

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

1 General information

Shangri-La Asia Limited (the "Company") and its subsidiaries (together the "Group") own and operate hotels and associated properties; and provide 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 Exchange Securities Trading Limited.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). 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 following amendments to standards and interpretation are relevant to the Group's operation and are mandatory for financial year ended 31 December 2006:

HKAS 21 Amendment

HKAS 39 Amendments

HKAS 39 & HKFRS 4
Amendments

HKFRS – Interpretation 4

These amendments to standards and interpretation had no material effect on the Group's accounting policies.

The following new standard, amendment to standard and interpretations are relevant to the Group's operation but are not effective for 2006 and have not been early adopted:

HKAS 1 Amendment

HKFRS 7

HK(IFRIC) - Interpretation 8

HK(IFRIC) - Interpretation 9

HK(IFRIC) - Interpretation 10

The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation

Transition and Initial Recognition of Financial Assets and Financial Liabilities

Cash Flow Hedge Accounting of Forecast Intragroup Transactions
The Fair Value Option

Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts

Determining whether an Arrangement contains a Lease

Capital Disclosures
Financial Instruments: Disclosures
Scope of HKFRS 2
Reassessment of Embedded Derivatives
Interim Financial Reporting and Impairment

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

The Group believes that the adoption of the above new standard, amendment to standard and interpretations will not result in substantial changes to the Group's accounting policies except that there will be additional disclosures required by HKAS 1 Amendment and HKFRS 7.

Certain comparative figures have been restated to conform with the current year's presentation.

2.2 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.

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 losses) identified on acquisition (see Note 2.8).

2 Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(b) Associates (continued)

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.

2.3 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, leasehold land and land use rights, interest in associates, 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, derivative financial instruments and all borrowings. Capital expenditure comprises additions to fixed assets, leasehold land and land use rights.

2.4 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.

2 Summary of significant accounting policies (continued)

2.4 Foreign currency translation (continued)

(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.

2.5 Property, plant and equipment

Buildings comprise mainly hotel properties. All properties, 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.

2 Summary of significant accounting policies (continued)

2.5 Property, plant and equipment (continued)

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.

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.

2.6 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.

2.7 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 Summary of significant accounting policies (continued)

2.8 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.

(c) Website development costs

Website development costs that are directly associated with the development of identifiable and unique products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Such development costs are carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost over their estimated useful lives of 3 years upon commencement of operation.

2.9 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 Summary of significant accounting policies (continued)

2.10 Investments

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 2.12).

(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. Unlisted equity as included in available-for-sale financial assets are stated at cost less impairment (which is charged to the income statement) as the fair value of these unlisted financial assets cannot be reliably measured. Club debentures are stated at fair value and the changes in fair value are recognised in equity.

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 Summary of significant accounting policies (continued)

2.11 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.

2.12 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.

2.13 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.

2.14 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.

2.15 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 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 Summary of significant accounting policies (continued)

2.17 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).

2.18 Pre-operating expenditure

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

2.19 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.

2.20 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.

(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.

2 Summary of significant accounting policies (continued)

2.20 Employee benefits (continued)

(ii) Pension obligations (continued)

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.

2.21 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.

2.22 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.

2 Summary of significant accounting policies (continued)

2.22 Revenue recognition (continued)

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.

2.23 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.

2.24 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.

2.25 Share-based compensation

The Group operates two equity-settled, share-based compensation plans. For options granted on or before 7 November 2002, the Group has taken advantage of the transitional provisions in HKFRS 2 under which the fair value recognition and measurement policies have not been applied. 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.

2.26 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 US dollars. Revenues in Indonesia are also immediately converted into US dollars upon realisation, to the maximum extent possible.

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 continued strengthening of the Renminbi, subsidiaries in Mainland China have, to the extent allowable, contracted new bank loans in US dollars. The Group has secured corporate bank loans in dual-currencies (Hong Kong dollars/US dollars) to provide flexibility depending on the relative weakness of either currency.

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.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(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 at around 50% or above of its borrowings in fixed rate instruments. At the year end, 48% 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.

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.

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). 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 Financial risk management (continued)

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 2.8. 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 practise 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.

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:

| | 2006 US\$'000 | 2005 US\$'000 |
|--|------------------|------------------|
| Sales | | |
| Hotel operation: | | |
| Room rentals | 514,471 | 430,897 |
| Food and beverage sales | 376,846 | 316,954 |
| Rendering of ancillary services | 69,524 | 59,062 |
| Hotel management and related service fees | 20,766 | 16,444 |
| Property rentals | 21,285 | 18,646 |
| | 1,002,892 | 842,003 |

5 Sales and segment information (continued)

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 |
| | – ownership and leasing of office, commercial and serviced apartments |
| The Philippines | – hotel ownership, operation and management |
| Singapore | – hotel ownership, operation and management |
| | – ownership and leasing of office, commercial and serviced apartments |
| Thailand | – hotel ownership, operation and management |
| | – ownership and leasing of office, commercial and serviced apartments |
| Malaysia | – hotel ownership, operation and management, golf club ownership and operation |
| | – 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 |

5 Sales and segment information (continued)

Primary reporting format – geographical segments

Segment income statement

For year ended 31 December 2006 (US\$ million)

| | Hong Kong | Mainland China | The Philippines | Singapore | Thailand | Malaysia | Other | Elimination | Group |
|--|--------------|----------------|-----------------|--------------|-------------|-------------|-------------|---------------|----------------|
| Sales | | | | | | | | | |
| External sales | 212.8 | 334.5 | 124.3 | 140.5 | 54.3 | 91.6 | 44.9 | – | 1,002.9 |
| Inter-segment sales | 6.9 | 19.1 | 7.8 | 3.8 | 2.6 | 2.6 | 0.9 | (43.7) | – |
| Total | 219.7 | 353.6 | 132.1 | 144.3 | 56.9 | 94.2 | 45.8 | (43.7) | 1,002.9 |
| Result | | | | | | | | | |
| Segment results | 14.6 | 80.0 | 23.8 | 38.7 | 20.4 | 18.2 | 14.2 | – | 209.9 |
| Interest income | | | | | | | | | 7.9 |
| Dividend income | | | | | | | | | 0.9 |
| Net realised and unrealised gains on financial assets held for trading | | | | | | | | | 21.0 |
| Fair value gains on investment properties | | | | | | | | | 51.5 |
| Fair value losses on derivative financial instruments | | | | | | | | | (10.4) |
| – interest-rate swap contracts | | | | | | | | | (14.8) |
| Unallocated corporate expenses | | | | | | | | | 7.6 |
| Tax refund on reinvestment of dividend from subsidiaries and an associate | | | | | | | | | 0.7 |
| Excess of net assets over the cost of acquisition of additional interest in a subsidiary | | | | | | | | | (1.0) |
| Goodwill impairment | | | | | | | | | 273.3 |
| Operating profit | | | | | | | | | |
| Finance costs | | | | | | | | | (32.5) |
| Share of profit of associates | 0.2 | 38.7 | – | 3.6 | – | – | (0.5) | – | 42.0 |
| Profit before income tax | | | | | | | | | 282.8 |

5 Sales and segment information (continued)

Primary reporting format – geographical segments (continued)

Segment income statement (continued)

For year ended 31 December 2006 (US\$ million)

| | The People's Republic of China | | | | | | | | |
|---|-----------------------------------|-------------------|--------------------|-----------|----------|----------|-------|-------------|---------|
| | Hong Kong | Mainland China | The Philippines | Singapore | Thailand | Malaysia | Other | Elimination | Group |
| Depreciation of property, plant and equipment | (14.0) | (48.4) | (19.5) | (12.5) | (9.0) | (8.2) | (3.3) | – | (114.9) |
| Amortisation of leasehold land and land use rights | (1.9) | (5.8) | – | (0.2) | – | (0.3) | (0.3) | – | (8.5) |
| Capital expenditures, excluding intangible assets | 12.3 | 275.6 | 32.9 | 14.1 | 18.4 | 28.6 | 156.2 | – | 538.1 |

Inter-segment sales or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

5 Sales and segment information (continued)

Primary reporting format – geographical segments (continued)

Segment balance sheet

As at 31 December 2006 (US\$ million)

| | The People's Republic of China | | | | | | | | |
|--------------------------|-----------------------------------|-------------------|--------------------|-----------|----------|----------|--------|-------------|------------------|
| | Hong Kong | Mainland China | The Philippines | Singapore | Thailand | Malaysia | Other | Elimination | Group |
| Segment assets | 288.1 | 1,666.2 | 445.7 | 716.3 | 204.8 | 378.5 | 277.2 | (16.9) | 3,959.9 |
| Interest in associates | 24.0 | 768.9 | – | 71.3 | – | 25.9 | 34.2 | – | 924.3 |
| Unallocated assets | | | | | | | | | 103.8 |
| Intangible assets | | | | | | | | | 87.7 |
| Total assets | | | | | | | | | 5,075.7 |
| Segment liabilities | (69.4) | (107.0) | (33.3) | (25.7) | (17.5) | (22.5) | (21.5) | 16.9 | (280.0) |
| Unallocated liabilities | | | | | | | | | (1,820.4) |
| Total liabilities | | | | | | | | | (2,100.4) |

