            | 1,284,000                          | 1,813  |
| February                                   | –                                  | 163,821                            | –                                  | 380,000                            | 517  |
| March                                      | 127,084                            | 96,911                             | –                                  | 152,000                            | 377  |
| April                                      | –                                  | 96,911                             | –                                  | 398,000                            | 457  |
| May  | 800,000                            | –                                  | –                                  | –                                  | 847  |
| June                                       | 180,000                            | –                                  | 67,921                             | 113,000                            | 361  |
| July                                       | 290,280                            | 387,644                            | –                                  | 150,000                            | 877  |
| August                                     | 233,196                            | 77,528                             | –                                  | –                                  | 335  |
| September                                  | 290,280                            | –                                  | –                                  | –                                  | 307  |
| <b>For the year ended 31 December 2005</b> | <b>2,153,064</b>                   | <b>1,027,254</b>                   | <b>271,684</b>                     | <b>2,477,000</b>                   | <b>5,891</b>                                   |
| In year 2004                               |                                    |                                    |                                    |                                    |  |
| May  | –                                  | –                                  | –                                  | 100,000                            | 87   |
| October                                    | –                                  | –                                  | 97,030                             | 3,750,000                          | 3,376  |
| November                                   | 1,992,654                          | 969,108                            | 1,736,837                          | 6,327,000                          | 10,551   |
| December                                   | 4,011,010                          | 1,881,824                          | 892,676                            | 996,000                            | 8,181  |
| For the year ended 31 December 2004        | 6,003,664                          | 2,850,932                          | 2,726,543                          | 11,173,000                         | 22,195   |

The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$1 1.68 (2004: HK\$9.59).

For the year ended 31 December 2005

## 17 SHARE CAPITAL (continued)

- (b) During the year, the following convertible bonds issued by a wholly owned subsidiary of the Company (Note 20) have been converted by the bondholders at a conversion price of HK\$9.25 per ordinary share of the Company and the following ordinary shares have been issued:

| Issue date of ordinary shares | Face value of convertible bonds<br>US\$'000 | Number of new ordinary shares issued |
|-------------------------------|---|--------------------------------------|
| February 2005                 | 100   | 84,324                               |
| June 2005                     | 37,743                                      | 31,826,521                           |
| July 2005                     | 45,100                                      | 38,030,266                           |
| August 2005                   | 54,365                                      | 45,842,906                           |
| September 2005                | 1,700                                       | 1,433,512                            |
|                               | 139,008                                     | 117,217,529                          |

- (c) In February 2004, the Company under an arrangement involving placement of existing shares and subscription top-up for new shares issued 183,832,000 new shares at HK\$7.4 per share to certain related companies. The associated issuing expenses were US\$295,000. The net proceeds from such issue were approximately HK\$1,358 million (US\$174.1 million).

- (d) The Company offered to its shareholders a scrip dividend alternative under which the shareholders could elect to receive ordinary shares of HK\$1 each in lieu of a cash dividend during the following dividend declaration and ordinary shares were issued under these schemes:

|  | Number of new ordinary shares issued | Issue price per ordinary share | Issue date      |
|--|--------------------------------------|--------------------------------|-----------------|
| Interim dividend for the year ended 31 December 2004 | 15,809,483                           | HK\$8.63                       | 7 December 2004 |
| Final dividend for the year ended 31 December 2003   | 567,268                              | HK\$7.73                       | 28 July 2004    |
|  | 16,376,751                           |                                |                 |

### Share options

Share options are granted to directors and to key employees. The exercise price of the granted options is equal to/higher than the closing price of the shares on the date of the grant. Options are conditional on the directors and employees completing one year's service (the vesting period). The options are exercisable starting one year from the grant date and the options have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The Company has two share option schemes: the Executive Option Scheme and the New Option Scheme.

For the year ended 31 December 2005

## 17 SHARE CAPITAL (continued)

### Share options (continued)

Movements in the number of outstanding option shares and their related weighted average exercise prices are as follows:

|                       | For the year ended<br>31 December 2005                         |                               | For the year ended<br>31 December 2004                         |                               |
|-----------------------|--|-------------------------------|--|-------------------------------|
|                       | Average<br>exercise<br>price<br>in HK\$<br>per option<br>share | Number<br>of option<br>shares | Average<br>exercise<br>price<br>in HK\$<br>per option<br>share | Number<br>of option<br>shares |
| <b>At 1 January</b>   | 8.00   | 17,312,433                    | 7.78   | 41,127,845                    |
| Granted               | 11.60  | 18,150,000                    | –  | –                             |
| Exercised             | 7.75   | (5,929,002)                   | 7.61   | (22,754,139)                  |
| Lapsed                | 10.32  | (509,555)                     | 7.90   | (1,061,273)                   |
| <b>At 31 December</b> | 10.26  | 29,023,876                    | 8.00   | 17,312,433                    |

Outstanding option shares at the end of the year have the following expiry dates and exercise prices:

| Expiry date                    | Exercise price<br>in HK\$ per<br>option share | Number of option shares as at |                     |
|--------------------------------|---|-------------------------------|---------------------|
|                                |   | 31 December<br>2005           | 31 December<br>2004 |
| <b>Executive Option Scheme</b> |   |                               |                     |
| 31 December 2004               | 8.82  | –                             | 104,555             |
| 30 April 2008                  | 8.26  | 3,686,712                     | 5,839,776           |
| 14 January 2010                | 8.82  | 3,682,900                     | 4,710,154           |
| 14 January 2011                | 8.18  | 1,494,264                     | 1,765,948           |
|                                |   | 8,863,876                     | 12,420,433          |
| <b>New Option Scheme</b>       |   |                               |                     |
| 22 May 2005                    | 6.81  | –                             | 75,000              |
| 28 May 2012                    | 6.81  | 2,340,000                     | 4,817,000           |
| 27 April 2015                  | 11.60   | 17,820,000                    | –                   |
|                                |   | 20,160,000                    | 4,892,000           |

The fair value of each option granted during the year ended 31 December 2005 determined using the Black-Scholes valuation model was HK\$3.0 (year ended 31 December 2004: nil). The significant inputs into the model were share price of HK\$11.60 at the grant date, exercise price shown above, standard deviation of expected share price returns of 29.59%, expected life of options of 5 years, expected dividend yield of 1.84% and annual risk-free interest rate of 3.16%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last year.

According to the terms of the two option schemes, options on 60,000 shares with exercise price per share of HK\$6.81, have been exercised subsequent to 31 December 2005 and up to the date of these financial statements. Options on 210,000 shares with exercise price of HK\$11.60 have lapsed subsequent to 31 December 2005 and up to the date of these financial statements.

For the year ended 31 December 2005

## 18 OTHER RESERVES

|   | Option<br>US\$'000 | Convertible<br>bonds<br>US\$'000 | Capital<br>redemption<br>US\$'000 | Investment<br>properties<br>revaluation<br>US\$'000 | Share of<br>investment<br>properties<br>revaluation<br>reserves in<br>associates<br>US\$'000 | Exchange<br>fluctuation<br>US\$'000 | Capital<br>US\$'000 | Other<br>US\$'000 | Contributed<br>surplus<br>US\$'000 | Total<br>US\$'000 |
|---|--------------------|----------------------------------|-----------------------------------|---|--|-------------------------------------|---------------------|-------------------|------------------------------------|-------------------|
| <b>Group</b>  |                    |                                  |                                   |   |  |                                     |                     |                   |                                    |                   |
| Balance at 1 January 2004,<br>as previously reported  | –                  | –                                | 10,666                            | 456,368   | 194,078  | (137,586)                           | 601,490             | 1,340             | 389,741                            | 1,516,097         |
| Currency translation differences<br>arising from adjustment of<br>depreciation for hotel properties and<br>amortisation of leasehold land | –                  | –                                | –                                 | –   | –  | 38,601                              | –                   | –                 | –                                  | 38,601            |
| Revaluation surplus of investment<br>properties to be recognised in<br>income statement, net of deferred<br>income tax liabilities        | –                  | –                                | –                                 | 10,865  | (141,929)  | –                                   | –                   | –                 | –                                  | (131,064)         |
| Reversal of revaluation reserves for<br>hotel properties, net of deferred<br>income tax liabilities                                       | –                  | –                                | –                                 | (467,233)   | (52,149)   | –                                   | –                   | –                 | –                                  | (519,382)         |
| Balance at 1 January 2004, as restated  | –                  | –                                | 10,666                            | –   | –  | (98,985)                            | 601,490             | 1,340             | 389,741                            | 904,252           |
| Issue of convertible bonds – equity component   | –                  | 20,075                           | –                                 | –   | –  | –                                   | –                   | –                 | –                                  | 20,075            |
| Currency translation differences  | –                  | –                                | –                                 | –   | –  | 24,195                              | –                   | –                 | –                                  | 24,195            |
| Other movement  | –                  | –                                | –                                 | –   | –  | –                                   | –                   | 28                | –                                  | 28                |
| Balance at 31st December 2004   | –                  | 20,075                           | 10,666                            | –   | –  | (74,790)                            | 601,490             | 1,368             | 389,741                            | 948,550           |
| <b>Company</b>  |                    |                                  |                                   |   |  |                                     |                     |                   |                                    |                   |
| Balance at 1 January and 31 December 2004   | –                  | –                                | 10,666                            | –   | –  | –                                   | –                   | –                 | 1,524,231                          | 1,534,897         |

For the year ended 31 December 2005

## 18 OTHER RESERVES (continued)

|  | Option<br>US\$'000 | Convertible<br>bonds<br>US\$'000 | Capital<br>redemption<br>US\$'000 | Investment<br>properties<br>revaluation<br>US\$'000 | Share of<br>investment<br>properties<br>revaluation<br>reserves in<br>associates<br>US\$'000 | Exchange<br>fluctuation<br>US\$'000 | Capital<br>US\$'000 | Other<br>US\$'000 | Contributed<br>surplus<br>US\$'000 | Total<br>US\$'000 |
|--|--------------------|----------------------------------|-----------------------------------|---|--|-------------------------------------|---------------------|-------------------|------------------------------------|-------------------|
| <b>Group</b>   |                    |                                  |                                   |   |  |                                     |                     |                   |                                    |                   |
| Balance at 1 January 2005, as restated                                     | –                  | 20,075                           | 10,666                            | –   | –  | (74,790)                            | 601,490             | 1,368             | 389,741                            | 948,550           |
| Currency translation differences   | –                  | –                                | –                                 | –   | –  | 2,504                               | –                   | –                 | –                                  | 2,504             |
| Issue of shares upon conversion of<br>convertible bonds – equity component | –                  | (13,953)                         | –                                 | –   | –  | –                                   | –                   | –                 | –                                  | (13,953)          |
| Granting of option shares  | 3,468              | –                                | –                                 | –   | –  | –                                   | –                   | –                 | –                                  | 3,468             |
| <b>Balance at 31 December 2005</b>   | <b>3,468</b>       | <b>6,122</b>                     | <b>10,666</b>                     | <b>–</b>  | <b>–</b>   | <b>(72,286)</b>                     | <b>601,490</b>      | <b>1,368</b>      | <b>389,741</b>                     | <b>940,569</b>    |
| <b>Company</b>   |                    |                                  |                                   |   |  |                                     |                     |                   |                                    |                   |
| Balance at 1 January 2005  | –                  | –                                | 10,666                            | –   | –  | –                                   | –                   | –                 | 1,524,231                          | 1,534,897         |
| Granting of option shares  | 3,468              | –                                | –                                 | –   | –  | –                                   | –                   | –                 | –                                  | 3,468             |
| <b>Balance at 31 December 2005</b>   | <b>3,468</b>       | <b>–</b>                         | <b>10,666</b>                     | <b>–</b>  | <b>–</b>   | <b>–</b>                            | <b>–</b>            | <b>–</b>          | <b>1,524,231</b>                   | <b>1,538,365</b>  |

- (a) A subsidiary is required by local law to appropriate a certain percentage of its annual net profits as other reserve until the reserve reaches 10 percent of its registered share capital. This reserve is not available for dividend distribution.
- (b) The contributed surplus of the Company arises when the Company issues shares in exchange for the share of companies being acquired, and represents the difference between the nominal value of the Company's share issued and the value of net assets of the companies acquired. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to the shareholders. At the Group level, the contributed surplus is reclassified into its components of reserves of the underlying subsidiaries, whenever appropriate.