5 Sales and segment information (continued)

Primary reporting format – geographical segments (continued)

Segment income statement

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

| | The People's Republic of China | | | | | | | | |
|---|-----------------------------------|-------------------|--------------------|--------------|-------------|-------------|-------------|---------------|--------------|
| | Hong Kong | Mainland China | The Philippines | Singapore | Thailand | Malaysia | Other | Elimination | Group |
| Sales | | | | | | | | | |
| 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) | – |
| Total | 187.5 | 278.6 | 110.4 | 123.1 | 52.0 | 76.8 | 46.3 | (32.7) | 842.0 |
| Result | | | | | | | | | |
| 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 on financial assets held for trading | | | | | | | | | 7.5 |
| Fair value gains on investment properties | | | | | | | | | 26.4 |
| Fair value gains on derivative financial instruments – interest-rate swap contracts | | | | | | | | | 3.5 |
| Unallocated corporate expenses | | | | | | | | | (13.5) |
| Tax refund on reinvestment of dividend from an associate | | | | | | | | | 0.5 |
| Loss on disposal of associates | | | | | | | | | (2.9) |
| Gain on disposal of partial interest in subsidiaries | | | | | | | | | 0.3 |
| Gain on disposal of a hotel | | | | | | | | | 2.4 |
| Operating profit | | | | | | | | | 188.4 |
| Finance costs | | | | | | | | | (32.9) |
| Share of profit of associates | – | 59.2 | – | 3.9 | – | 1.5 | (0.3) | – | 64.3 |
| Profit before income tax | | | | | | | | | 219.8 |

5 Sales and segment information (continued)**Primary reporting format – geographical segments (continued)****Segment income statement (continued)**

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

| | The People's Republic of China | | | | | | | Elimination | Group |
|---|-----------------------------------|-------------------|--------------------|-----------|----------|----------|-------|-------------|---------|
| | Hong Kong | Mainland China | The Philippines | Singapore | Thailand | Malaysia | Other | | |
| Depreciation of property, plant and equipment | (13.1) | (42.8) | (17.0) | (11.5) | (7.5) | (9.3) | (3.3) | – | (104.5) |
| Amortisation of leasehold land and land use rights | (1.9) | (5.3) | – | (0.6) | – | (0.3) | (0.3) | – | (8.4) |
| Capital expenditures, excluding intangible assets | 17.3 | 201.3 | 30.4 | 5.2 | 5.3 | 9.8 | 14.0 | – | 283.3 |

5 Sales and segment information (continued)

Primary reporting format – geographical segments (continued)

Segment balance sheet

As at 31 December 2005 (US\$ million)

| | The People's Republic of China | | | | | | | | |
|--------------------------|-----------------------------------|-------------------|--------------------|-----------|----------|----------|--------|-------------|------------------|
| | Hong Kong | Mainland China | The 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 |
| Total assets | | | | | | | | | 4,263.1 |
| 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) |
| Total liabilities | | | | | | | | | (1,632.9) |

5 Sales and segment information (continued)

Secondary reporting format – business segments

For the year ended/as at 31 December 2006 (US\$ million)

| | Sales | Segment results | Total assets | Capital expenditures |
|------------------------------------|---------|-----------------|----------------|----------------------|
| Hotel operation | | | | |
| – Room rentals | 514.5 | | | |
| – Food and beverage sales | 376.8 | | | |
| – Renderings of ancillary services | 69.5 | | | |
| | 960.8 | 197.3 | 3,422.2 | 531.7 |
| Hotel management | 64.5 | 5.1 | 48.9 | 3.6 |
| Property rentals | 21.3 | 7.5 | 505.7 | 2.8 |
| Elimination | (43.7) | – | (16.9) | – |
| | 1,002.9 | 209.9 | 3,959.9 | 538.1 |
| Interest in associates | | | 924.3 | – |
| Unallocated assets | | | 103.8 | – |
| Intangible assets | | | 87.7 | – |
| Total | | | 5,075.7 | 538.1 |

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

| | Segment 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 | – |
| Total | | | 4,263.1 | 283.3 |

6 Property, plant and equipment

Group

| | Freehold land and buildings US\$'000 | Vehicles & machinery US\$'000 | Furniture, fixtures & equipment US\$'000 | Properties under development US\$'000 | Total US\$'000 |
|------------------------------------|---|-------------------------------------|---|--|-------------------|
| At 1 January 2005 | | | | | |
| Cost | 2,244,331 | 126,695 | 391,300 | 128,348 | 2,890,674 |
| Accumulated depreciation | (563,625) | (81,607) | (259,028) | – | (904,260) |
| Net book amount | 1,680,706 | 45,088 | 132,272 | 128,348 | 1,986,414 |
| Year ended 31 December 2005 | | | | | |
| 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) |
| Closing net book amount | 1,775,709 | 54,113 | 165,707 | 159,874 | 2,155,403 |
| At 31 December 2005 | | | | | |
| Cost | 2,395,964 | 140,349 | 439,513 | 159,874 | 3,135,700 |
| Accumulated depreciation | (620,255) | (86,236) | (273,806) | – | (980,297) |
| Net book amount | 1,775,709 | 54,113 | 165,707 | 159,874 | 2,155,403 |

| | Freehold land and buildings US\$'000 | Vehicles & machinery US\$'000 | Furniture, fixtures & equipment US\$'000 | Properties under development US\$'000 | Total US\$'000 |
|------------------------------------|---|-------------------------------------|---|--|-------------------|
| Year ended 31 December 2006 | | | | | |
| Opening net book amount | 1,775,709 | 54,113 | 165,707 | 159,874 | 2,155,403 |
| Exchange differences | 86,924 | 2,923 | 5,111 | 6,693 | 101,651 |
| Additions | 78,853 | 6,380 | 31,066 | 413,448 | 529,747 |
| Disposals | (5,555) | (136) | (2,668) | (3,304) | (11,663) |
| Transfer | 42,536 | 1,703 | 27,294 | (71,533) | – |
| Depreciation | (62,268) | (14,016) | (38,993) | – | (115,277) |
| Closing net book amount | 1,916,199 | 50,967 | 187,517 | 505,178 | 2,659,861 |
| At 31 December 2006 | | | | | |
| Cost | 2,628,248 | 153,757 | 489,222 | 505,178 | 3,776,405 |
| Accumulated depreciation | (712,049) | (102,790) | (301,705) | – | (1,116,544) |
| Net book amount | 1,916,199 | 50,967 | 187,517 | 505,178 | 2,659,861 |

- (a) All depreciation expenses (net of amount capitalised) in 2006 and 2005 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\$70,000 (2005: US\$93,000) (Note 19).
- (c) Buildings comprise mainly hotel properties. Details of the hotel properties of the Company's subsidiaries are summarised in note 40(a).
- (d) Properties under development included construction work in progress in respect of the renovation of certain hotel properties.

6 Property, plant and equipment (continued)

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

| | Furniture, fitting and equipment US\$'000 | Motor vehicles US\$'000 | Total US\$'000 |
|------------------------------------|--|-------------------------------|-------------------|
| At 1 January 2005 | | | |
| Cost | 808 | 221 | 1,029 |
| Accumulated depreciation | (770) | (184) | (954) |
| Net book amount | 38 | 37 | 75 |
| Year ended 31 December 2005 | | | |
| Opening net book amount | 38 | 37 | 75 |
| Additions | 26 | — | 26 |
| Depreciation | (24) | (27) | (51) |
| Closing net book amount | 40 | 10 | 50 |
| At 31 December 2005 | | | |
| Cost | 834 | 221 | 1,055 |
| Accumulated depreciation | (794) | (211) | (1,005) |
| Net book amount | 40 | 10 | 50 |
| Year ended 31 December 2006 | | | |
| Opening net book amount | 40 | 10 | 50 |
| Additions | 9 | — | 9 |
| Depreciation | (23) | (10) | (33) |
| Closing net book amount | 26 | — | 26 |
| At 31 December 2006 | | | |
| Cost | 843 | 221 | 1,064 |
| Accumulated depreciation | (817) | (221) | (1,038) |
| Net book amount | 26 | — | 26 |

7 Investment properties

| | 2006 US\$'000 | 2005 US\$'000 |
|---|------------------|------------------|
| At 1 January | 353,159 | 407,291 |
| Exchange differences | 23,140 | (1,933) |
| Additions | 2,862 | 114 |
| Disposal through selling of partial interest in a subsidiary (Note 35) | — | (78,319) |
| Other disposals | (1,871) | (404) |
| Reclassified as deposit | (43,668) | — |
| Fair value gains (included in other gains – net) (Note 26) | 51,503 | 26,410 |
| At 31 December | 385,125 | 353,159 |

(a) The investment properties were revalued at 31 December 2006 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:

| | 2006 US\$'000 | 2005 US\$'000 |
|----------------------------------|------------------|------------------|
| Outside Hong Kong, held on: | | |
| Freehold | 335,048 | 261,502 |
| Leases of between 10 to 50 years | 50,077 | 91,657 |
| | 385,125 | 353,159 |

(c) Details of investment properties of the Company's subsidiaries are summarised in note 41(a).

For the year ended 31 December 2006

8 Leasehold land and land use rights

| | 2006 US\$'000 | 2005 US\$'000 |
|---|------------------|------------------|
| At 1 January | | |
| Cost | 451,681 | 447,816 |
| Accumulated amortisation | (76,538) | (68,300) |
| Net book amount | 375,143 | 379,516 |
| Opening net book amount | 375,143 | 379,516 |
| Exchange differences | 8,944 | 4,228 |
| Additions | 5,534 | 3,585 |
| Disposal | – | (3,799) |
| Amortisation of prepaid operating lease payment | (8,479) | (8,387) |
| Closing net book value | 381,142 | 375,143 |
| At 31 December | | |
| Cost | 467,277 | 451,681 |
| Accumulated depreciation | (86,135) | (76,538) |
| Net book amount | 381,142 | 375,143 |

All amortisation expenses in 2006 and 2005 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:

| | 2006 US\$'000 | 2005 US\$'000 |
|----------------------------------|------------------|------------------|
| In Hong Kong held on: | | |
| Leases of between 10 to 50 years | 85,266 | 87,205 |
| Outside Hong Kong, held on: | | |
| Leases of over 50 years | 84,824 | 79,995 |
| Leases of between 10 to 50 years | 211,052 | 207,943 |
| | 381,142 | 375,143 |

9 Intangible assets

| | Trademark Goodwill US\$'000 | & licences US\$'000 | Website development US\$'000 | Total US\$'000 |
|------------------------------------|-----------------------------------|------------------------|------------------------------------|-------------------|
| At 1 January 2005 | | | | |
| Cost | 75,424 | – | – | 75,424 |
| Accumulated amortisation | – | – | – | – |
| Net book amount | 75,424 | – | – | 75,424 |
| Year ended 31 December 2005 | | | | |
| Opening net book amount | 75,424 | – | – | 75,424 |
| Additions | 1,393 | 10,000 | – | 11,393 |
| Amortisation expenses | – | (125) | – | (125) |
| Closing net book amount | 76,817 | 9,875 | – | 86,692 |
| At 31 December 2005 | | | | |
| Cost | 76,817 | 10,000 | – | 86,817 |
| Accumulated amortisation | – | (125) | – | (125) |
| Net book amount | 76,817 | 9,875 | – | 86,692 |
| Year ended 31 December 2006 | | | | |
| Opening net book amount | 76,817 | 9,875 | – | 86,692 |
| Addition | – | 958 | 1,625 | 2,583 |
| Impairment | (1,026) | – | – | (1,026) |
| Amortisation expenses | – | (540) | – | (540) |
| Closing net book amount | 75,791 | 10,293 | 1,625 | 87,709 |
| At 31 December 2006 | | | | |
| Cost | 75,791 | 10,958 | 1,625 | 88,374 |
| Accumulated amortisation | – | (665) | – | (665) |
| Net book amount | 75,791 | 10,293 | 1,625 | 87,709 |

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.

During the year, impairment losses are provided for goodwill on acquisition of a subsidiary and are included under other gains - net of the income statement.

For the year ended 31 December 2006

10 Investments in and amounts due from subsidiaries

| | 2006 US\$'000 | 2005 US\$'000 |
|----------------------|------------------|------------------|
| Company | | |
| Investments, at cost | | |
| Unlisted shares | 1,701,304 | 1,698,370 |
| Equity loans | 552,431 | 554,398 |
| | 2,253,735 | 2,252,768 |

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

(a) Amounts due from subsidiaries

| | 2006 US\$'000 | 2005 US\$'000 |
|-------------|------------------|------------------|
| Non-current | 56,700 | 70,875 |
| Current | 361,196 | 328,810 |
| | 417,896 | 399,685 |

Non-current balance comprised:

| | 2006 US\$'000 | 2005 US\$'000 |
|--|------------------|------------------|
| Interest bearing at – HIBOR plus 1% per annum effective 1 January 2006 with fixed repayment terms | 56,700 | 70,875 |

Current balance comprised:

| | 2006 US\$'000 | 2005 US\$'000 |
|---|------------------|------------------|
| Interest bearing at – HIBOR plus 1% per annum with fixed repayment term | 7,088 | 3,120 |
| Interest free repayable on demand | 354,108 | 325,690 |
| | 361,196 | 328,810 |

Amounts due from subsidiaries are unsecured.

- (b) Amounts due to subsidiaries as at 31 December 2006 and 2005 are unsecured, interest-free and repayable on demand.
- (c) Details of principal subsidiaries are set out in note 39(a).

11 Interest in associates and due from associates

| | 2006 US\$'000 | 2005 US\$'000 |
|---|------------------|------------------|
| Interest in associates | | |
| At 1 January | 607,897 | 517,948 |
| Share of associates' results | | |
| – profit before taxation | 74,212 | 95,361 |
| – taxation | (32,255) | (31,044) |
| | 41,957 | 64,317 |
| Exchange difference | 28,868 | 803 |
| Acquisition of associates | – | 42,388 |
| Capital contribution to associates | 64,528 | – |
| Dividend declared by associates | (34,612) | (37,153) |
| Disposal of partial interest in a subsidiary (Note 35) | – | 36,860 |
| Disposal of interest in associates | – | (17,266) |
| Investment in associates under equity method | 708,638 | 607,897 |
| Equity loans (a) | 149,481 | 128,804 |
| Other long term shareholder loans (b) | 66,137 | 53,765 |
| | 924,256 | 790,466 |

Notes:

(a) Equity loans are unsecured, interest-free and with no fixed repayment terms.

(b) Other long term shareholder loans are interest bearing at

| | 2006 US\$'000 | 2005 US\$'000 |
|-------------------------------|------------------|------------------|
| – HIBOR plus 2% per annum | 19,727 | 9,769 |
| – SIBOR plus 0.217% per annum | 11,863 | 11,983 |
| – 1.25% per annum | 34,547 | 32,013 |
| | 66,137 | 53,765 |

Other long term shareholder loans are unsecured and with no fixed repayment terms except for loans to two associates of US\$19,727,000 (2005: US\$4,110,000 for an associate) which will be wholly repayable by 31 December 2015.

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

11 Interest in associates and due from associates (continued)

(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 US\$'000 | Country of incorporation | Assets US\$'000 | Liabilities US\$'000 | Revenues US\$'000 | Profit/(loss) US\$'000 | % interest held |
|-------------------------------|-----------------------------|--------------------------------|------------------|----------------------|-------------------|---------------------------|-----------------|
| 2006 | | | | | | | |
| China World Trade Center Ltd. | 240,000 | The People's Republic of China | 867,201 | 420,940 | 104,562 | 18,751 | 50 |
| Others | - | - | 629,035 | 151,040 | 113,721 | 23,206 | - |
| | | | 1,496,236 | 571,980 | 218,283 | 41,957 | |
| 2005 | | | | | | | |
| China World Trade Center Ltd. | 240,000 | The People's Republic of 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 | |

12 Available-for-sale financial assets

| | 2006 US\$'000 | 2005 US\$'000 |
|-----------------------------------|------------------|------------------|
| Equity securities: | | |
| Overseas unlisted shares, at cost | 1,916 | 1,916 |
| – Exchange differences | 83 | (175) |
| – Provision for impairment losses | – | (319) |
| | 1,999 | 1,422 |
| Club debentures, at fair value | 2,053 | – |
| | 4,052 | 1,422 |

13 Other receivables

| | 2006 US\$'000 | 2005 US\$'000 |
|--------------------------|------------------|------------------|
| Loans to a managed hotel | 3,923 | 3,522 |

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\$1,581,000) 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 receivable, prepayments and deposits

| | 2006 US\$'000 | 2005 US\$'000 |
|---|------------------|------------------|
| Trade receivables | 57,605 | 43,294 |
| Prepayments and deposits | 113,346 | 30,579 |
| Accounts receivable | 34,677 | 17,801 |
| Consideration receivables from disposal of partial interest in a subsidiary (Note 35) | — | 39,488 |
| | 205,628 | 131,162 |

- (a) The fair values of the trade and other receivables are not materially different from their carrying values.
- (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:

| | 2006 US\$'000 | 2005 US\$'000 |
|---------------|------------------|------------------|
| 0 – 3 months | 54,775 | 40,755 |
| 4 – 6 months | 1,945 | 1,495 |
| Over 6 months | 885 | 1,044 |
| | 57,605 | 43,294 |

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

15 Financial assets held for trading

| | 2006 US\$'000 | 2005 US\$'000 |
|------------------------------------|------------------|------------------|
| Equity securities, at market value | | |
| Shares listed in Hong Kong | 48,279 | 35,829 |
| Shares listed outside Hong Kong | 1,815 | 1,941 |
| | 50,094 | 37,770 |

Equity securities listed in Hong Kong included 10,867,055 (31 December 2005: 11,805,055) ordinary shares in the Company with a carrying value of US\$28,114,000 (31 December 2005: US\$19,726,000) held by a wholly owned subsidiary of Shangri-La Hotel Public Company Limited, Thailand ("SHPCL"). Such shares, representing approximately 0.4% (31 December 2005: 0.5%) of the issued share capital of the Company as at 31 December 2006, were held by the wholly owned subsidiary of SHPCL before the Company acquired a controlling interest 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 shares to independent parties. 938,000 shares in the Company owned by the above subsidiary of SHPCL were disposed on The Stock Exchange of Hong Kong Limited in 2006. In view of the temporary nature of this holding in such shares, they have been classified as financial assets held for trading in these financial statements.