For the year ended 31 December 2005

## 18 OTHER RESERVES (continued)

(c) As at 31 December 2005, the Group's distributable reserves comprised:

|                                   | 2005<br>US\$'000 | 2004<br>US\$'000 |
|-----------------------------------|------------------|------------------|
| The Company                       |                  |                  |
| Distributable retained earnings   | 41,760           | 91,565           |
| Contributed surplus               | 1,524,231        | 1,524,231        |
|                                   | 1,565,991        | 1,615,796        |
| Subsidiaries (notes (i) and (ii)) |                  |                  |
| Distributable retained earnings   | 549,586          | 522,747          |
| Associates (notes (i) and (ii))   |                  |                  |
| Distributable retained earnings   | 162,122          | 241,313          |

Notes:

- (i) The distributable profits of subsidiaries and associates are the corresponding share of profits which are distributable as shown in the statutory financial statements of those companies after deducting appropriate withholding tax.
- (ii) There are differences between the profits included in the Group financial statements of certain subsidiaries and associates, and those in their statutory financial statements, as the former have been adjusted for the purpose of complying with the Group's accounting policies.

## 19 BANK LOANS AND OVERDRAFTS

|                                  | 2005<br>US\$'000 | 2004<br>US\$'000 |
|----------------------------------|------------------|------------------|
| Overdrafts – unsecured (Note 16) | 9,089            | 147              |
| Bank loans – secured (Note 6(b)) | 36               | 68               |
| Bank loans – unsecured           | 1,074,728        | 872,239          |
|                                  | 1,083,853        | 872,454          |

The maturity of bank loans and overdrafts is as follows:

|                                 | 2005<br>US\$'000 | 2004<br>US\$'000 |
|---------------------------------|------------------|------------------|
| Within 1 year                   | 152,644          | 103,945          |
| Between 1 and 2 years           | 407,422          | 221,994          |
| Between 2 and 5 years           | 509,806          | 507,844          |
| Wholly repayable within 5 years | 1,069,872        | 833,783          |
| Over 5 years                    | 13,981           | 38,671           |
|                                 | 1,083,853        | 872,454          |

In 2005, the Group refinanced part of the borrowings that fell due between one and five years, by entering into new loan agreements at lower interest cost.

The effective interest rates at the balance sheet date were as follows:

|                 | 31 December 2005 |       |       |      |       | 31 December 2004 |       |       |       |       |
|-----------------|------------------|-------|-------|------|-------|------------------|-------|-------|-------|-------|
|                 | HK\$             | RMB   | MYR   | US\$ | Baht  | HK\$             | RMB   | MYR   | US\$  | Baht  |
| Bank overdrafts | –                | –     | 6.50% | –    | 6.75% | –                | –     | 6.50% | –     | 6.00% |
| Bank borrowings | 4.49%            | 5.49% | 3.74% | 4.7% | –     | 0.67%            | 5.16% | 3.55% | 3.54% | –     |

For the year ended 31 December 2005

## 19 BANK LOANS AND OVERDRAFTS (continued)

The carrying amounts of the bank loans and overdrafts approximate their fair value and are denominated in the following currencies:

|                   | 2005<br>US\$'000 | 2004<br>US\$'000 |
|-------------------|------------------|------------------|
| Hong Kong dollars | 897,481          | 800,503          |
| Renminbi          | 47,261           | 24,396           |
| Malaysian Ringgit | 36,034           | 42,525           |
| US dollars        | 103,031          | 4,980            |
| Baht              | 46               | 50               |
|                   | 1,083,853        | 872,454          |

The Group has the following undrawn borrowing facilities:

|                            | 2005<br>US\$'000 | 2004<br>US\$'000 |
|----------------------------|------------------|------------------|
| Floating rate              |                  |                  |
| – expiring within one year | 158,711          | 470,276          |
| – expiring beyond one year | 482,173          | 37,928           |
| Fixed rate                 |                  |                  |
| – expiring within one year | 4,873            | –                |
| – expiring beyond one year | 46,679           | 76,214           |
|                            | 692,436          | 584,418          |

As at 31 December 2005, an undrawn floating rate borrowing facility of Baht 800 million (US\$19,484,000) expiring beyond one year is secured by a freehold land with net book value of US\$6,040,000.

## 20 CONVERTIBLE BONDS

On 15 March 2004, a wholly owned subsidiary of the Company issued zero coupon guaranteed convertible bonds due March 2009 (the "Maturity Date"), in the aggregate principal amount of US\$200 million with an initial conversion price of HK\$9.25 per ordinary share of the Company (subject to adjustment). Unless previously redeemed, converted or purchased and cancelled, these bonds will be redeemed at 114.633 per cent of their principal amount on the Maturity Date.

The fair values of the liability component and the equity conversion component were determined at issuance of the bonds.

The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in other reserves (Note 18).

The convertible bonds recognised in the balance sheet is calculated as follows:

|   | 2005<br>US\$'000 | 2004<br>US\$'000 |
|---|------------------|------------------|
| Face value of convertible bonds issued on 15 March 2004     | 200,000          | 200,000          |
| Issuing expenses  | (3,185)          | (3,185)          |
| Equity component  | (20,075)         | (20,075)         |
| Liability component on initial recognition at 15 March 2004 | 176,740          | 176,740          |
| Accumulated interest expense (Note 29)                      | 14,100           | 7,433            |
| Amount converted to ordinary shares of the Company          | (131,674)        | –                |
| Liability component   | 59,166           | 184,173          |

For the year ended 31 December 2005

## 20 CONVERTIBLE BONDS (continued)

The face value of the outstanding bonds at 31 December 2005 amounted to US\$60,992,000. The carrying value of the liability component is calculated using cash flows discounted at an effective borrowing rate of 5.27% per annum. The fair value of the liability component as at 31 December 2005 amounted to US\$57,204,000 and it is calculated using cash flows discounted at a rate based on the borrowing rate of 4.844%.

Subsequent to 31 December 2005 and up to the date of these financial statements, bond holders have served conversion notices and convertible bonds with face value of US\$2,400,000 have been converted to 2,023,782 ordinary shares of the Company.

## 21 DERIVATIVE FINANCIAL INSTRUMENTS

|  | 2005<br>US\$'000 |
|--|------------------|
| Liabilities  |                  |
| Interest-rate swaps contracts – non hedging              | 1,531            |
| Less: current portion of interest – rate swaps contracts | (232)            |
| Non-current portion                                      | 1,299            |

The notional principal amounts of the outstanding HIBOR and LIBOR interest-rate swap contracts at 31 December 2005 were HK\$4,360,000,000 and US\$100,000,000, respectively (31 December 2004: HK\$2,716,000,000).

At 31 December 2005, the fixed interest rates vary from 4.335% to 5.29% (31 December 2004: 4.69% to 5.74%).

## 22 MINORITY INTERESTS AND BALANCES WITH MINORITY SHAREHOLDERS

|                    | 2005<br>US\$'000 | 2004<br>US\$'000 |
|--------------------|------------------|------------------|
| Minority interests |                  |                  |
| Share of equity    | 190,808          | 187,719          |
| Equity loans (a)   | 58,369           | –                |
|                    | 249,177          | 187,719          |

Notes:

(a) Equity loans are unsecured, with no fixed repayment terms and bearing interest at:

|                  | 2005<br>US\$'000 | 2004<br>US\$'000 |
|------------------|------------------|------------------|
| – 2.5% per annum | 11,681           | –                |
| – interest free  | 46,688           | –                |
|                  | 58,369           | –                |

For the year ended 31 December 2005

## 22 MINORITY INTERESTS AND BALANCES WITH MINORITY SHAREHOLDERS (continued)

- (b) Due to minority interest (non-current portion) are unsecured and with the following terms:

|  | 2005<br>US\$'000 | 2004<br>US\$'000 |
|--|------------------|------------------|
| – HIBOR plus 1% effective 1 January 2006 with no fixed repayment terms | 17,719           | –                |
| – LIBOR plus 2.5% per annum and wholly repayable on 30 June 2015       | 651              | –                |
| – 6% per annum and wholly repayable on 31 December 2015                | 2,169            | –                |
| – HIBOR plus 1% per annum and wholly repayable on 30 June 2006         | –                | 780              |
| – 2.5% per annum with no fixed repayment terms                         | –                | 11,798           |
| – interest free with no fixed repayment terms                          | –                | 79,907           |
|  | 20,539           | 92,485           |

- (c) Due to minority interest (current portion) are unsecured and with the following terms:

|  | 2005<br>US\$'000 | 2004<br>US\$'000 |
|--|------------------|------------------|
| – HIBOR plus 1% per annum and wholly repayable on 30 June 2006 | 780              | 1,560            |
| – Interest free with no fixed repayment terms                  | 17,777           | 10,358           |
|  | 18,557           | 11,918           |

## 23 DEFERRED INCOME TAX

Deferred income tax are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%) for subsidiaries operating in Hong Kong. Deferred income tax of overseas subsidiaries are calculated at the rates of taxation prevailing in the countries in which the respective subsidiaries operate.

The movement on the deferred income tax account is as follows:

|  | Group            |                  |
|--|------------------|------------------|
|  | 2005<br>US\$'000 | 2004<br>US\$'000 |
| At 1 January   | 183,541          | 195,446          |
| Exchange differences   | (1,198)          | 770              |
| Deferred taxation charged/(credited) to income statement (Note 30) | 14,703           | (12,675)         |
| At 31 December   | 197,046          | 183,541          |

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2005, the Group has the following unrecognised tax losses to carry forward against future taxable income.

|                                   | Group            |                  |
|-----------------------------------|------------------|------------------|
|                                   | 2005<br>US\$'000 | 2004<br>US\$'000 |
| With no expiry date               | 8,848            | 8,303            |
| Lapsed within the next five years | 42,942           | 22,922           |
|                                   | 51,790           | 31,225           |

For the year ended 31 December 2005

### 23 DEFERRED INCOME TAX (continued)

The movement in deferred income tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

#### Deferred income tax liabilities

|  | Accelerated tax depreciation |                  | Properties valuation surplus/(deficit) |                  | Dividend withholding tax |                  | Total            |                  |
|--|------------------------------|------------------|--|------------------|--------------------------|------------------|------------------|------------------|
|  | 2005<br>US\$'000             | 2004<br>US\$'000 | 2005<br>US\$'000                       | 2004<br>US\$'000 | 2005<br>US\$'000         | 2004<br>US\$'000 | 2005<br>US\$'000 | 2004<br>US\$'000 |
| At 1 January                           | 175,641                      | 180,839          | 1,807                                  | 1,984            | 14,743                   | 21,445           | 192,191          | 204,268          |
| Charged/(credited) to income statement | 6,665                        | (5,867)          | 5,584                                  | (177)            | 1,857                    | (6,812)          | 14,106           | (12,856)         |
| Exchange differences                   | (1,005)                      | 669              | –                                      | –                | (193)                    | 110              | (1,198)          | 779              |
| At 31 December                         | 181,301                      | 175,641          | 7,391                                  | 1,807            | 16,407                   | 14,743           | 205,099          | 192,191          |

#### Deferred income tax assets

|  | Tax losses       |                  | Others           |                  | Total            |                  |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
|  | 2005<br>US\$'000 | 2004<br>US\$'000 | 2005<br>US\$'000 | 2004<br>US\$'000 | 2005<br>US\$'000 | 2004<br>US\$'000 |
| At 1 January                           | (2,215)          | (1,939)          | (6,435)          | (6,883)          | (8,650)          | (8,822)          |
| Charged/(credited) to income statement | 1,135            | (276)            | (538)            | 457              | 597              | 181              |
| Exchange differences                   | (4)              | –                | 4                | (9)              | –                | (9)              |
| At 31 December                         | (1,084)          | (2,215)          | (6,969)          | (6,435)          | (8,053)          | (8,650)          |

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet.

For the year ended 31 December 2005

**23 DEFERRED INCOME TAX (continued)**

|                                 | <b>2005</b><br><b>US\$'000</b> | <b>2004</b><br><b>US\$'000</b> |
|---------------------------------|--------------------------------|--------------------------------|
| Deferred income tax assets      | (5,179)                        | (5,995)                        |
| Deferred income tax liabilities | 202,225                        | 189,536                        |
|                                 | <b>197,046</b>                 | <b>183,541</b>                 |

**24 ACCOUNTS PAYABLE AND ACCRUALS**

|  | <b>2005</b><br><b>US\$'000</b> | <b>2004</b><br><b>US\$'000</b> |
|--|--------------------------------|--------------------------------|
| Trade payables                                 | 41,738                         | 35,026                         |
| Construction cost payable and accrued expenses | 190,058                        | 160,405                        |
|  | <b>231,796</b>                 | <b>195,431</b>                 |

At 31 December 2005, the ageing analysis of the trade payables were as follows:

|               | <b>2005</b><br><b>US\$'000</b> | <b>2004</b><br><b>US\$'000</b> |
|---------------|--------------------------------|--------------------------------|
| 0 – 3 months  | 39,066                         | 33,213                         |
| 4 – 6 months  | 1,195                          | 708                            |
| Over 6 months | 1,477                          | 1,105                          |
|               | <b>41,738</b>                  | <b>35,026</b>                  |

**25 EXPENSES BY NATURE**

Expenses included in cost of sales, marketing expenses, administrative expenses and other operating expenses are analysed as follows:

|  | <b>2005</b><br><b>US\$'000</b> | <b>2004</b><br><b>US\$'000</b> |
|--|--------------------------------|--------------------------------|
| Depreciation of property, plant and equipment (net of amount capitalised of US\$124,000 (2004: US\$71,000)) (Note 6) | 104,521                        | 90,903                         |
| Amortisation of leasehold land and land use rights (Note 8)  | 8,387                          | 6,825                          |
| Amortisation of trademark and licences (Note 9)  | 125                            | –                              |
| Amortisation of negative goodwill  | –                              | (5,506)                        |
| Employee benefit expenses (Note 27)  | 228,850                        | 204,413                        |
| Cost of inventories sold or consumed in operation  | 104,747                        | 92,923                         |
| Discarding of fixed assets due to redevelopment of a resort  | –                              | 5,187                          |
| Loss on disposal of fixed assets   | 2,492                          | 1,706                          |
| Discarding of fixed assets due to renovation of hotels   | 2,642                          | 6,913                          |
| Expenses on share options granted  | 3,468                          | –                              |
| Auditors' remuneration   | 735                            | 663                            |

For the year ended 31 December 2005

## 26 OTHER GAINS – NET

|   | <b>2005</b>     | <b>2004</b>     |
|---|-----------------|-----------------|
|   | <b>US\$'000</b> | <b>US\$'000</b> |
| Fair value gains/(losses) on investment properties (Note 7)               | 26,410          | (1,393)         |
| Available-for-sale financial assets:                                      |                 |                 |
| – (impairment losses)/reversal of impairment                              | (74)            | 87              |
| Gains (realised and unrealised) on financial assets held for trading      | 7,494           | 20,902          |
| Derivative financial instruments:   |                 |                 |
| – interest-rate swap contracts: transactions not qualifying as hedges     | 3,539           | –               |
| Loss on disposal of associates  | (2,925)         | –               |
| Gains/(losses) on disposal of partial interests in subsidiaries (Note 34) | 340             | (926)           |
| Gain on disposal of a hotel   | 2,389           | –               |
| Interest income   | 4,940           | 4,662           |
| Dividend income   | 1,008           | 1,446           |
| Others  | 1,622           | 1,248           |
|   | <b>44,743</b>   | <b>26,026</b>   |

## 27 EMPLOYEE BENEFIT EXPENSES

(excluding directors' emoluments)

|  | <b>2005</b>     | <b>2004</b>     |
|--|-----------------|-----------------|
|  | <b>US\$'000</b> | <b>US\$'000</b> |
| Wages and salaries (including unutilised annual leave) | 178,718         | 157,204         |
| Pension costs  | 12,028          | 11,797          |
| Other welfare  | 38,104          | 35,412          |
|  | <b>228,850</b>  | <b>204,413</b>  |

## Pension Scheme Arrangement

The Group operates and participates in a number of pension and retirement schemes of both the defined contribution and defined benefit types. Principal schemes are as follows:

The defined contribution schemes (including the Mandatory Provident Fund ("MPF") in Hong Kong) participated by the Group, other than those in the PRC, Singapore and Malaysia, require employers to contribute 5% to 10% of the employees' basic salaries and some of these schemes permit employees' contributions on a discretionary basis. The MPF requires both the employers and employees in Hong Kong to contribute 5% of their monthly gross earnings with a ceiling of HK\$1,000 (equivalent US\$129) per month. Under these schemes with the exception of MPF, the unvested benefits of employees terminating employment can be utilised by employers to reduce their future levels of contributions. The assets of these schemes are held separately from those of the Group in independently administered funds. The amounts of unvested benefits so utilised by employers during the year and available for the future reduction of employers' contributions as at 31 December 2005 were not material.

The Group's subsidiaries in the PRC, Singapore and Malaysia participate in defined contribution schemes managed by the respective local governments in these countries. Contributions are made based on a percentage, ranging from 7% to 26%, of the employee's salaries and bonus, if applicable, and were charged to the profit and loss account as incurred. The maximum contributions by the subsidiaries for each employee for the Group's subsidiaries in Singapore are fixed by the Singapore government at S\$650 (equivalent to US\$391) per month for monthly salaries and bonus payment. The employees of the Group's subsidiaries in Singapore and Malaysia are also required to contribute 20% and 11% of their gross salaries and bonus, if applicable, to such fund respectively.

For the year ended 31 December 2005

## 27 EMPLOYEE BENEFIT EXPENSES (continued)

### Pension Scheme Arrangement (continued)

The three hotels in the Philippines have adopted a funded non-contributory defined benefit pension plan covering all their regular employees. The benefits are based on years of service and the employees' final covered compensation. The plan requires periodic contributions by the participating subsidiaries as determined by periodic actuarial reviews. An actuarial valuation was performed by Orlando J. Manalang, a qualified actuary at 22 September 2003 using the Projected Unit Credit Actuarial Cost Method. The principal assumptions used in the actuarial valuation are that scheme assets will earn a yield of 7% per annum and salary will increase by 5% per annum. According to this report, both Edsa Shangri-La Hotel & Resort, Inc. and Mactan Shangri-La Hotel & Resort, Inc. can suspend contributions until another valuation is done within the next three years as the total funded assets of these two subsidiaries exceeded the actuarial accrued liability and the 2003 normal cost by Peso 10,750,000 (equivalent to US\$202,000) and Peso 5,411,700 (equivalent to US\$102,000) respectively while Makati Shangri-La Hotel & Resort, Inc. had an unfunded actuarial liability of Peso 8,369,000 (equivalent to US\$158,000) and required normal cost contribution of Peso 5,542,000 (equivalent to US\$104,000) for the period 1 July 2003 to 30 June 2004 and an annual contribution of Peso 1,908,000 (equivalent to US\$36,000) in the next 5 years.

Total pension cost including charges for directors charged to the income statement for the year under all pension schemes was US\$12,110,000 (2004: US\$11,874,000).

## 28 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The remuneration received from the Group by every Director of the Company for the year ended 31 December 2005 is set out below:

| Name of Director               | Fees<br>US\$'000 | Salary<br>US\$'000 | Discretionary<br>bonuses<br>US\$'000 | Inducement<br>fees<br>US\$'000 | Other<br>benefits <sup>(6)</sup><br>US\$'000 | Employer's Compensation                           |  | Total<br>US\$'000 |
|--------------------------------|------------------|--------------------|--------------------------------------|--------------------------------|--|---|--|-------------------|
|                                |                  |                    |                                      |                                |  | contribution<br>to pension<br>schemes<br>US\$'000 | for loss of<br>office as<br>director<br>US\$'000 |                   |
| Mr Kuok Khoon Loong, Edward    | –                | 323                | 2,571                                | –                              | 225  | 8   | –  | 3,127             |
| Mr Ye Longfei                  | –                | 348                | 643                                  | –                              | 4  | 1   | –  | 996               |
| Mr Giovanni Angelini           | 145              | 335                | 3,213                                | –                              | 186  | 62  | –  | 3,941             |
| Mr Lui Man Shing               | 4                | –                  | –                                    | –                              | –  | –   | –  | 4                 |
| Mr Ng Si Fong, Alan            | –                | 153                | 223                                  | –                              | 125  | 8   | –  | 509               |
| Madam Kuok Oon Kwong           | 23               | 155                | 142                                  | –                              | 5  | 3   | –  | 328               |
| Mr Ho Kian Guan                | 46               | –                  | –                                    | –                              | –  | –   | –  | 46                |
| Mr Lee Yong Sun                | 19               | –                  | –                                    | –                              | –  | –   | –  | 19                |
| Mr Roberto V. Ongpin           | 19               | –                  | –                                    | –                              | –  | –   | –  | 19                |
| Mr Alexander Reid Hamilton     | 39               | –                  | –                                    | –                              | –  | –   | –  | 39                |
| Mr Tow Heng Tan                | 37               | –                  | –                                    | –                              | –  | –   | –  | 37                |
| Mr Timothy David Dattels       | 19               | –                  | –                                    | –                              | –  | –   | –  | 19                |
| Mr Ho Kian Hock <sup>(1)</sup> | –                | –                  | –                                    | –                              | –  | –   | –  | –                 |

For the year ended 31 December 2005

## 28 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

The remuneration received from the Group by every Director of the Company for the year ended 31 December 2004 is set out below:

| Name of Director                        | Fees<br>US\$'000 | Salary<br>US\$'000 | Discretionary<br>bonuses<br>US\$'000 | Inducement<br>fees<br>US\$'000 | Other<br>benefits <sup>(6)</sup><br>US\$'000 | Employer's Compensation                           |  | Total<br>US\$'000 |
|---|------------------|--------------------|--------------------------------------|--------------------------------|--|---|--|-------------------|
|   |                  |                    |                                      |                                |  | contribution<br>to pension<br>schemes<br>US\$'000 | for loss of<br>office as<br>director<br>US\$'000 |                   |
| Mr Kuok Khoon Loong, Edward             | –                | 298                | 641                                  | –                              | 224  | 8   | –  | 1,171             |
| Mr Ye Longfei                           | –                | 136                | 241                                  | –                              | 4  | –   | –  | 381               |
| Mr Giovanni Angelini                    | 158              | 282                | 1,026                                | –                              | 138  | 58  | –  | 1,662             |
| Mr Lui Man Shing                        | 4                | –                  | –                                    | –                              | –  | –   | –  | 4                 |
| Mr Ng Si Fong, Alan                     | –                | 130                | 136                                  | –                              | 123  | 8   | –  | 397               |
| Madam Kuok Oon Kwong                    | 23               | 144                | 102                                  | –                              | 10   | 3   | –  | 282               |
| Mr Ho Kian Guan                         | 57               | –                  | –                                    | –                              | –  | –   | –  | 57                |
| Mr Lee Yong Sun                         | 19               | –                  | –                                    | –                              | –  | –   | –  | 19                |
| Mr Roberto V. Ongpin                    | 19               | –                  | –                                    | –                              | –  | –   | –  | 19                |
| Mr Alexander Reid Hamilton              | 32               | –                  | –                                    | –                              | –  | –   | –  | 32                |
| Mr Tow Heng Tan                         | 38               | –                  | –                                    | –                              | –  | –   | –  | 38                |
| Mr Timothy David Dattels <sup>(2)</sup> | 18               | –                  | –                                    | –                              | –  | –   | –  | 18                |
| Mr Ho Kian Hock <sup>(1)</sup>          | –                | –                  | –                                    | –                              | –  | –   | –  | –                 |
| Mr Kuok Khoon Ho <sup>(3)</sup>         | 6                | –                  | –                                    | –                              | –  | –   | –  | 6                 |
| Mr John David Hayden <sup>(4)</sup>     | 2                | –                  | –                                    | –                              | –  | –   | –  | 2                 |
| Mr Ho Kian Cheong <sup>(5)</sup>        | –                | –                  | –                                    | –                              | –  | –   | –  | –                 |

Notes:

- (1) Mr Ho Kian Hock was appointed as Alternate Director to Mr Ho Kian Guan on 4 November 2004.
- (2) Mr Timothy David Dattels was appointed as Director on 1 February 2004.
- (3) Mr Kuok Khoon Ho resigned as Director on 1 February 2004.
- (4) Mr John David Hayden resigned as Director on 1 February 2004.
- (5) Mr Ho Kian Cheong resigned as Alternate Director to Mr Ho Kian Guan on 29 October 2004.
- (6) Other benefits include leave pay, housing, holiday warrant, medical expenses and insurance premium. Pursuant to the Executive Option Scheme and the New Option Scheme of the Company (Note 17), the Company granted to the Directors options to subscribe for shares in the Company subject to terms and conditions stipulated therein. The fair value of option shares granted to the Directors in 2005 was included in the total expenses on share options granted (Note 25).