16 Cash and cash equivalents

| | Group | | Company | |
|--------------------------|------------------|------------------|------------------|------------------|
| | 2006 US\$'000 | 2005 US\$'000 | 2006 US\$'000 | 2005 US\$'000 |
| Cash at bank and in hand | 130,622 | 125,522 | 762 | 292 |
| Short-term bank deposits | 199,539 | 150,552 | 28,816 | 15,816 |
| | 330,161 | 276,074 | 29,578 | 16,108 |

The effective interest rate on short-term bank deposits was 4.0% (2005: 3.2%); these deposits have an average maturity of 30 days.

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

| | Group | | Company | |
|---------------------------|------------------|------------------|------------------|------------------|
| | 2006 US\$'000 | 2005 US\$'000 | 2006 US\$'000 | 2005 US\$'000 |
| Cash and cash equivalents | 330,161 | 276,074 | 29,578 | 16,108 |
| Bank overdrafts (Note 19) | (112) | (9,089) | — | — |
| | 330,049 | 266,985 | 29,578 | 16,108 |

17 Share capital

| | Amount | | | |
|---|----------------------|--------------------------|------------------------|----------------|
| | No. of shares ('000) | Ordinary shares US\$'000 | Share premium US\$'000 | Total US\$'000 |
| Authorised – Ordinary shares of HK\$1 each | | | | |
| At 31 December 2005 and 31 December 2006 | 5,000,000 | 646,496 | — | 646,496 |
| Issued and fully paid – Ordinary shares of HK\$1 each | | | | |
| At 1 January 2006 | 2,527,439 | 326,377 | 854,740 | 1,181,117 |
| Exercise of share options – allotment of shares (note (a)) | 8,135 | 1,050 | 8,592 | 9,642 |
| – transfer from option reserve | — | — | 863 | 863 |
| Issue of shares upon conversion of convertible bonds (note (b)) | 25,179 | 3,249 | 29,939 | 33,188 |
| At 31 December 2006 | 2,560,753 | 330,676 | 894,134 | 1,224,810 |
| 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 |
| At 31 December 2005 | 2,527,439 | 326,377 | 854,740 | 1,181,117 |

17 Share capital (continued)

- (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 | | | | | |
|--|------------------------------------|------------------------------------|------------------------------------|------------------------------------|-------------------------------------|------------------------------------|
| | At HK\$8.26 per option share | At HK\$8.82 per option share | At HK\$8.18 per option share | At HK\$6.81 per option share | At HK\$11.60 per option share | Total consideration US\$'000 |
| In year 2006 | | | | | | |
| February | - | - | - | 60,000 | - | 53 |
| May | 1,141,099 | 570,538 | 600,000 | 150,000 | 1,061,000 | 4,219 |
| June | 414,000 | 60,000 | - | - | 280,000 | 929 |
| July | 1,445 | 540,848 | - | 150,000 | 225,000 | 1,085 |
| August | 87,084 | 116,293 | 67,921 | - | 24,000 | 333 |
| September | 85,421 | - | - | 300,000 | 270,000 | 759 |
| October | 448,207 | 639,611 | 359,011 | - | 182,000 | 1,857 |
| November | - | - | - | - | 60,000 | 90 |
| December | 44,000 | 69,366 | - | - | 128,000 | 317 |
| For the year ended 31 December 2006 | 2,221,256 | 1,996,656 | 1,026,932 | 660,000 | 2,230,000 | 9,642 |
| In year 2005 | | | | | | |
| 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 |
| For the year ended 31 December 2005 | 2,153,064 | 1,027,254 | 271,684 | 2,477,000 | - | 5,891 |

The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$15.46 (2005: HK\$11.68).

- (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 US\$'000 | Number of new ordinary shares issued |
|----------------------------------|--|--|
| January 2006 | 1,000 | 843,243 |
| February 2006 | 400 | 337,296 |
| March 2006 | 1,000 | 843,243 |
| May 2006 | 975 | 822,159 |
| June 2006 | 275 | 231,891 |
| July 2006 | 1,454 | 1,226,072 |
| August 2006 | 596 | 502,572 |
| September 2006 | 4,092 | 3,450,551 |
| December 2006 | 20,068 | 16,922,203 |
| | 29,860 | 25,179,230 |

4,216,216 ordinary shares were issued subsequent to 31 December 2006 for convertible bonds with face value of US\$5,000,000 converted in December 2006.

17 Share capital (continued)

Share options

Share options are granted to directors and 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.

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

| | For the year ended 31 December 2006 | | For the year ended 31 December 2005 | |
|-----------------------|--|-------------------------------|--|-------------------------------|
| | Average exercise price in HK\$ per option share | Number of option shares | Average exercise price in HK\$ per option share | Number of option shares |
| At 1 January | 10.26 | 29,023,876 | 8.00 | 17,312,433 |
| Granted | 14.60 | 7,080,000 | 11.60 | 18,150,000 |
| Exercised | 9.19 | (8,134,844) | 7.75 | (5,929,002) |
| Lapsed | 11.12 | (827,500) | 10.32 | (509,555) |
| At 31 December | 11.69 | 27,141,532 | 10.26 | 29,023,876 |

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

| Expiry date | Exercise price in HK\$ per option share | Number of option shares as at | |
|--------------------------------|---|-------------------------------|---------------------|
| | | 31 December 2006 | 31 December 2005 |
| Executive Option Scheme | | | |
| 30 April 2008 | 8.26 | 1,465,456 | 3,686,712 |
| 14 January 2010 | 8.82 | 1,686,244 | 3,682,900 |
| 14 January 2011 | 8.18 | 467,332 | 1,494,264 |
| | | 3,619,032 | 8,863,876 |
| New Option Scheme | | | |
| 30 June 2007 | 11.60 | 200,000 | – |
| 30 June 2007 | 14.60 | 37,500 | – |
| 2 May 2008 | 11.60 | 50,000 | – |
| 28 May 2012 | 6.81 | 1,540,000 | 2,340,000 |
| 27 April 2015 | 11.60 | 14,745,000 | 17,820,000 |
| 15 June 2016 | 14.60 | 6,950,000 | – |
| | | 23,522,500 | 20,160,000 |

The fair value of each option granted during the year ended 31 December 2006 determined using the Black-Scholes valuation model was HK\$4.69 (year ended 31 December 2005: HK\$3.0). The significant inputs into the model were share price of HK\$14.65 at the grant date, exercise price shown above, standard deviation of expected share price returns of 33.98%, expected life of options of 5 years, expected dividend yield of 1.74% and annual risk-free interest rate of 4.682%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last two and a half years.

According to the terms of the two option schemes, options on 327,084 shares, 252,278 shares, 110,000 shares and 401,000 shares with exercise price per share of HK\$8.26, HK\$8.18, HK\$6.81 and HK\$11.60, respectively have been exercised subsequent to 31 December 2006 and up to the approval date of these financial statements. Options on 50,000 shares and 40,000 shares with exercise price per share of HK\$11.60 and HK\$14.60, respectively have lapsed subsequent to 31 December 2006 and up to the approval date of these financial statements.