For the year ended 31 December 2005

## 28 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

**Movement of options shares granted to the Directors for the year ended 31 December 2005 are as follows:**

## (i) Under the Executive Option Scheme

|                         |                 |      | Closing price<br>per share on the<br>business day<br>immediately<br>before<br>date of grant<br>HK\$ | No. of option<br>shares held as<br>at 1 January<br>2005 | No. of option<br>shares granted<br>during<br>the year | Transfer<br>to other<br>category<br>during<br>the year | No. of<br>option shares<br>exercised<br>during the year | No. of option<br>shares held as at<br>31 December<br>2005 | Exercise<br>price per<br>option share<br>HK\$ | Excess of<br>weighted average<br>closing price<br>per share on<br>exercise<br>date over<br>exercise price<br>HK\$ | Exercisable Period                |
|-------------------------|-----------------|------|---|---|---|--|---|---|---|---|-----------------------------------|
| Mr Ye Longfei           | 1 May 1998      | I    | 5.60  | 96,760  | –   | –  | (96,760)  | –   | 8.26  | 4.39  | 1 May 1999 – 30 April 2008        |
|                         | 1 May 1998      | II   | 5.60  | 96,760  | –   | –  | (96,760)  | –   | 8.26  | 4.39  | 1 May 2000 – 30 April 2008        |
|                         | 1 May 1998      | III  | 5.60  | 96,760  | –   | –  | (96,760)  | –   | 8.26  | 4.39  | 1 May 2001 – 30 April 2008        |
|                         | 15 January 2000 | I    | 8.30  | 193,822   | –   | –  | (193,822)   | –   | 8.82  | 3.83  | 15 January 2001 – 14 January 2010 |
|                         | 15 January 2000 | II   | 8.30  | 193,822   | –   | –  | (193,822)   | –   | 8.82  | 3.83  | 15 January 2002 – 14 January 2010 |
|                         | 15 January 2001 | I    | 7.80  | 339,606   | –   | –  | –   | 339,606   | 8.18  | –   | 15 January 2002 – 14 January 2011 |
| 15 January 2001         | II              | 7.80 | 339,606   | –   | –   | –  | 339,606   | 8.18  | –   | 15 January 2003 – 14 January 2011   |                                   |
| Mr Giovanni<br>Angelini | 15 January 2000 | I    | 8.30  | 266,505   | –   | –  | –   | 266,505   | 8.82  | –   | 15 January 2001 – 14 January 2010 |
|                         | 15 January 2000 | II   | 8.30  | 266,505   | –   | –  | –   | 266,505   | 8.82  | –   | 15 January 2002 – 14 January 2010 |

For the year ended 31 December 2005

## 28 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

### (ii) Under the New Option Scheme

|                      | Date of grant | Tranche | Closing price per share on the business day immediately before date of grant<br>HK\$ | No. of option shares held as at 1 January 2005 | No. of option shares granted during the year | Transfer to other category during the year | No. of option shares exercised during the year | No. of option shares held as at 31 December 2005 | Exercise price per option share<br>HK\$ | Excess of weighted average closing price per share on exercise date over exercise price<br>HK\$ | Exercisable Period            |
|----------------------|---------------|---------|--|--|--|--|--|--|---|---|-------------------------------|
| Mr Kuok Khoon        | 28 April 2005 | I       | 11.75  | –  | 250,000                                      | –  | –  | 250,000  | 11.60                                   | –   | 28 April 2006 – 27 April 2015 |
| Loong, Edward        | 28 April 2005 | II      | 11.75  | –  | 250,000                                      | –  | –  | 250,000  | 11.60                                   | –   | 28 April 2007 – 27 April 2015 |
| Mr Ye Longfei        | 29 May 2002   | II      | 6.80   | 150,000  | –  | –  | –  | 150,000  | 6.81                                    | –   | 29 May 2004 – 28 May 2012     |
|                      | 28 April 2005 | I       | 11.75  | –  | 250,000                                      | –  | –  | 250,000  | 11.60                                   | –   | 28 April 2006 – 27 April 2015 |
|                      | 28 April 2005 | II      | 11.75  | –  | 250,000                                      | –  | –  | 250,000  | 11.60                                   | –   | 28 April 2007 – 27 April 2015 |
| Mr Giovanni Angelini | 28 April 2005 | I       | 11.75  | –  | 500,000                                      | –  | –  | 500,000  | 11.60                                   | –   | 28 April 2006 – 27 April 2015 |
|                      | 28 April 2005 | II      | 11.75  | –  | 500,000                                      | –  | –  | 500,000  | 11.60                                   | –   | 28 April 2007 – 27 April 2015 |
| Mr Lui Man Shing     | 29 May 2002   | I       | 6.80   | 150,000  | –  | –  | –  | 150,000  | 6.81                                    | –   | 29 May 2003 – 28 May 2012     |
|                      | 29 May 2002   | II      | 6.80   | 150,000  | –  | –  | –  | 150,000  | 6.81                                    | –   | 29 May 2004 – 28 May 2012     |
|                      | 28 April 2005 | I       | 11.75  | –  | 150,000                                      | –  | –  | 150,000  | 11.60                                   | –   | 28 April 2006 – 27 April 2015 |
|                      | 28 April 2005 | II      | 11.75  | –  | 150,000                                      | –  | –  | 150,000  | 11.60                                   | –   | 28 April 2007 – 27 April 2015 |
| Mr Ng Si Fong, Alan  | 29 May 2002   | I       | 6.80   | 60,000   | –  | –  | –  | 60,000   | 6.81                                    | –   | 29 May 2003 – 28 May 2012     |
|                      | 29 May 2002   | II      | 6.80   | 60,000   | –  | –  | –  | 60,000   | 6.81                                    | –   | 29 May 2004 – 28 May 2012     |
|                      | 28 April 2005 | I       | 11.75  | –  | 150,000                                      | –  | –  | 150,000  | 11.60                                   | –   | 28 April 2006 – 27 April 2015 |
|                      | 28 April 2005 | II      | 11.75  | –  | 150,000                                      | –  | –  | 150,000  | 11.60                                   | –   | 28 April 2007 – 27 April 2015 |
| Madam Kuok           | 28 April 2005 | I       | 11.75  | –  | 150,000                                      | –  | –  | 150,000  | 11.60                                   | –   | 28 April 2006 – 27 April 2015 |
| Oon Kwong            | 28 April 2005 | II      | 11.75  | –  | 150,000                                      | –  | –  | 150,000  | 11.60                                   | –   | 28 April 2007 – 27 April 2015 |

For the year ended 31 December 2005

28 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)  
(ii) Under the New Option Scheme (continued)

|                               | Date of grant | Tranche | Closing price per share on the business day immediately before date of grant<br>HK\$ | No. of option shares held as at 1 January 2005 | No. of option shares granted during the year | Transfer to other category during the year | No. of option shares exercised during the year | No. of option shares held as at 31 December 2005 | Exercise price per option share<br>HK\$ | Excess of weighted average closing price per share on exercise date over exercise price<br>HK\$ | Exercisable Period            |
|-------------------------------|---------------|---------|--|--|--|--|--|--|---|---|-------------------------------|
| Mr Ho Kian Guan               | 28 April 2005 | I       | 11.75  | –  | 75,000                                       | –  | –  | 75,000   | 11.60                                   | –   | 28 April 2006 – 27 April 2015 |
|                               | 28 April 2005 | II      | 11.75  | –  | 75,000                                       | –  | –  | 75,000   | 11.60                                   | –   | 28 April 2007 – 27 April 2015 |
| Mr Lee Yong Sun               | 29 May 2002   | I       | 6.80   | 75,000   | –  | –  | –  | 75,000   | 6.81                                    | –   | 29 May 2003 – 28 May 2012     |
|                               | 29 May 2002   | II      | 6.80   | 75,000   | –  | –  | –  | 75,000   | 6.81                                    | –   | 29 May 2004 – 28 May 2012     |
|                               | 28 April 2005 | I       | 11.75  | –  | 75,000                                       | –  | –  | 75,000   | 11.60                                   | –   | 28 April 2006 – 27 April 2015 |
|                               | 28 April 2005 | II      | 11.75  | –  | 75,000                                       | –  | –  | 75,000   | 11.60                                   | –   | 28 April 2007 – 27 April 2015 |
| Mr Roberto V. Ongpin          | 28 April 2005 | I       | 11.75  | –  | 75,000                                       | –  | –  | 75,000   | 11.60                                   | –   | 28 April 2006 – 27 April 2015 |
|                               | 28 April 2005 | II      | 11.75  | –  | 75,000                                       | –  | –  | 75,000   | 11.60                                   | –   | 28 April 2007 – 27 April 2015 |
| Mr Alexander Reid<br>Hamilton | 29 May 2002   | I       | 6.80   | 75,000   | –  | –  | (75,000)                                       | –  | 6.81                                    | 5.09  | 29 May 2003 – 28 May 2012     |
|                               | 29 May 2002   | II      | 6.80   | 75,000   | –  | –  | (75,000)                                       | –  | 6.81                                    | 5.09  | 29 May 2004 – 28 May 2012     |
|                               | 28 April 2005 | I       | 11.75  | –  | 75,000                                       | –  | –  | 75,000   | 11.60                                   | –   | 28 April 2006 – 27 April 2015 |
|                               | 28 April 2005 | II      | 11.75  | –  | 75,000                                       | –  | –  | 75,000   | 11.60                                   | –   | 28 April 2007 – 27 April 2015 |
| Mr Tow Heng Tan               | 28 April 2005 | I       | 11.75  | –  | 75,000                                       | –  | –  | 75,000   | 11.60                                   | –   | 28 April 2006 – 27 April 2015 |
|                               | 28 April 2005 | II      | 11.75  | –  | 75,000                                       | –  | –  | 75,000   | 11.60                                   | –   | 28 April 2007 – 27 April 2015 |
| Mr Timothy David<br>Dattels   | 28 April 2005 | I       | 11.75  | –  | 75,000                                       | –  | –  | 75,000   | 11.60                                   | –   | 28 April 2006 – 27 April 2015 |
|                               | 28 April 2005 | II      | 11.75  | –  | 75,000                                       | –  | –  | 75,000   | 11.60                                   | –   | 28 April 2007 – 27 April 2015 |

For the year ended 31 December 2005

## 28 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

Movement of option shares granted to the Directors for the year ended 31 December 2004 are as follows:

### (i) Under the Executive Option Scheme

|                      | Date of grant   | Tranche | Closing price per share on the business day immediately before date of grant HK\$ | No. of option shares held as at 1 January 2004 | No. of option shares granted during the year | Transfer to other category during the year | No. of option shares exercised during the year | No. of option shares held as at 31 December 2004 | Exercise price per option share HK\$ | Excess of weighted average closing price per share on exercise date over exercise price HK\$ | Exercisable Period                |
|----------------------|-----------------|---------|---|--|--|--|--|--|--------------------------------------|--|-----------------------------------|
| Mr Ye Longfei        | 1 May 1998      | I       | 5.60  | 96,760   | –  | –  | –  | 96,760   | 8.26                                 | –  | 1 May 1999 – 30 April 2008        |
|                      | 1 May 1998      | II      | 5.60  | 96,760   | –  | –  | –  | 96,760   | 8.26                                 | –  | 1 May 2000 – 30 April 2008        |
|                      | 1 May 1998      | III     | 5.60  | 96,760   | –  | –  | –  | 96,760   | 8.26                                 | –  | 1 May 2001 – 30 April 2008        |
|                      | 15 January 2000 | I       | 8.30  | 193,822  | –  | –  | –  | 193,822  | 8.82                                 | –  | 15 January 2001 – 14 January 2010 |
|                      | 15 January 2000 | II      | 8.30  | 193,822  | –  | –  | –  | 193,822  | 8.82                                 | –  | 15 January 2002 – 14 January 2010 |
|                      | 15 January 2001 | I       | 7.80  | 339,606  | –  | –  | –  | 339,606  | 8.18                                 | –  | 15 January 2002 – 14 January 2011 |
|                      | 15 January 2001 | II      | 7.80  | 339,606  | –  | –  | –  | 339,606  | 8.18                                 | –  | 15 January 2003 – 14 January 2011 |
| Mr Kuok Khoon Ho     | 1 May 1998      | I       | 5.60  | 387,041  | –  | (387,041)                                  | –  | –  | 8.26                                 | –  | 1 May 1999 – 30 April 2008        |
|                      | 1 May 1998      | II      | 5.60  | 387,041  | –  | (387,041)                                  | –  | –  | 8.26                                 | –  | 1 May 2000 – 30 April 2008        |
|                      | 1 May 1998      | III     | 5.60  | 387,041  | –  | (387,041)                                  | –  | –  | 8.26                                 | –  | 1 May 2001 – 30 April 2008        |
|                      | 15 January 2000 | I       | 8.30  | 242,278  | –  | (242,278)                                  | –  | –  | 8.82                                 | –  | 15 January 2001 – 14 January 2010 |
|                      | 15 January 2000 | II      | 8.30  | 242,277  | –  | (242,277)                                  | –  | –  | 8.82                                 | –  | 15 January 2002 – 14 January 2010 |
|                      | 15 January 2001 | I       | 7.80  | 145,545  | –  | (145,545)                                  | –  | –  | 8.18                                 | –  | 15 January 2002 – 14 January 2011 |
|                      | 15 January 2001 | II      | 7.80  | 145,545  | –  | (145,545)                                  | –  | –  | 8.18                                 | –  | 15 January 2003 – 14 January 2011 |
| Mr Giovanni Angelini | 1 May 1998      | I       | 5.60  | 145,141  | –  | –  | (145,141)                                      | –  | 8.26                                 | 0.84   | 1 May 1999 – 30 April 2008        |
|                      | 1 May 1998      | II      | 5.60  | 145,141  | –  | –  | (145,141)                                      | –  | 8.26                                 | 0.84   | 1 May 2000 – 30 April 2008        |
|                      | 1 May 1998      | III     | 5.60  | 145,139  | –  | –  | (145,139)                                      | –  | 8.26                                 | 1.34   | 1 May 2001 – 30 April 2008        |
|                      | 15 January 2000 | I       | 8.30  | 266,505  | –  | –  | –  | 266,505  | 8.82                                 | –  | 15 January 2001 – 14 January 2010 |
|                      | 15 January 2000 | II      | 8.30  | 266,505  | –  | –  | –  | 266,505  | 8.82                                 | –  | 15 January 2002 – 14 January 2010 |
|                      | 15 January 2001 | I       | 7.80  | 145,545  | –  | –  | (145,545)                                      | –  | 8.18                                 | 1.07   | 15 January 2002 – 14 January 2011 |
|                      | 15 January 2001 | II      | 7.80  | 145,545  | –  | –  | (145,545)                                      | –  | 8.18                                 | 1.07   | 15 January 2003 – 14 January 2011 |
| Mr John David Hayden | 1 May 1998      | I       | 5.60  | 387,041  | –  | (387,041)                                  | –  | –  | 8.26                                 | –  | 1 May 1999 – 30 April 2008        |
|                      | 1 May 1998      | II      | 5.60  | 387,041  | –  | (387,041)                                  | –  | –  | 8.26                                 | –  | 1 May 2000 – 30 April 2008        |
|                      | 1 May 1998      | III     | 5.60  | 387,041  | –  | (387,041)                                  | –  | –  | 8.26                                 | –  | 1 May 2001 – 30 April 2008        |

For the year ended 31 December 2005

## 28 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

## (ii) Under the New Option Scheme

|                               | Date of grant | Tranche | Closing price<br>per share on the<br>business day<br>immediately<br>before<br>date of grant<br>HK\$ | No. of option<br>shares held as<br>at 1 January<br>2004 | No. of option<br>shares granted<br>during<br>the year | Transfer<br>to other<br>category<br>during<br>the year | No. of<br>option shares<br>exercised<br>during the year | No. of option<br>shares held as at<br>31 December<br>2004 | Exercise<br>price per<br>option share<br>HK\$ | Excess of<br>weighted average<br>closing price<br>per share on<br>exercise<br>date over<br>exercise price<br>HK\$ | Exercisable Period        |
|-------------------------------|---------------|---------|---|---|---|--|---|---|---|---|---------------------------|
| Mr Ye Longfei                 | 29 May 2002   | I       | 6.80  | 500,000   | –   | –  | (500,000)   | –   | 6.81  | 2.79  | 29 May 2003 – 28 May 2012 |
|                               | 29 May 2002   | II      | 6.80  | 500,000   | –   | –  | (350,000)   | 150,000   | 6.81  | 2.79  | 29 May 2004 – 28 May 2012 |
| Mr Kuok Khoon Ho              | 29 May 2002   | I       | 6.80  | 500,000   | –   | (500,000)  | –   | –   | 6.81  | –   | 29 May 2003 – 28 May 2012 |
|                               | 29 May 2002   | II      | 6.80  | 500,000   | –   | (500,000)  | –   | –   | 6.81  | –   | 29 May 2004 – 28 May 2012 |
| Mr Giovanni Angelini          | 29 May 2002   | I       | 6.80  | 600,000   | –   | –  | (600,000)   | –   | 6.81  | 1.89  | 29 May 2003 – 28 May 2012 |
|                               | 29 May 2002   | II      | 6.80  | 600,000   | –   | –  | (600,000)   | –   | 6.81  | 2.14  | 29 May 2004 – 28 May 2012 |
| Mr Lui Man Shing              | 29 May 2002   | I       | 6.80  | 150,000   | –   | –  | –   | 150,000   | 6.81  | –   | 29 May 2003 – 28 May 2012 |
|                               | 29 May 2002   | II      | 6.80  | 150,000   | –   | –  | –   | 150,000   | 6.81  | –   | 29 May 2004 – 28 May 2012 |
| Mr Ng Si Fong, Alan           | 29 May 2002   | I       | 6.80  | 60,000  | –   | –  | –   | 60,000  | 6.81  | –   | 29 May 2003 – 28 May 2012 |
|                               | 29 May 2002   | II      | 6.80  | 60,000  | –   | –  | –   | 60,000  | 6.81  | –   | 29 May 2004 – 28 May 2012 |
| Madam Kuok Oon<br>Kwong       | 29 May 2002   | I       | 6.80  | 150,000   | –   | –  | (150,000)   | –   | 6.81  | 2.99  | 29 May 2003 – 28 May 2012 |
|                               | 29 May 2002   | II      | 6.80  | 150,000   | –   | –  | (150,000)   | –   | 6.81  | 2.99  | 29 May 2004 – 28 May 2012 |
| Mr John David<br>Hayden       | 29 May 2002   | I       | 6.80  | 75,000  | –   | (75,000)   | –   | –   | 6.81  | –   | 29 May 2003 – 28 May 2012 |
|                               | 29 May 2002   | II      | 6.80  | 75,000  | –   | (75,000)   | –   | –   | 6.81  | –   | 29 May 2004 – 28 May 2012 |
| Mr Ho Kian Guan               | 29 May 2002   | I       | 6.80  | 75,000  | –   | –  | (75,000)  | –   | 6.81  | 1.79  | 29 May 2003 – 28 May 2012 |
|                               | 29 May 2002   | II      | 6.80  | 75,000  | –   | –  | (75,000)  | –   | 6.81  | 1.79  | 29 May 2004 – 28 May 2012 |
| Mr Lee Yong Sun               | 29 May 2002   | I       | 6.80  | 75,000  | –   | –  | –   | 75,000  | 6.81  | –   | 29 May 2003 – 28 May 2012 |
|                               | 29 May 2002   | II      | 6.80  | 75,000  | –   | –  | –   | 75,000  | 6.81  | –   | 29 May 2004 – 28 May 2012 |
| Mr Alexander Reid<br>Hamilton | 29 May 2002   | I       | 6.80  | 75,000  | –   | –  | –   | 75,000  | 6.81  | –   | 29 May 2003 – 28 May 2012 |
|                               | 29 May 2002   | II      | 6.80  | 75,000  | –   | –  | –   | 75,000  | 6.81  | –   | 29 May 2004 – 28 May 2012 |

For the year ended 31 December 2005

## 28 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

### Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2004: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2004: one) individuals during the year are as follows:

|   | 2005<br>US\$'000 | 2004<br>US\$'000 |
|---|------------------|------------------|
| Basic, salaries, housing allowances,<br>other allowances and benefits in kind | 852              | 460              |
| Employer's contribution to pension schemes                                    | 52               | 21               |
| Discretionary bonuses   | 488              | 197              |
| Inducement fee to join the Group  | –                | –                |
| Compensation for loss of office   | –                | –                |
|   | 1,392            | 678              |

Pursuant to the Executive Option Scheme and the New Option Scheme of the Company (Note 17), the Company granted to these two individuals (2004: one) options to subscribe for shares in the Company subject to terms and conditions stipulated therein. The fair value of option shares granted to the two individuals in 2005 was included in the total expense on share options granted (Note 25).

The emoluments fell within the following bands:

|                               | Number of individuals |      |
|-------------------------------|-----------------------|------|
|                               | 2005                  | 2004 |
| Emolument bands               |                       |      |
| HK\$5,500,001 – HK\$6,000,000 | 1                     | –    |
| HK\$5,000,001 – HK\$5,500,000 | 1                     | 1    |

## 29 FINANCE COSTS

|  | 2005<br>US\$'000 | 2004<br>US\$'000 |
|--|------------------|------------------|
| Interest expense:  |                  |                  |
| – interest-rate swap contracts                                       | –                | 28,553           |
| – bank loans and overdrafts  | 34,880           | 14,397           |
| – interest on other borrowings<br>wholly repayable within five years | –                | 1,148            |
| – convertible bonds wholly repayable<br>within five years (Note 20)  | 6,667            | 7,433            |
|  | 41,547           | 51,531           |
| Less: amount capitalised   | (7,002)          | (4,398)          |
|  | 34,545           | 47,133           |
| Net foreign exchange transaction (gains)/losses                      | (1,694)          | 1,189            |
|  | 32,851           | 48,322           |

The effective capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 3.7% per annum (2004: 4.6%).

For the year ended 31 December 2005

### 30 INCOME TAX EXPENSE

|                               | 2005<br>US\$'000 | 2004<br>US\$'000 |
|-------------------------------|------------------|------------------|
| Current income tax            |                  |                  |
| – Hong Kong profits tax       | 8,679            | 4,962            |
| – Overseas taxation           | 28,922           | 20,618           |
| Deferred income tax (Note 23) | 14,703           | (12,675)         |
|                               | 52,304           | 12,905           |

Share of associates' taxation for the year ended 31 December 2005 of US\$31,044,000 (2004: US\$22,384,000) is included in the income statement as share of profits of associates.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

|   | 2005<br>US\$'000 | 2004<br>US\$'000 |
|---|------------------|------------------|
| Profit before income tax  | 219,835          | 135,428          |
| Calculated at a taxation rate of 17.5%  | 38,471           | 23,700           |
| Effect of different taxation rates of subsidiaries operating in other countries           | 16,326           | 4,964            |
| Income not subject to taxation  | (28,532)         | (22,112)         |
| Expenses not deductible for taxation purposes   | 21,888           | 16,861           |
| Tax effect on unrecognised tax losses   | 3,005            | 2,372            |
| Utilisation of previously unrecognised tax losses   | (5,016)          | (2,688)          |
| Effect on opening net deferred taxation resulting from an increase/(decrease) in tax rate | 3,909            | (1,301)          |
| Under/(over) provision in prior year  | 204              | (1,282)          |
| Withholding tax   | 3,713            | (3,750)          |
| Reversal of deferred taxation by a subsidiary upon satisfying certain local tax laws      | –                | (4,140)          |
| Tax incentive   | (1,960)          | –                |
| Others  | 296              | 281              |
| Taxation charge   | 52,304           | 12,905           |

- (a) Hong Kong profits tax is provided at a rate of 17.5% (2004: 17.5%) on the estimated assessable profit of group companies operating in Hong Kong.
- (b) Taxation outside Hong Kong includes withholding tax paid and payable on dividends from subsidiaries and tax provided at the prevailing rates on the estimated assessable profits of group companies operating outside Hong Kong.

For the year ended 31 December 2005

### 31 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS AND RETAINED EARNINGS OF THE COMPANY

The profit attributable to equity holders is dealt with in the financial statements of the Company to the extent of US\$28,358,000 (2004: US\$113,733,000).

#### Movement of retained earnings of the Company

|  | 2005<br>US\$'000 | 2004<br>US\$'000 |
|--|------------------|------------------|
| Retained earnings                              |                  |                  |
| Balance at 1 January, as previously reported   | 91,565           | 29,388           |
| Opening adjustment for the adoption of HKAS 39 | (14,673)         | –                |
| Balance at 1 January, as restated              | 76,892           | 29,388           |
| Profit for the year                            | 28,358           | 113,733          |
| 2004/2003 final dividend paid                  | (30,878)         | (24,258)         |
| 2005/2004 interim dividend paid (Note 33)      | (32,612)         | (27,298)         |
| Balance at 31 December                         | 41,760           | 91,565           |
| Representing                                   |                  |                  |
| 2005/2004 final dividend proposed (Note 33)    | 32,639           | 30,861           |
| Retained earnings                              | 9,121            | 60,704           |
| Balance at 31 December                         | 41,760           | 91,565           |

### 32 EARNINGS PER SHARE

#### Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

|   | 2005<br>US\$'000 | 2004<br>US\$'000 |
|---|------------------|------------------|
| Profit attributable to equity holders of the Company            | 150,990          | 113,518          |
| Weighted average number of ordinary shares in issue (thousands) | 2,460,837        | 2,342,637        |
| Basic earnings per share (US cents per share)                   | 6.14             | 4.85             |

#### Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bonds are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense. For the share options a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is increased by the number of shares that would have been issued assuming the exercise of the share options.