18 Other reserves

| | Convertible Option US\$'000 | Convertible bonds US\$'000 | Capital redemption US\$'000 | Exchange fluctuation US\$'000 | Capital US\$'000 | Other US\$'000 | Contributed surplus US\$'000 | Total US\$'000 |
|--|-----------------------------------|----------------------------------|-----------------------------------|-------------------------------------|---------------------|-------------------|------------------------------------|-------------------|
| Group | | | | | | | | |
| Balance at 1 January 2005 | – | 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 convertible bonds – equity component | – | (13,953) | – | – | – | – | – | (13,953) |
| Granting of share options | 3,468 | – | – | – | – | – | – | 3,468 |
| Balance at 31 December 2005 and 1 January 2006 | 3,468 | 6,122 | 10,666 | (72,286) | 601,490 | 1,368 | 389,741 | 940,569 |
| Currency translation differences | – | – | – | 147,552 | – | – | – | 147,552 |
| Issue of shares upon conversion of convertible bonds – equity component | – | (3,499) | – | – | – | – | – | (3,499) |
| Granting of share options | 4,415 | – | – | – | – | – | – | 4,415 |
| Exercise of share options – transfer to share premium | (863) | – | – | – | – | – | – | (863) |
| Balance at 31 December 2006 | 7,020 | 2,623 | 10,666 | 75,266 | 601,490 | 1,368 | 389,741 | 1,088,174 |
| Company | | | | | | | | |
| Balance at 1 January 2005 | – | – | 10,666 | – | – | – | 1,524,231 | 1,534,897 |
| Granting of share options | 3,468 | – | – | – | – | – | – | 3,468 |
| Balance at 31 December 2005 and 1 January 2006 | 3,468 | – | 10,666 | – | – | – | 1,524,231 | 1,538,365 |
| Granting of share options | 4,415 | – | – | – | – | – | – | 4,415 |
| Exercise of share options – transfer to share premium | (863) | – | – | – | – | – | – | (863) |
| Balance at 31 December 2006 | 7,020 | – | 10,666 | – | – | – | 1,524,231 | 1,541,917 |

18 Other reserves (continued)

- (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.
- (c) As at 31 December 2006, the Group's distributable reserves comprised:

| | 2006 US\$'000 | 2005 US\$'000 |
|-----------------------------------|------------------|------------------|
| The Company | | |
| Distributable retained earnings | 81,684 | 41,760 |
| Contributed surplus | 1,524,231 | 1,524,231 |
| | 1,605,915 | 1,565,991 |
| Subsidiaries (notes (i) and (ii)) | | |
| Distributable retained earnings | 649,568 | 549,586 |
| Associates (notes (i) and (ii)) | | |
| Distributable retained earnings | 142,940 | 162,122 |

Notes:

- (i) The distributable retained earnings of subsidiaries and associates are the corresponding share of retained earnings which are distributable as shown in the statutory financial statements of those companies after deducting appropriate withholding tax.
- (ii) There are differences between the retained earnings 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

| | 2006 US\$'000 | 2005 US\$'000 |
|----------------------------------|------------------|------------------|
| Overdrafts – unsecured (Note 16) | 112 | 9,089 |
| Bank loans – secured (Note 6(b)) | 3 | 36 |
| Bank loans – unsecured | 1,522,486 | 1,074,728 |
| | 1,522,601 | 1,083,853 |

The maturity of bank loans and overdrafts is as follows:

| | 2006 US\$'000 | 2005 US\$'000 |
|---------------------------------|------------------|------------------|
| Within 1 year | 42,888 | 152,644 |
| Between 1 and 2 years | 162,261 | 407,422 |
| Between 2 and 5 years | 1,317,452 | 509,806 |
| Wholly repayable within 5 years | 1,522,601 | 1,069,872 |
| Over 5 years | – | 13,981 |
| | 1,522,601 | 1,083,853 |

19 Bank loans and overdrafts (continued)

In 2006, the Group refinanced part of the borrowings that fell due within one year, by entering into new loan agreements at lower interest cost.

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

| | 31 December 2006 | | | | | 31 December 2005 | | | | |
|-----------------|------------------|-------|-------|-------|-------|------------------|-------|-------|------|-----------|
| | HK\$ | RMB | MYR | US\$ | ฿ | HK\$ | RMB | MYR | US\$ | Thai Baht |
| Bank overdrafts | - | - | 6.80% | - | - | - | - | 6.50% | - | 6.75% |
| Bank borrowings | 4.26% | 5.64% | 4.31% | 5.80% | 3.63% | 4.49% | 5.49% | 3.74% | 4.7% | - |

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

| | 2006 US\$'000 | 2005 US\$'000 |
|-------------------|------------------|------------------|
| Hong Kong dollars | 1,113,092 | 897,481 |
| Renminbi | 40,538 | 47,261 |
| Malaysian Ringgit | 49,926 | 36,034 |
| Singapore dollars | 3,245 | - |
| US dollars | 315,800 | 103,031 |
| Thai Baht | - | 46 |
| | 1,522,601 | 1,083,853 |

The Group has the following undrawn borrowing facilities:

| | 2006 US\$'000 | 2005 US\$'000 |
|----------------------------|------------------|------------------|
| Floating rate | | |
| – expiring within one year | 148,817 | 158,711 |
| – expiring beyond one year | 768,767 | 482,173 |
| Fixed rate | | |
| – expiring within one year | 24,828 | 4,873 |
| – expiring beyond one year | 45,069 | 46,679 |
| | 987,481 | 692,436 |

As at 31 December 2006, an undrawn floating rate borrowing facility of Thai Baht 800 million (31 December 2005: Thai Baht 800 million) expiring beyond one year is secured by a freehold land with net book value of US\$6,910,000 (31 December 2005: 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:

| | 2006 US\$'000 | 2005 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) | 16,918 | 14,100 |
| Amount converted to ordinary shares of the Company | (166,954) | (131,674) |
| Liability component | 26,704 | 59,166 |

The face value of the outstanding bonds at 31 December 2006 amounted to US\$26,132,000. 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 2006 amounted to US\$26,393,000 and it is calculated using cash flows discounted at a rate based on the borrowing rate of 5.91%.

During the year, convertible bonds with face value US\$34,860,000 were converted and 25,179,230 ordinary shares of the Company were allotted during the year (Note 17(b)) while 4,216,216 ordinary shares were allotted after 31 December 2006.

Subsequent to 31 December 2006 and up to the approval date of these financial statements, bondholders have served conversion notices and convertible bonds with face value of US\$16,932,000 have been converted to 14,277,794 ordinary shares of the Company.

21 Derivative financial instruments

| | 2006 US\$'000 | 2005 US\$'000 |
|--|------------------|------------------|
| Liabilities | | |
| Interest-rate swap contracts | | |
| – non hedging | 11,765 | 1,531 |
| Less: current portion of interest-rate swap contracts | – | (232) |
| Non-current portion | 11,765 | 1,299 |
| Assets | | |
| Non-current portion of interest-rate swap contracts – non hedging | (1,458) | – |
| Net liabilities | 10,307 | 1,299 |

The notional principal amounts of the outstanding HIBOR and LIBOR interest-rate swap contracts at 31 December 2006 were HK\$4,460,000,000 and US\$100,000,000, respectively (31 December 2005: HK\$4,360,000,000 and US\$100,000,000 respectively).

At 31 December 2006, the fixed interest rates vary from 4.335% to 4.70% per annum (31 December 2005: 4.335% to 5.29%).

22 Minority interests and balances with minority shareholders

| | 2006 US\$'000 | 2005 US\$'000 |
|--------------------|------------------|------------------|
| Minority interests | | |
| Share of equity | 214,240 | 190,808 |
| Equity loans (a) | 61,905 | 58,369 |
| | 276,145 | 249,177 |

Notes:

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

| | 2006 US\$'000 | 2005 US\$'000 |
|------------------------|------------------|------------------|
| – 2.5% per annum | 11,564 | 11,681 |
| – LIBOR + 1% per annum | 2,480 | – |
| – interest free | 47,861 | 46,688 |
| | 61,905 | 58,369 |

22 Minority interests and balances with minority shareholders (continued)

Notes: (continued)

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

| | 2006 US\$'000 | 2005 US\$'000 |
|--|------------------|------------------|
| – HIBOR plus 1% per annum effective 1 January 2006 with no fixed repayment terms | – | 17,719 |
| – HIBOR plus 1% per annum and wholly repayable on 30 June 2015 | 14,175 | – |
| – LIBOR plus 2.5% per annum and wholly repayable on 30 June 2015 | 676 | 651 |
| – 6% per annum and wholly repayable on 31 December 2015 | – | 2,169 |
| | 14,851 | 20,539 |

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

| | 2006 US\$'000 | 2005 US\$'000 |
|--|------------------|------------------|
| – HIBOR plus 1% per annum and wholly repayable on 30 June 2016 | – | 780 |
| – HIBOR plus 1% per annum and wholly repayable on 30 June 2015 | 1,772 | – |
| – Interest free with no fixed repayment terms | 13,816 | 17,777 |
| | 15,588 | 18,557 |