For the year ended 31 December 2005

### 32 EARNINGS PER SHARE (Continued)

#### Diluted (continued)

For the year ended 31 December 2005, all the share options issued under the Executive Option Scheme and all the share options under the New Option Scheme have the greatest dilution effect. For the year ended 31 December 2004, only the share options at exercise price of HK\$6.81 per option share issued under the New Option Scheme have the greatest dilution effect.

|   | <b>2005</b><br><b>US\$'000</b> | <b>2004</b><br><b>US\$'000</b> |
|---|--------------------------------|--------------------------------|
| Profit attributable to equity holders of the Company                                  | 150,990                        | 113,518                        |
| Weighted average number of ordinary shares in issue (thousands)                       | 2,460,837                      | 2,342,637                      |
| Adjustments for – share options (thousands)   | 4,305                          | 2,392                          |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) | 2,465,142                      | 2,345,029                      |
| Diluted earnings per share (US cents per share)                                       | 6.13                           | 4.84                           |

### 33 DIVIDENDS

|   | <b>2005</b><br><b>US\$'000</b> | <b>2004</b><br><b>US\$'000</b> |
|---|--------------------------------|--------------------------------|
| Interim dividend paid of HK10 cents (2004: HK9 cents) per ordinary share    | 32,612                         | 27,298                         |
| Proposed final dividend of HK10 cents (2004: HK10 cents) per ordinary share | 32,639                         | 30,861                         |
|   | 65,251                         | 58,159                         |

At a meeting held on 4 April 2006, the directors proposed a final dividend of HK10 cents per ordinary share for the year ended 31 December 2005, this proposed dividend is not reflected as a dividend payable in these financial statements but will be reflected as an appropriation of retained earnings for the year ending 31 December 2006.

For the year ended 31 December 2005

### 34 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### (a) Cash generated from operations

|   | 2005<br>US\$'000 | 2004<br>US\$'000 |
|---|------------------|------------------|
| Profit before income tax  | 219,835          | 135,428          |
| Share of results of associates  | (64,317)         | (41,029)         |
| Fair value (gains)/losses on investment properties  | (26,410)         | 1,393            |
| Depreciation  | 104,521          | 90,903           |
| Amortisation of leasehold land and land use rights and trademark  | 8,512            | 6,825            |
| Amortisation of negative goodwill   | –                | (5,506)          |
| Interest on bank loans and overdrafts, other borrowings and convertible bonds                                   | 34,545           | 47,133           |
| Interest income   | (4,940)          | (4,662)          |
| Dividend income   | (1,008)          | (1,446)          |
| Loss on disposal of fixed assets and discarding of fixed assets due to properties renovations and redevelopment | 5,134            | 13,806           |
| Gain on disposal of a hotel   | (2,389)          | –                |
| Realised and unrealised gains on financial assets held for trading  | (7,494)          | (20,902)         |
| Impairment losses/(reversal of impairment) on available-for-sale financial assets                               | 74               | (87)             |
| Expenses on share option granted  | 3,468            | –                |
| Gain on interest-rate swap contracts – not qualifying as hedges   | (3,539)          | –                |
| (Gains)/losses on disposal of partial interest in subsidiaries  | (340)            | 926              |
| Losses on disposal of associates  | 2,925            | –                |
| Operating profit before working capital changes   | 268,577          | 222,782          |
| Increase in inventories   | (1,785)          | (1,562)          |
| Increase in accounts receivable, prepayments and deposits   | (16,661)         | (15,375)         |
| Increase in amount due from associates  | (3,703)          | –                |
| Increase in accounts payable and accruals   | 41,793           | 42,939           |
| Increase in amounts due to minority shareholders  | –                | 30               |
| Net cash generated from operations  | 288,221          | 248,814          |

#### (b) Disposal of partial interests in subsidiaries

- (i) In December 2005, the Group disposed 50.5% equity interest out of its 99% holding in Shanghai Ji Xiang Properties Co., Ltd., an investment holding company incorporated in The People's Republic of China (the "PRC") which currently owns a piece of land for property development in Shanghai. This disposal was part of the discloseable and connected transactions relating to the joint acquisition, ownership and development of four connected sites in Shanghai as approved by the independent shareholders of the Company in 2004.

The total cash consideration for the disposal of the 50.5% equity interest and assignment of proportionate share of amounts due to the Group was US\$39,488,308.

**US\$'000**

Details of the disposal:

|  |          |
|--|----------|
| Cash consideration to be received in January 2006 (Note 14)    | 39,488   |
| Less : fair value of effective interest of net assets disposed | (38,380) |
| : fair value of amount due to the Group disposed               | (756)    |
| : other expenses   | (55)     |
| Gain on disposal   | 297      |

For the year ended 31 December 2005

### 34 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (b) Disposal of partial interests in subsidiaries (continued)

The assets and liabilities disposed are as follows:

|  | <b>Fair value and<br/>carrying amount<br/>US\$'000</b> |
|--|--|
| Investment properties (Note 7)                                     | 78,319   |
| Cash and cash equivalent   | 11   |
| Amount due to a shareholder  | (1,481)  |
| Other liabilities  | (849)  |
| Net assets   | 76,000   |
| 1% minority interests  | (760)  |
| The Group's share of net assets                                    | 75,240   |
| Share of net assets disposed                                       | (38,380)   |
| Share of net assets owned by the Group<br>after disposal (Note 11) | 36,860   |

(ii) In July 2005, the Group also disposed 5% equity interest in a wholly owned subsidiary and assigned 5% of the outstanding shareholder loan to the buyer at face value for a cash consideration of HK\$5 and US\$1,520,000, respectively. This subsidiary holds 100% interest in a project company in Ningbo, PRC for development of the Shangri-La Hotel, Ningbo. The Group recorded a gain on disposal of US\$43,000.

(iii) Total gains on disposal of partial interests in subsidiaries during the year were US\$340,000 (Note 26).

### 35 CONTINGENCIES AND CHARGES OVER ASSETS

#### (a) Contingent liabilities

As at 31 December 2005, contingent liabilities of the Group were as follows:

- (i) The Company executed proportionate guarantees in favour of banks for securing banking facilities granted to certain subsidiaries and associates. The utilised amount of such facilities covered by the Company's guarantees and which also represented the financial exposure of the Company at the balance sheet date amounts to US\$1,009,813,000 (2004: US\$801,543,000) for the subsidiaries and US\$20,439,000 (2004: US\$23,469,000) for associates.
- (ii) The Group executed proportionate guarantees in favour of banks for securing banking facilities granted to certain associates. The utilised amount of such facilities covered by the Group's guarantees for these associates amounts to US\$30,385,000 (2004: US\$25,265,000).
- (iii) The Group executed a performance guarantee in favour of the owner of a hotel in Sydney for the financial performance of the hotel under a management contract. The maximum cumulative amount of liability under such guarantee is A\$10,000,000 (equivalent to US\$7,432,000) (2004: A\$10,000,000).

#### (b) Charges over assets

As at 31 December 2005, bank loans of a subsidiary amounting to US\$36,000 (2004: US\$68,000) were secured by charges over certain motor vehicles of the subsidiary with net book values totalling US\$93,000 (2004: US\$112,000).

For the year ended 31 December 2005

### 36 COMMITMENTS

- (a) The Group's capital expenditure committed at the balance sheet date but not yet incurred is as follows:

|  | <b>2005<br/>US\$'000</b> | <b>2004<br/>US\$'000</b> |
|--|--------------------------|--------------------------|
| Property, plant and equipment at existing properties |                          |                          |
| Contracted but not provided for                      | 28,693                   | 32,009                   |
| Authorised but not contracted for                    | 36,771                   | 52,297                   |
| Development projects                                 |                          |                          |
| Contracted but not provided for                      | 324,531                  | 76,430                   |
| Authorised but not contracted for                    | 1,502,325                | 1,155,190                |
|  | <b>1,892,320</b>         | <b>1,315,926</b>         |

- (b) The Group's commitments under operating leases to make future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

|   | <b>2005<br/>US\$'000</b> | <b>2004<br/>US\$'000</b> |
|---|--------------------------|--------------------------|
| Not later than one year                           | 10,136                   | 6,458                    |
| Later than one year and not later than five years | 24,866                   | 19,077                   |
| Later than five years                             | 118,752                  | 108,648                  |
|   | <b>153,754</b>           | <b>134,183</b>           |

- (c) At 31 December 2005, the Group had future aggregate minimum lease rental receivable under non-cancellable operating leases in respect of land and buildings as follows:

|   | <b>2005<br/>US\$'000</b> | <b>2004<br/>US\$'000</b> |
|---|--------------------------|--------------------------|
| Not later than one year                           | 10,268                   | 7,894                    |
| Later than one year and not later than five years | 7,212                    | 2,162                    |
| Later than five years                             | 36                       | –                        |
|   | <b>17,516</b>            | <b>10,056</b>            |

- (d) The Company had entered into HIBOR and LIBOR interest rate swap contracts for an aggregate principal amount of HK\$4,360,000,000 and US\$100,000,000 at fixed interest rates between 4.335% to 5.29% per annum to reduce its interest rate exposure. These contracts will be maturing between May 2006 through November 2012.

For the year ended 31 December 2005

### 37 RELATED PARTY TRANSACTIONS

Kerry Group Limited ("KGL"), which owns approximately 43.04% of the Company's issued ordinary shares as recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance as at 31 December 2005, has significant influence over the Company.

The following transactions were carried out with related parties:

|  | 2005<br>US\$'000 | 2004<br>US\$'000 |
|--|------------------|------------------|
| (a) Transactions with subsidiaries of KGL during the year (other than subsidiaries of the Company)                           |                  |                  |
| Receipt of hotel management and related services and royalty fees  | 1,874            | 1,577            |
| Reimbursement of office expenses and payment of administration and related expenses  | 1,754            | 1,633            |
| Payment of office rental, management fees and rates  | 329              | 332              |
| Purchase of edible oil   | 519              | 523              |
| (b) Transactions with associates of the Group during the year (other than a subsidiary of KGL included under item (a) above) |                  |                  |
| Receipt of hotel management and related services and royalty fees  | 7,106            | 5,460            |
| Receipt for laundry services   | 660              | 660              |

|   | 2005<br>US\$'000 | 2004<br>US\$'000 |
|---|------------------|------------------|
| (c) Financial assistance provided to subsidiaries of KGL as at 31 December (other than subsidiaries of the Company)       |                  |                  |
| Balance of loan to associates of the Group  | 53,447           | 54,187           |
| Balance of guarantees executed in favour of banks for securing bank loans/facilities granted to associates of the Group   | 20,440           | 23,469           |
| (d) Financial assistance provided to associates of the Group as at 31 December (excluding item (c) above)                 |                  |                  |
| Balance of loan to associates of the Group  | 53,730           | 54,298           |
| Balance of guarantees executed in favour of banks for securing bank loans/facilities granted to an associate of the Group | 10,886           | 1,965            |
| There are no material changes to the terms of the above transactions during the year.                                     |                  |                  |
| (e) Key management compensation   |                  |                  |
| Fees, salaries and other short-term employee benefits   | 8,823            | 3,820            |
| Post employment benefits  | 82               | 77               |

For the year ended 31 December 2005

### 38 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES AND ASSOCIATES

(a) At 31 December 2005, the Company held interests in the following principal subsidiaries:

| Name  | Place of establishment/<br>operation | Paid up/<br>issued capital                                  | Percentage holding<br>in the voting shares |          | Nature of business            | Notes   |
|---|--------------------------------------|---|--|----------|-------------------------------|---------|
|   |                                      |   | Direct                                     | Indirect |                               |         |
| Seanoble Assets Limited                                 | The British Virgin Islands           | Ordinary HK\$578,083,745                                    | 100  | –        | Investment holding            | 1       |
| Shangri-La Asia Treasury Limited                        | The British Virgin Islands           | Ordinary HK\$780  | 100  | –        | Group financing               | 1       |
| Shangri-La Finance Limited                              | The British Virgin Islands           | Ordinary US\$1,000  | 100  | –        | Group financing               | 1       |
| Kerry Industrial Company Limited                        | Hong Kong                            | Ordinary HK\$2<br>Non-voting deferred<br>HK\$10,000,000     | –  | 100      | Investment holding            | 1       |
| Shangri-La Hotel (Kowloon) Limited                      | Hong Kong                            | Ordinary HK\$2<br>Non-voting deferred<br>HK\$10,000,000     | –  | 100      | Hotel ownership and operation | 1       |
| Shangri-La International Hotels (Pacific Place) Limited | Hong Kong                            | Ordinary HK\$5,000<br>Non-voting deferred<br>HK\$10,000,000 | –  | 80       | Hotel ownership and operation | 1       |
| Shenzhen Shangri-La Hotel Limited                       | The People's Republic of China       | US\$32,000,000  | –  | 51.30    | Hotel ownership and operation | 2, 5, 7 |
| Beihai Shangri-La Hotel Ltd.                            | The People's Republic of China       | US\$16,000,000  | –  | 97       | Hotel ownership and operation | 5, 7    |

For the year ended 31 December 2005

**38 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)**

(a) At 31 December 2005, the Company held interests in the following principal subsidiaries: (continued)

| Name   | Place of establishment/<br>operation | Paid up/<br>issued capital | Percentage holding<br>in the voting shares |          | Nature of business  | Notes   |
|--|--------------------------------------|----------------------------|--|----------|---|---------|
|  |                                      |                            | Direct                                     | Indirect |   |         |
| Shanghai Pu Dong<br>New Area Shangri-La Hotel<br>Co., Ltd. | The People's Republic<br>of China    | US\$47,000,000             | –  | 100      | Hotel ownership and operation   | 2, 4, 7 |
| Shenyang Traders Hotel Ltd.                                | The People's Republic<br>of China    | US\$28,334,000             | –  | 100      | Hotel ownership and operation   | 6, 7    |
| Changchun Shangri-La Hotel<br>Co., Ltd.                    | The People's Republic<br>of China    | RMB167,000,000             | –  | 90       | Hotel ownership and operation<br>and real estate operation                    | 5, 7    |
| Jilin Province Kerry Real Estate<br>Development Ltd        | The People's Republic<br>of China    | RMB25,000,000              | –  | 90       | Real estate development and<br>operation                                      | 5, 7    |
| Qingdao Shangri-La Hotel<br>Co., Ltd.                      | The People's Republic<br>of China    | US\$22,184,000             | –  | 100      | Hotel ownership and operation<br>and real estate development<br>and operation | 6, 7    |
| Dalian Shangri-La Hotel<br>Co., Ltd.                       | The People's Republic<br>of China    | US\$51,666,670             | –  | 100      | Hotel ownership and operation<br>and real estate development<br>and operation | 6, 7    |
| Xian Shangri-La Golden<br>Flower Hotel Co., Ltd            | The People's Republic<br>of China    | US\$12,000,000             | –  | 100      | Hotel ownership and operation   | 4, 7    |
| Harbin Shangri-La Hotel<br>Co., Ltd.                       | The People's Republic<br>of China    | US\$20,767,000             | –  | 100      | Hotel ownership and operation   | 6, 7    |

For the year ended 31 December 2005

### 38 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

(a) At 31 December 2005, the Company held interests in the following principal subsidiaries: (continued)

| Name  | Place of establishment/<br>operation | Paid up/<br>issued capital | Percentage holding<br>in the voting shares |          | Nature of business                    | Notes   |
|---|--------------------------------------|----------------------------|--|----------|---------------------------------------|---------|
|   |                                      |                            | Direct                                     | Indirect |                                       |         |
| Wuhan Kerry Real Estate Development Co., Ltd.   | The People's Republic of China       | US\$6,000,000              | –  | 92       | Real estate development and operation | 5, 7    |
| Wuhan Shangri-La Hotel Co., Ltd.                | The People's Republic of China       | US\$26,667,000             | –  | 92       | Hotel ownership and operation         | 5, 7    |
| Fujian Kerry World Trade Centre Co., Ltd.       | The People's Republic of China       | HK\$94,860,051             | –  | 100      | Real estate development               | 3, 6, 7 |
| Fuzhou Shangri-La Hotel Co., Ltd.               | The People's Republic of China       | US\$22,200,000             | –  | 100      | Hotel ownership and operation         | 6, 7    |
| Zhongshan Shangri-La Hotel Co., Ltd.            | The People's Republic of China       | US\$16,310,000             | –  | 51       | Hotel ownership and operation         | 5, 7    |
| Tianjin Kerry Real Estate Development Co., Ltd. | The People's Republic of China       | US\$11,707,000             | –  | 90       | Real estate development and operation | 3, 5, 7 |
| Shangri-La Hotel (Chengdu) Co, Ltd.             | The People's Republic of China       | US\$27,340,000             | –  | 80       | Hotel ownership and operation         | 3, 6, 7 |
| Shangri-La Hotel (Guangzhou Pazhou) Co., Ltd.   | The People's Republic of China       | US\$28,340,000             | –  | 100      | Hotel ownership and operation         | 3, 6, 7 |

For the year ended 31 December 2005

### 38 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

(a) At 31 December 2005, the Company held interests in the following principal subsidiaries: (continued)

| Name   | Place of establishment/<br>operation | Paid up/<br>issued capital | Percentage holding<br>in the voting shares |          | Nature of business            | Notes   |
|--|--------------------------------------|----------------------------|--|----------|-------------------------------|---------|
|  |                                      |                            | Direct                                     | Indirect |                               |         |
| Shangri-La Hotel (Shenzhen Futian) Co., Ltd. | The People's Republic of China       | US\$20,000,000             | –  | 100      | Hotel ownership and operation | 3, 6, 7 |
| Shangri-La Hotel (Ningbo) Co., Ltd.          | The People's Republic of China       | US\$37,400,500             | –  | 95       | Hotel ownership and operation | 3, 6, 7 |
| Shangri-La Hotel (Wenzhou) Co., Ltd.         | The People's Republic of China       | US\$11,200,000             | –  | 100      | Hotel ownership and operation | 3, 6, 7 |
| Shangri-La Hotel (Xian) Co., Ltd.            | The People's Republic of China       | US\$12,501,753             | –  | 100      | Hotel ownership and operation | 3, 6, 7 |
| Shangri-La Hotel (Guilin) Co., Ltd.          | The People's Republic of China       | US\$4,250,500              | –  | 100      | Hotel ownership and operation | 3, 6, 7 |
| Shangri-La Hotel (Baotou) Co., Ltd.          | The People's Republic of China       | US\$15,500,000             | –  | 100      | Hotel ownership and operation | 3, 6, 7 |
| Shangri-La Hotel (Huhhot) Co., Ltd.          | The People's Republic of China       | US\$21,670,000             | –  | 100      | Hotel ownership and operation | 3, 6, 7 |
| Shangri-La Hotel (Manzhouli) Co., Ltd.       | The People's Republic of China       | US\$2,000,000              | –  | 100      | Hotel ownership and operation | 3, 6, 7 |

For the year ended 31 December 2005

### 38 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

(a) At 31 December 2005, the Company held interests in the following principal subsidiaries: (continued)

| Name                                    | Place of establishment/<br>operation | Paid up/<br>issued capital                                  | Percentage holding<br>in the voting shares |          | Nature of business   | Notes |
|---|--------------------------------------|---|--|----------|--|-------|
|   |                                      |   | Direct                                     | Indirect |  |       |
| Makati Shangri-La Hotel & Resort, Inc.  | The Philippines                      | Common<br>Peso 921,948,400                                  | –  | 100      | Hotel ownership and operation  |       |
| Edsa Shangri-La Hotel & Resort, Inc.    | The Philippines                      | Common<br>Peso 792,128,700                                  | –  | 100      | Hotel ownership and operation  |       |
| Mactan Shangri-La Hotel & Resort, Inc.  | The Philippines                      | Common<br>Peso 272,630,000<br>Preferred<br>Peso 170,741,500 | –  | 100      | Hotel ownership and operation  |       |
| Boracay Shangri-La Hotel & Resort, Inc. | The Philippines                      | Common<br>Peso 10,825,000                                   | –  | 100      | Hotel ownership and operation  | 3     |
| Addu Investments Private Limited        | Maldives                             | Rufiyaa 12,000,000  | –  | 70       | Hotel ownership and operation  | 3     |
| Yanuca Island Limited                   | Fiji                                 | Ordinary F\$1,262,196                                       | –  | 71.64    | Hotel ownership and operation  | 2     |
| Shangri-La Hotel Limited                | Singapore                            | Ordinary S\$164,663,560                                     | –  | 100      | Investment holding, hotel ownership and operation and leasing of residential and serviced apartments |       |

For the year ended 31 December 2005

**38 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)**

(a) At 31 December 2005, the Company held interests in the following principal subsidiaries: (continued)

| Name                                   | Place of establishment/<br>operation | Paid up/<br>issued capital | Percentage holding<br>in the voting shares |          | Nature of business                                      | Notes |
|--|--------------------------------------|----------------------------|--|----------|---|-------|
|  |                                      |                            | Direct                                     | Indirect |   |       |
| Sentosa Beach Resort Pte Ltd           | Singapore                            | Ordinary S\$30,000,000     | –  | 100      | Hotel ownership and operation                           |       |
| Shangri-La Hotels<br>(Malaysia) Berhad | Malaysia                             | Ordinary RM440,000,000     | –  | 52.78    | Investment holding and hotel<br>ownership and operation |       |
| Shangri-La Hotel (KL)<br>Sdn Bhd       | Malaysia                             | Ordinary RM150,000,000     | –  | 52.78    | Hotel ownership and operation                           |       |
| Golden Sands Beach<br>Resort Sdn Bhd   | Malaysia                             | Ordinary RM6,000,000       | –  | 52.78    | Hotel ownership and operation                           |       |
| Komtar Hotel Sdn Bhd                   | Malaysia                             | Ordinary RM6,000,000       | –  | 31.67    | Hotel ownership and operation                           |       |
| Pantai Dalit Beach Resort<br>Sdn Bhd   | Malaysia                             | Ordinary RM135,000,000     | –  | 64.59    | Hotel and golf club ownership<br>and operation          |       |
| UBN Tower Sdn Bhd                      | Malaysia                             | Ordinary RM500,000         | –  | 52.78    | Property investment and<br>office management            |       |
| UBN Holdings Sdn Bhd                   | Malaysia                             | Ordinary RM45,000,000      | –  | 52.78    | Investment holding and<br>property investment           |       |
| Traders Yangon Company<br>Limited      | Myanmar                              | Ordinary Kyat 21,600,000   | –  | 59.16    | Hotel ownership and operation                           |       |

For the year ended 31 December 2005

### 38 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

(a) At 31 December 2005, the Company held interests in the following principal subsidiaries: (continued)

| Name  | Place of establishment/<br>operation | Paid up/<br>issued capital   | Percentage holding<br>in the voting shares |          | Nature of business  | Notes |
|---|--------------------------------------|------------------------------|--|----------|---|-------|
|   |                                      |                              | Direct                                     | Indirect |   |       |
| Shangri-La Hotel Public Company Limited           | Thailand                             | Common<br>Baht 1,300,000,000 | –  | 73.61    | Hotel, serviced apartments and office ownership and operation     |       |
| SLIM International Limited                        | Cook Islands                         | Ordinary US\$1,000           | 100  | –        | Investment holding  | 1     |
| Shangri-La International Hotel Management Limited | Hong Kong                            | Ordinary HK\$10,000,000      | –  | 100      | Hotel management, marketing, consultancy and reservation services | 1     |
| Shangri-La Hotel Management (Shanghai) Co., Ltd   | The People's Republic of China       | US\$140,000                  | –  | 100      | Hotel management, marketing and consultancy services              | 6, 7  |
| Shangri-La International Hotel Management B.V.    | The Netherlands                      | Ordinary EUR18,151           | –  | 100      | Licensing use of intellectual property rights                     |       |

Notes:

- 1 Subsidiaries audited by PricewaterhouseCoopers, Hong Kong.
- 2 Subsidiaries audited by other member firms of PricewaterhouseCoopers, Hong Kong.
- 3 Subsidiaries which are under various stages of real estate and hotel development and have not yet commenced business operations as at the balance sheet date.
- 4 Co-operative Joint Venture
- 5 Equity Joint Venture
- 6 Wholly Foreign Owned Enterprise
- 7 The amount of paid up/issued capital for subsidiaries incorporated in The People's Republic of China represented the amount of paid in registered capital.

For the year ended 31 December 2005

### 38 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

(b) At 31 December 2005, the Group held interests in the following principal associates:

| <b>Name</b>                                      | <b>Place of establishment/<br/>operation</b> | <b>Percentage holding in the registered capital by the Group</b> | <b>Nature of business</b>                             | <b>Notes</b> |
|--|--|--|---|--------------|
| China World Trade Center Ltd.                    | The People's Republic of China               | 50   | Hotel ownership and operation and property investment | 2            |
| Beijing Shangri-La Hotel Ltd.                    | The People's Republic of China               | 38   | Hotel ownership and operation                         |              |
| Hangzhou Shangri-La Hotel Ltd.                   | The People's Republic of China               | 45   | Hotel ownership and operation                         |              |
| Seacliff Limited                                 | The People's Republic of China               | 30   | Hotel ownership and operation and property investment | 1            |
| Beijing Jia Ao Real Estate Development Co., Ltd. | The People's Republic of China               | 23.75  | Real estate development and operation                 | 2            |
| Beijing Kerry Centre Hotel Co., Ltd.             | The People's Republic of China               | 23.75  | Hotel ownership and operation                         | 2            |
| Shanghai Xin Ci Hou Properties Co., Ltd.         | The People's Republic of China               | 24.75  | Real estate development and operation                 | 2            |
| Shanghai Ji Xiang Properties Co., Ltd.           | The People's Republic of China               | 48.5   | Real estate development and operation                 | 2            |
| Shanghai Jin Ci Hou Properties Company Limited   | The People's Republic of China               | 49   | Real estate development and operation                 |              |

For the year ended 31 December 2005

### 38 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

(b) At 31 December 2005, the Group held interests in the following principal associates: (continued)

| <b>Name</b>   | <b>Place of establishment/<br/>operation</b> | <b>Percentage holding in the registered capital by the Group</b> | <b>Nature of business</b>                             | <b>Notes</b> |
|---|--|--|---|--------------|
| Shanghai Ming Cheng Real Estate Development Co., Ltd. | The People's Republic of China               | 49   | Real estate development and operation                 |              |
| Cuscaden Properties Pte Ltd                           | Singapore                                    | 40.75  | Hotel ownership and operation and property investment |              |
| Tanjong Aru Hotel Sdn. Bhd.                           | Malaysia                                     | 40   | Hotel ownership and operation                         |              |
| PT Swadharma Kerry Satya                              | Indonesia                                    | 25   | Hotel ownership and operation                         |              |

Notes:

- 1 Associates audited by PricewaterhouseCoopers, Hong Kong.
- 2 Associates audited by other member firms of PricewaterhouseCoopers, Hong Kong.