23 Deferred income tax

Deferred income tax assets and liabilities are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 17.5%) for subsidiaries operating in Hong Kong. Deferred income tax assets and liabilities 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:

| | 2006 US\$'000 | 2005 US\$'000 |
|---|------------------|------------------|
| At 1 January | 197,046 | 183,541 |
| Exchange differences | 5,086 | (1,198) |
| Deferred taxation charged to income statement (Note 31) | 9,254 | 14,703 |
| At 31 December | 211,386 | 197,046 |

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 2006, the Group has the following unrecognised tax losses to carry forward against future taxable income.

| | 2006 US\$'000 | 2005 US\$'000 |
|-----------------------------------|------------------|------------------|
| With no expiry date | 4,114 | 8,848 |
| Lapsed within the next five years | 14,239 | 42,942 |
| | 18,353 | 51,790 |

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 | | Dividend withholding tax | | Total | |
|--|------------------------------|------------------|------------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | 2006 US\$'000 | 2005 US\$'000 | 2006 US\$'000 | 2005 US\$'000 | 2006 US\$'000 | 2005 US\$'000 | 2006 US\$'000 | 2005 US\$'000 |
| At 1 January | 181,301 | 175,641 | 7,391 | 1,807 | 16,407 | 14,743 | 205,099 | 192,191 |
| Charged to income statement | 1,485 | 6,665 | 25 | 5,584 | 2,878 | 1,857 | 4,388 | 14,106 |
| Exchange differences | 5,132 | (1,005) | 78 | – | 315 | (193) | 5,525 | (1,198) |
| At 31 December | 187,918 | 181,301 | 7,494 | 7,391 | 19,600 | 16,407 | 215,012 | 205,099 |
| Deferred income tax assets | Provision of assets | | Tax losses | | Others | | Total | |
| | 2006 US\$'000 | 2005 US\$'000 | 2006 US\$'000 | 2005 US\$'000 | 2006 US\$'000 | 2005 US\$'000 | 2006 US\$'000 | 2005 US\$'000 |
| At 1 January | – | – | (1,084) | (2,215) | (6,969) | (6,435) | (8,053) | (8,650) |
| Charged/(credited) to income statement | (588) | – | 1,001 | 1,135 | 4,453 | (538) | 4,866 | 597 |
| Exchange differences | (11) | – | (45) | (4) | (383) | 4 | (439) | – |
| At 31 December | (599) | – | (128) | (1,084) | (2,899) | (6,969) | (3,626) | (8,053) |

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.

23 Deferred income tax (continued)

| | 2006 US\$'000 | 2005 US\$'000 |
|---------------------------------|------------------|------------------|
| Deferred income tax assets | (555) | (5,179) |
| Deferred income tax liabilities | 211,941 | 202,225 |
| | 211,386 | 197,046 |

24 Accounts payable and accruals

| | 2006 US\$'000 | 2005 US\$'000 |
|--|------------------|------------------|
| Trade payables | 48,637 | 41,738 |
| Construction cost payable and accrued expenses | 228,866 | 190,058 |
| | 277,503 | 231,796 |

At 31 December 2006, the ageing analysis of the trade payables were as follows:

| | 2006 US\$'000 | 2005 US\$'000 |
|---------------|------------------|------------------|
| 0 – 3 months | 46,465 | 39,066 |
| 4 – 6 months | 531 | 1,195 |
| Over 6 months | 1,641 | 1,477 |
| | 48,637 | 41,738 |

25 Expenses by nature

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

| | 2006 US\$'000 | 2005 US\$'000 |
|--|------------------|------------------|
| Depreciation of property, plant and equipment (net of amount capitalised of US\$352,000 (2005: US\$124,000)) (Note 6) | 114,925 | 104,521 |
| Amortisation of leasehold land and land use rights (Note 8) | 8,479 | 8,387 |
| Amortisation of trademark and licences (Note 9) | 540 | 125 |
| Employee benefit expenses (Note 27) | 265,044 | 228,850 |
| Cost of inventories sold or consumed in operation | 123,441 | 104,747 |
| Loss on disposal of fixed assets | 4,835 | 2,492 |
| Discarding of fixed assets due to renovation of hotels | 4,194 | 2,642 |
| Expenses on share options granted | 4,415 | 3,468 |
| Impairment loss on properties under development | 2,758 | – |
| Auditors' remuneration | 862 | 735 |

26 Other gains – net

| | 2006 US\$'000 | 2005 US\$'000 |
|---|------------------|------------------|
| Fair value gains on investment properties (Note 7) | 51,503 | 26,410 |
| Reversal of impairment/(impairment loss) on available-for-sale financial assets | 319 | (74) |
| Gains (realised and unrealised) on financial assets held for trading | 21,022 | 7,494 |
| Fair value (losses)/gains on derivative financial instruments – interest-rate swap contracts | (10,413) | 3,539 |
| Loss on disposal of associates | – | (2,925) |
| Gains on disposal of partial interests in subsidiaries (Note 35) | – | 340 |
| Gain on disposal of a hotel | – | 2,389 |
| Excess of net assets over the cost of acquisition of additional interest in a subsidiary | 694 | – |
| Goodwill impairment | (1,026) | – |
| Interest income | 7,929 | 4,940 |
| Dividend income | 864 | 1,008 |
| Tax refund on reinvestment of dividend from subsidiaries and an associate | 7,613 | 457 |
| Others | 1,788 | 1,165 |
| | 80,293 | 44,743 |

27 Employee benefit expenses

(excluding directors' emoluments)

| | 2006 US\$'000 | 2005 US\$'000 |
|--|------------------|------------------|
| Wages and salaries (including unutilised annual leave) | 201,727 | 178,718 |
| Pension costs | 13,518 | 12,028 |
| Other welfare | 49,799 | 38,104 |
| | 265,044 | 228,850 |

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 2006 were not material.

27 Employee benefit expenses (continued)

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\$585 (equivalent to US\$380) 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 12% of their gross salaries and bonus, if applicable, to such fund respectively.

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 31 December 2006 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 8% per annum and salary will increase by 5% per annum. Based on this report, both Makati Shangri-La Hotel & Resort, Inc., Edsa Shangri-La Hotel & Resort, Inc. and Mactan Shangri-La Hotel & Resort, Inc. have unrecognised actuarial losses of Peso 15,782,000 (equivalent to US\$319,000), Peso 2,301,000 (equivalent to US\$47,000) and Peso 7,100,000 (equivalent to US\$144,000) respectively.

Total pension cost including charges for directors charged to the income statement for the year under all pension schemes was US\$13,625,000 (2005: US\$12,110,000).

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 2006 is set out below:

| Name of Director | Fees US\$'000 | Salary US\$'000 | Discretionary bonuses US\$'000 | Inducement fees US\$'000 | Other benefits ⁽⁴⁾ US\$'000 | Employer's contribution to pension schemes US\$'000 | Compensation for loss of office as director US\$'000 | Total US\$'000 |
|--------------------------------|------------------|--------------------|--------------------------------------|--------------------------------|--|---|--|-------------------|
| Mr KUOK Khoon Loong, Edward | 201 | 139 | 2,581 | — | 231 | 8 | — | 3,160 |
| Mr LUI Man Shing | 5 | — | — | — | — | — | — | 5 |
| Mr Giovanni ANGELINI | 146 | 396 | 3,613 | — | 201 | 86 | — | 4,442 |
| Mr NG Si Fong, Alan | — | 193 | 250 | — | 126 | 8 | — | 577 |
| Madam KUOK Oon Kwong | 24 | 168 | 266 | — | 5 | 3 | — | 466 |
| Mr HO Kian Guan | 52 | — | — | — | — | — | — | 52 |
| Mr LEE Yong Sun | 19 | — | — | — | — | — | — | 19 |
| Mr Roberto V. ONGPIN | 19 | — | — | — | — | — | — | 19 |
| Mr Alexander Reid HAMILTON | 39 | — | — | — | — | — | — | 39 |
| Mr WONG Kai Man ⁽²⁾ | 19 | — | — | — | — | — | — | 19 |
| Mr Timothy David DATTELS | 19 | — | — | — | — | — | — | 19 |
| Mr HO Kian Hock ⁽¹⁾ | — | — | — | — | — | — | — | — |
| Mr YE Longfei | — | 464 | 774 | — | 7 | 2 | — | 1,247 |
| Mr TOW Heng Tan ⁽³⁾ | 19 | — | — | — | — | — | — | 19 |

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 2005 is set out below:

| Name of Director | Fees US\$'000 | Salary US\$'000 | Discretionary bonuses US\$'000 | Inducement fees US\$'000 | Other benefits ⁽⁴⁾ US\$'000 | Employer's contribution to pension schemes US\$'000 | Compensation for loss of office as director US\$'000 | Total US\$'000 |
|--------------------------------|------------------|--------------------|--------------------------------------|--------------------------------|--|---|--|-------------------|
| Mr KUOK Khoon Loong, Edward | — | 323 | 2,571 | — | 225 | 8 | — | 3,127 |
| Mr LUI Man Shing | 4 | — | — | — | — | — | — | 4 |
| Mr Giovanni ANGELINI | 145 | 335 | 3,213 | — | 186 | 62 | — | 3,941 |
| 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 Timothy David DATTELS | 19 | — | — | — | — | — | — | 19 |
| Mr HO Kian Hock ⁽¹⁾ | — | — | — | — | — | — | — | — |
| Mr YE Longfei | — | 348 | 643 | — | 4 | 1 | — | 996 |
| Mr TOW Heng Tan ⁽³⁾ | 37 | — | — | — | — | — | — | 37 |

Notes:

(1) Mr HO Kian Hock is Alternate Director to Mr HO Kian Guan.

(2) Mr WONG Kai Man was appointed as Director on 1 July 2006.

(3) Mr TOW Heng Tan resigned as Director on 1 July 2006.

(4) Other benefits include 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 2006 was included in the total expense on share options granted (Note 25).

28 Directors' and senior management's emoluments (continued)

Movement of option shares granted to the Directors for the year ended 31 December 2006 are as follows:

(i) Under the Executive Option Scheme

| | | | | Closing price per share on the business day immediately before | No. of option shares held as at 1 January 2006 | No. of option shares granted during the year | No. of option shares lapsed during the year | No. of option shares exercised during the year | No. of option shares held as at 31 December 2006 | Exercise price per option share | Excess of weighted average closing price per share on exercise date over exercise price | Exercisable Period |
|----------------------|-----------------|---------|---------------|---|--|--|---|--|--|---------------------------------------|--|-----------------------------------|
| | Date of grant | Tranche | date of grant | HK\$ | | | | | | HK\$ | HK\$ | |
| Mr Giovanni ANGELINI | 15 January 2000 | I | 8.30 | 266,505 | – | – | (266,505) | – | – | 8.82 | 6.63 | 15 January 2001 – 14 January 2010 |
| | 15 January 2000 | II | 8.30 | 266,505 | – | – | (266,505) | – | – | 8.82 | 6.63 | 15 January 2002 – 14 January 2010 |
| Mr YE Longfei | 15 January 2001 | I | 7.80 | 339,606 | – | – | (339,606) | – | – | 8.18 | 6.62 | 15 January 2002 – 14 January 2011 |
| | 15 January 2001 | II | 7.80 | 339,606 | – | – | (260,394) | 79,212 | – | 8.18 | 6.62 | 15 January 2003 – 14 January 2011 |

For the year ended 31 December 2006

28 Directors' and senior management's emoluments (continued)

(ii) Under the New Option Scheme

| | Date of grant | Tranche | date of grant | Closing price per share on the business day immediately before shares held as at 1 January 2006 HK\$ | No. of option | | No. of option | No. of option | No. of option | No. of option | Exercise price per share on exercise date over exercise price HK\$ | Exercisable Period |
|--------------------------------|---------------|---------|---------------|--|---------------|---------------|-----------------------------------|----------------------------------|-------------------------------------|---------------------------------------|--|--------------------|
| | | | | | | | shares granted during the year | shares lapsed during the year | shares exercised during the year | shares held as at 31 December 2006 | | |
| | | | | | No. of option | No. of option | No. of option | No. of option | No. of option | No. of option | | |
| Mr KUOK Khoon Loong, Edward | 28 April 2005 | I | 11.75 | 250,000 | – | – | (230,000) | 20,000 | 11.60 | 3.82 | 28 April 2006 – 27 April 2015 | |
| | 28 April 2005 | II | 11.75 | 250,000 | – | – | – | 250,000 | 11.60 | – | 28 April 2007 – 27 April 2015 | |
| | 16 June 2006 | I | 14.00 | – | 100,000 | – | – | 100,000 | 14.60 | – | 16 June 2007 – 15 June 2016 | |
| | 16 June 2006 | II | 14.00 | – | 100,000 | – | – | 100,000 | 14.60 | – | 16 June 2008 – 15 June 2016 | |
| Mr LUI Man Shing | 29 May 2002 | I | 6.80 | 150,000 | – | – | (150,000) | – | 6.81 | 9.85 | 29 May 2003 – 28 May 2012 | |
| | 29 May 2002 | II | 6.80 | 150,000 | – | – | (150,000) | – | 6.81 | 9.85 | 29 May 2004 – 28 May 2012 | |
| | 28 April 2005 | I | 11.75 | 150,000 | – | – | (150,000) | – | 11.60 | 5.06 | 28 April 2006 – 27 April 2015 | |
| | 28 April 2005 | II | 11.75 | 150,000 | – | – | – | 150,000 | 11.60 | – | 28 April 2007 – 27 April 2015 | |
| | 16 June 2006 | I | 14.00 | – | 60,000 | – | – | 60,000 | 14.60 | – | 16 June 2007 – 15 June 2016 | |
| | 16 June 2006 | II | 14.00 | – | 60,000 | – | – | 60,000 | 14.60 | – | 16 June 2008 – 15 June 2016 | |
| 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 | |
| | 16 June 2006 | I | 14.00 | – | 100,000 | – | – | 100,000 | 14.60 | – | 16 June 2007 – 15 June 2016 | |
| | 16 June 2006 | II | 14.00 | – | 100,000 | – | – | 100,000 | 14.60 | – | 16 June 2008 – 15 June 2016 | |
| 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 | |
| | 16 June 2006 | I | 14.00 | – | 50,000 | – | – | 50,000 | 14.60 | – | 16 June 2007 – 15 June 2016 | |
| | 16 June 2006 | II | 14.00 | – | 50,000 | – | – | 50,000 | 14.60 | – | 16 June 2008 – 15 June 2016 | |

28 Directors' and senior management's emoluments (continued)

(ii) Under the New Option Scheme (continued)

| | Date of grant | Tranche | date of grant | Closing price per share on the business day immediately before | | No. of option shares held as at 1 January 2006 | No. of option shares granted during the year | No. of option shares lapsed during the year | No. of option shares exercised during the year | No. of option shares held as at 31 December 2006 | Exercise price per option | Excess of weighted average closing price per share on exercise date over exercise price | Exercisable Period |
|----------------------|---------------|---------|---------------|--|--------|--|--|---|--|--|---------------------------|---|-------------------------------|
| | | | | | | | | | | | | | |
| | | | | HK\$ | HK\$ | | | | | | HK\$ | HK\$ | |
| Madam KUOK Oon Kwong | 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 |
| | 16 June 2006 | I | 14.00 | – | 60,000 | – | – | – | – | 60,000 | 14.60 | – | 16 June 2007 – 15 June 2016 |
| | 16 June 2006 | II | 14.00 | – | 60,000 | – | – | – | – | 60,000 | 14.60 | – | 16 June 2008 – 15 June 2016 |
| 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 |
| | 16 June 2006 | I | 14.00 | – | 30,000 | – | – | – | – | 30,000 | 14.60 | – | 16 June 2007 – 15 June 2016 |
| | 16 June 2006 | II | 14.00 | – | 30,000 | – | – | – | – | 30,000 | 14.60 | – | 16 June 2008 – 15 June 2016 |
| Mr LEE Yong Sun | 29 May 2002 | I | 6.80 | 75,000 | – | – | (75,000) | – | – | 6.81 | 8.39 | 29 May 2003 – 28 May 2012 | |
| | 29 May 2002 | II | 6.80 | 75,000 | – | – | (75,000) | – | – | 6.81 | 8.39 | 29 May 2004 – 28 May 2012 | |
| | 28 April 2005 | I | 11.75 | 75,000 | – | – | (75,000) | – | – | 11.60 | 3.60 | 28 April 2006 – 27 April 2015 | |
| | 28 April 2005 | II | 11.75 | 75,000 | – | – | – | 75,000 | – | 11.60 | – | 28 April 2007 – 27 April 2015 | |
| | 16 June 2006 | I | 14.00 | – | 30,000 | – | – | – | 30,000 | 14.60 | – | 16 June 2007 – 15 June 2016 | |
| | 16 June 2006 | II | 14.00 | – | 30,000 | – | – | – | 30,000 | 14.60 | – | 16 June 2008 – 15 June 2016 | |
| 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 | |
| | 16 June 2006 | I | 14.00 | – | 30,000 | – | – | – | 30,000 | 14.60 | – | 16 June 2007 – 15 June 2016 | |
| | 16 June 2006 | II | 14.00 | – | 30,000 | – | – | – | 30,000 | 14.60 | – | 16 June 2008 – 15 June 2016 | |