(c) The above tables list out the subsidiaries and associates of the Company as at 31 December 2005 which, in the opinion of the Directors, principally affected the results for the year or form a substantial portion of the net assets of the Group. To give details of other subsidiaries and associates would, in the opinion of the Directors, result in particulars of excessive length.

For the year ended 31 December 2005

### 39 HOTEL PROPERTIES OF SUBSIDIARIES AND ASSOCIATES

(a) Details of hotel properties of the Company's subsidiaries are as follows:

| Address  | Existing use    | Lease term   |
|--|-----------------|--------------|
| Kowloon Shangri-La, Hong Kong<br>64 Mody Road, Tsimshatsui East,<br>Kowloon,<br>Hong Kong  | Hotel operation | Medium lease |
| Island Shangri-La, Hong Kong<br>Pacific Place, 88 Queensway, Central,<br>Hong Kong   | Hotel operation | Medium lease |
| Shangri-La Hotel, Shenzhen<br>Shenzhen East Side, Railway Station,<br>Jianshe Road, Shenzhen 518001,<br>The People's Republic of China | Hotel operation | Medium lease |
| Shangri-La Hotel, Beihai<br>33 Chating Road, Beihai, Guangxi 536007,<br>The People's Republic of China                                 | Hotel operation | Medium lease |
| Pudong Shangri-La, Shanghai<br>33 Fu Cheng Lu,<br>Pudong New Area,<br>Shanghai 200120,<br>The People's Republic of China               | Hotel operation | Medium lease |

| Address  | Existing use   | Lease term   |
|--|--|--------------|
| Traders Hotel, Shenyang<br>68 Zhong Hua Road, He Ping District,<br>Shenyang 110001,<br>The People's Republic of China    | Hotel operation  | Long lease   |
| Shangri-La Hotel, Changchun<br>569 Xian Road, Changchun 130061,<br>The People's Republic of China                        | Hotel operation<br>and commercial<br>and residential<br>rental | Medium lease |
| Shangri-La Hotel, Qingdao<br>9 Xiang Gang Zhong Lu, Qingdao 266071,<br>The People's Republic of China                    | Hotel operation  | Medium lease |
| Shangri-La Hotel, Dalian<br>66 Renmin Road, Dalian 116001,<br>The People's Republic of China                             | Hotel operation  | Medium lease |
| Shangri-La Golden Flower Hotel, Xian<br>8 Chang Le Road West,<br>Xian 710032, Shaanxi,<br>The People's Republic of China | Hotel operation  | Medium lease |

For the year ended 31 December 2005

### 39 HOTEL PROPERTIES OF SUBSIDIARIES AND ASSOCIATES (continued)

(a) Details of hotel properties of the Company's subsidiaries are as follows:  
(continued)

| Address  | Existing use    | Lease term   |
|--|-----------------|--------------|
| Shangri-La Hotel, Harbin<br>555 You Yi Road, Dao Li District,<br>Harbin 150018,<br>The People's Republic of China            | Hotel operation | Medium lease |
| Shangri-La Hotel, Wuhan<br>No. 700, Jianshe Avenue, Hankou,<br>Wuhan 430015,<br>The People's Republic of China               | Hotel operation | Medium lease |
| Shangri-La Hotel, Zhongshan<br>16 Qi Wan Road North,<br>Eastern Area,<br>Zhongshan 528403,<br>The People's Republic of China | Hotel operation | Long lease   |
| Shangri-La Hotel, Fuzhou<br>9 Xin Quan Nan Road,<br>Fuzhou 350005<br>The People's Republic of China                          | Hotel operation | Long lease   |
| Makati Shangri-La, Manila<br>Ayala Avenue, corner Makati Avenue,<br>Makati City, Metro Manila 1200,<br>The Philippines       | Hotel operation | Medium lease |

| Address  | Existing use    | Lease term   |
|--|-----------------|--------------|
| Edsa Shangri-La, Manila<br>1 Garden Way, Ortigas Center,<br>Mandaluyong City 1650,<br>Metro Manila,<br>The Philippines | Hotel operation | Medium lease |
| Shangri-La's Mactan Island<br>Resort & Spa, Cebu<br>Punta Engano Road,<br>Mactan Island, Cebu,<br>The Philippines      | Hotel operation | Medium lease |
| Shangri-La's Fijian Resort, Yanuca<br>Yanuca Island, Sigatoka, Nadroga,<br>Fiji  | Hotel operation | Long lease   |
| Shangri-La Hotel, Singapore<br>22 & 28 Orange Grove Road,<br>Singapore 258350  | Hotel operation | Freehold     |
| Rasa Sentosa Resort, Singapore<br>101 Siloso Road, Sentosa,<br>Singapore 098970  | Hotel operation | Long lease   |
| Shangri-La Hotel, Kuala Lumpur<br>UBN Complex, 11 Jalan Sultan Ismail,<br>50250 Kuala Lumpur,<br>Malaysia              | Hotel operation | Freehold     |

For the year ended 31 December 2005

### 39 HOTEL PROPERTIES OF SUBSIDIARIES AND ASSOCIATES (continued)

(a) Details of hotel properties of the Company's subsidiaries are as follows:  
(continued)

| Address  | Existing use   | Lease term   |
|--|--|--------------|
| Shangri-La Hotel, Penang<br>Magazine Road,<br>10300 Penang,<br>Malaysia  | Hotel operation                                      | Long lease   |
| Golden Sands Resort, Penang<br>Batu Ferringi Beach,<br>11100 Penang,<br>Malaysia                                       | Hotel operation                                      | Freehold     |
| Shangri-La's Rasa Ria Resort,<br>Dalit Bay Golf Club & Spa, Sabah<br>Pantai Dalit, 89208 Tuaran,<br>Sabah,<br>Malaysia | Hotel and golf<br>club operation                     | Long lease   |
| Traders Hotel, Yangon<br>223 Sule Pagoda Road,<br>Yangon,<br>Myanmar   | Hotel operation                                      | Medium lease |
| Shangri-La Hotel, Bangkok<br>89 Soi Wat Suan Plu,<br>New Road, Bangrak, Bangkok 10500,<br>Thailand                     | Hotel operation,<br>residential and<br>office rental | Freehold     |

(b) Details of hotel properties of the operating associates are as follows:

| Address   | Existing use    | Lease term   |
|---|-----------------|--------------|
| China World Hotel, Beijing<br>1 Jian Guo Men Wai Avenue,<br>Beijing 100004,<br>The People's Republic of China                 | Hotel operation | Medium lease |
| Traders Hotel, Beijing<br>1 Jian Guo Men Wai Avenue,<br>Beijing 100004,<br>The People's Republic of China                     | Hotel operation | Medium lease |
| The Kerry Centre Hotel, Beijing<br>1 Guanghua Road,<br>Chaoyang District,<br>Beijing 100020<br>The People's Republic of China | Hotel operation | Medium lease |
| Shangri-La Hotel, Beijing<br>29 Zizhuyuan Road,<br>Beijing 100089,<br>The People's Republic of China                          | Hotel operation | Medium lease |
| Shangri-La Hotel, Hangzhou<br>78 Beishan Road,<br>Hangzhou 310007,<br>The People's Republic of China                          | Hotel operation | Medium lease |

For the year ended 31 December 2005

### 39 HOTEL PROPERTIES OF SUBSIDIARIES AND ASSOCIATES (continued)

(b) Details of hotel properties of the operating associates are as follows: (continued)

| <b>Address</b>   | <b>Existing use</b> | <b>Lease term</b> |
|--|---------------------|-------------------|
| Traders Hotel, Singapore<br>1A Cuscaden Road,<br>Singapore 249716                                | Hotel operation     | Long lease        |
| Shangri-La's Tanjung Aru Resort,<br>Kota Kinabalu<br>88995 Kota Kinabalu, Sabah,<br>Malaysia     | Hotel operation     | Long lease        |
| Shangri-La Hotel, Jakarta<br>Kota BNI, Jalan Jend Sudirman Kav. 1<br>Jakarta 10220,<br>Indonesia | Hotel operation     | Medium lease      |

### 40 INVESTMENT PROPERTIES OF SUBSIDIARIES AND ASSOCIATES

(a) Details of investment properties of the subsidiaries are as follows:

| <b>Address</b>   | <b>Existing use</b>                | <b>Lease term</b> |
|--|------------------------------------|-------------------|
| Shangri-La Residences, Dalian<br>66 Renmin Road, Dalian 116001,<br>The People's Republic of China  | Residential rental                 | Medium lease      |
| Shangri-La Apartments, Singapore<br>1 Anderson Road,<br>Singapore 259983                           | Residential rental                 | Freehold          |
| Shangri-La Residences, Singapore<br>No. 1A Lady Hill Road,<br>Singapore 258685                     | Residential rental                 | Freehold          |
| UBN Tower, Kuala Lumpur<br>UBN Complex, 10 Jalan P Ramlee,<br>50250 Kuala Lumpur,<br>Malaysia      | Office and<br>commercial<br>rental | Freehold          |
| UBN Apartments, Kuala Lumpur<br>UBN Complex, 10 Jalan P Ramlee,<br>50250 Kuala Lumpur,<br>Malaysia | Residential rental                 | Freehold          |

For the year ended 31 December 2005

#### 40 INVESTMENT PROPERTIES OF SUBSIDIARIES AND ASSOCIATES (continued)

(b) Details of investment properties of the operating associates are as follows:

| <b>Address</b>  | <b>Existing use</b>   | <b>Lease term</b> |
|---|---|-------------------|
| China World Trade Center<br>1 Jian Guo Men Wai Avenue,<br>Beijing 100004,<br>The People's Republic of China         | Hotel operation<br>and office,<br>commercial,<br>residential and<br>exhibition hall<br>space rental | Medium lease      |
| Shanghai Centre<br>1376 Nanjing Xi Lu,<br>Shanghai 200040,<br>The People's Republic of China                        | Hotel operation and<br>office, commercial,<br>residential and<br>exhibition hall<br>space rental    | Medium lease      |
| Beijing Kerry Centre<br>1 Guanghua Road,<br>Chaoyang District,<br>Beijing 100020,<br>The People's Republic of China | Hotel operation and<br>office, commercial<br>and residential<br>rental                              | Medium lease      |

| <b>Address</b>   | <b>Existing use</b>                             | <b>Lease term</b> |
|--|---|-------------------|
| Shanghai Kerry Centre<br>No. 1515 Nanjing Road West,<br>Jingan District,<br>Shanghai 200040,<br>The People's Republic of China | Office, commercial<br>and residential<br>rental | Medium lease      |
| Tanglin Mall, Singapore<br>163 Tanglin Road,<br>Singapore 247933   | Commercial rental                               | Long lease        |
| Tanglin Place, Singapore<br>91 Tanglin Road,<br>Singapore 247918   | Office and<br>commercial<br>rental              | Freehold          |

For the year ended 31 December 2005

#### 41 EVENTS AFTER THE BALANCE SHEET DATE

- (a) The Company issued the following new ordinary shares to holders of convertible bonds who have exercised the right of conversion at conversion price of HK\$9.25 per ordinary share subsequent to 31 December 2005 and up to the date of these financial statements:

| <b>Issue date of ordinary shares</b> | <b>Face value of convertible bonds<br/>US\$'000</b> | <b>Number of new ordinary shares issued</b> |
|--------------------------------------|---|---|
| Jan 2006                             | 1,000   | 843,243                                     |
| Feb 2006                             | 400   | 337,296                                     |
| Mar 2006                             | 1,000   | 843,243                                     |
|                                      | 2,400   | 2,023,782                                   |

- (b) The Company issued a total of 60,000 new ordinary shares to share option holders who have exercised their rights to subscribe for shares of the Company subsequent to 31 December 2005 and up to the date of these financial statements.

#### 42 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 4 April 2006.