For the year ended 31 December 2006

28 Directors' and senior management's emoluments (continued)

(ii) Under the New Option Scheme (continued)

| | | | | Closing price per share on the business day immediately before date of grant | No. of option shares held as at 1 January 2006 | No. of option shares granted during the year | No. of option shares lapsed during the year | No. of option shares exercised during the year | No. of option shares held as at 31 December 2006 | Exercise price per option share | Excess of weighted average closing price per share on exercise date over exercise price | Exercisable Period |
|--------------------------|---------------|---------|---------------|--|--|--|---|--|--|---------------------------------------|--|-------------------------------|
| | Date of grant | Tranche | date of grant | HK\$ | | | | | | HK\$ | HK\$ | |
| Mr Alexander | 28 April 2005 | I | 11.75 | 75,000 | – | – | – | – | 75,000 | 11.60 | – | 28 April 2006 – 27 April 2015 |
| Reid HAMILTON | 28 April 2005 | II | 11.75 | 75,000 | – | – | – | – | 75,000 | 11.60 | – | 28 April 2007 – 27 April 2015 |
| | 16 June 2006 | I | 14.00 | – | 30,000 | – | – | – | 30,000 | 14.60 | – | 16 June 2007 – 15 June 2016 |
| | 16 June 2006 | II | 14.00 | – | 30,000 | – | – | – | 30,000 | 14.60 | – | 16 June 2008 – 15 June 2016 |
| Mr Timothy David 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 |
| | 16 June 2006 | I | 14.00 | – | 30,000 | – | – | – | 30,000 | 14.60 | – | 16 June 2007 – 15 June 2016 |
| | 16 June 2006 | II | 14.00 | – | 30,000 | – | – | – | 30,000 | 14.60 | – | 16 June 2008 – 15 June 2016 |
| Mr YE Longfei | 29 May 2002 | II | 6.80 | 150,000 | – | – | (150,000) | – | – | 6.81 | 7.99 | 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 |
| | 16 June 2006 | I | 14.00 | – | 100,000 | – | – | – | 100,000 | 14.60 | – | 16 June 2007 – 15 June 2016 |
| | 16 June 2006 | II | 14.00 | – | 100,000 | – | – | – | 100,000 | 14.60 | – | 16 June 2008 – 15 June 2016 |
| 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 |

28 Directors' and senior management's emoluments (continued)

Movement of option shares granted to the Directors for the year ended 31 December 2005 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 | No. of option shares held as at 1 January 2005 | | 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 | Excess of weighted average closing price over exercise date over exercise price | Exercisable Period |
|----------------------|-----------------|---------|--|--|--|--|--|--|---------------------------------|---|-----------------------------------|
| | | | | No. of option shares granted during the year | No. of option shares held as at 31 December 2005 | | | | | | |
| | | | | HK\$ | HK\$ | | | | | | |
| Mr Giovanni 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 |
| 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 |

For the year ended 31 December 2006

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 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 HK\$ | Excess of weighted average closing price per share on exercise date over exercise price HK\$ | Exercisable Period |
|--------------------------------|---------------|---------|--|--|--|--|--|--|--------------------------------------|--|-------------------------------|
| | | | | | | | | | | | |
| | | | | | | | | | | | |
| Mr KUOK Khoon Loong, Edward | 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 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 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 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 Oon Kwong | 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 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 |

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 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 HK\$ | Excess of weighted average closing price HK\$ | Exercisable Period |
|----------------------------|---------------|---------|--|--|--|--|--|--|--------------------------------------|---|-------------------------------|
| | | | | | | | | | | | |
| | | | | | | | | | | | |
| 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 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 Timothy David 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 |
| 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 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 |

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 (2005: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2005: two) individuals during the year are as follows:

| | 2006 US\$'000 | 2005 US\$'000 |
|---|------------------|------------------|
| Basic, salaries, housing allowances, other allowances and benefits in kind | 920 | 852 |
| Employer's contribution to pension schemes | 58 | 52 |
| Discretionary bonuses | 1,041 | 488 |
| Inducement fee to join the Group | — | — |
| Compensation for loss of office | — | — |
| | 2,019 | 1,392 |

Pursuant to the Executive Option Scheme and the New Option Scheme of the Company (Note 17), the Company granted to these two individuals (2005: two) 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 2006 was included in the total expenses on share options granted (Note 25).

The emoluments fell within the following bands:

| | Number of individuals | |
|-------------------------------|-----------------------|------|
| | 2006 | 2005 |
| Emolument bands | | |
| HK\$8,000,001 – HK\$8,500,000 | 1 | — |
| HK\$7,000,001 – HK\$7,500,000 | 1 | — |
| HK\$5,500,001 – HK\$6,000,000 | — | 1 |
| HK\$5,000,001 – HK\$5,500,000 | — | 1 |

29 Finance costs

| | 2006 US\$'000 | 2005 US\$'000 |
|---|------------------|------------------|
| Interest expense: | | |
| – bank loans and overdrafts | 64,995 | 34,880 |
| – other loans interest | 11 | — |
| – convertible bonds wholly repayable within five years (Note 20) | 2,818 | 6,667 |
| | 67,824 | 41,547 |
| Less: amount capitalised | (18,116) | (7,002) |
| | 49,708 | 34,545 |
| Net foreign exchange transaction gains | (17,247) | (1,694) |
| | 32,461 | 32,851 |

The effective capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 4.8% per annum (2005: 3.7%).

30 Share of profit of associates

Share of profit in 2006 is stated after the share of loss of US\$14,677,000 due to the implementation of the share reform scheme of a listed subsidiary in Mainland China owned by an associate and US\$6,177,000 (2005: US\$16,262,000) share of the fair value gains of investment properties after provision for deferred tax liabilities.

31 Income tax expense

| | 2006 US\$'000 | 2005 US\$'000 |
|-------------------------------|------------------|------------------|
| Current income tax | | |
| – Hong Kong profits tax | 11,355 | 8,679 |
| – Overseas taxation | 42,882 | 28,922 |
| Deferred income tax (note 23) | 9,254 | 14,703 |
| | 63,491 | 52,304 |

Share of associates' taxation for the year ended 31 December 2006 of US\$32,255,000 (2005: US\$31,044,000) 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:

| | 2006 US\$'000 | 2005 US\$'000 |
|---|------------------|------------------|
| Profit before income tax | 282,820 | 219,835 |
| Calculated at a taxation rate of 17.5% | 49,494 | 38,471 |
| Effect of different taxation rates of subsidiaries operating in other countries | 16,681 | 16,326 |
| Income not subject to taxation | (42,353) | (28,532) |
| Expenses not deductible for taxation purposes | 33,438 | 21,888 |
| Tax effect on unrecognised tax losses | 5,362 | 3,005 |
| Utilisation of previously unrecognised tax losses | (2,656) | (5,016) |
| Effect on opening net deferred taxation resulting from an increase in tax rate | – | 3,909 |
| (Over)/under provision in prior year | (66) | 204 |
| Withholding tax | 3,333 | 3,713 |
| Derecognition of deferred tax assets by a subsidiary | 3,233 | – |
| Tax incentive | (2,201) | (1,960) |
| Others | (774) | 296 |
| Taxation charge | 63,491 | 52,304 |

31 Income tax expense (continued)

- (a) Hong Kong profits tax is provided at a rate of 17.5% (2005: 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.

32 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\$115,253,000 (2005: US\$28,358,000).

Movement of retained earnings of the Company

| | 2006 US\$'000 | 2005 US\$'000 |
|--|------------------|------------------|
| Retained earnings | | |
| Balance at 1 January | 41,760 | 76,892 |
| Profit for the year | 115,253 | 28,358 |
| 2005/2004 final dividend paid | (32,691) | (30,878) |
| 2006/2005 interim dividend paid (Note 34) | (42,638) | (32,612) |
| Balance at 31 December | 81,684 | 41,760 |
| Representing | | |
| 2006/2005 final dividend proposed (Note 34) | 33,295 | 32,639 |
| Retained earnings | 48,389 | 9,121 |
| Balance at 31 December | 81,684 | 41,760 |

33 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.

| | 2006 | 2005 |
|---|------------------|-----------|
| Profit attributable to equity holders of the Company (US\$'000) | 202,173 | 150,990 |
| Weighted average number of ordinary shares in issue (thousands) | 2,536,510 | 2,460,837 |
| Basic earnings per share (US cents per share) | 7.97 | 6.14 |

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 years ended 31 December 2006 and 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.

| | 2006 | 2005 |
|---|------------------|-----------|
| Profit attributable to equity holders of the Company (US\$'000) | 202,173 | 150,990 |
| Weighted average number of ordinary shares in issue (thousands) | 2,536,510 | 2,460,837 |
| Adjustments for – share options (thousands) | 7,787 | 4,305 |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) | 2,544,297 | 2,465,142 |
| Diluted earnings per share (US cents per share) | 7.95 | 6.13 |

34 Dividends

| | 2006 US\$'000 | 2005 US\$'000 |
|--|------------------|------------------|
| Interim dividend paid of HK13 cents (2005: HK10 cents) per ordinary share | 42,638 | 32,612 |
| Proposed final dividend of HK10 cents (2005: HK10 cents) per ordinary share | 33,295 | 32,639 |
| | 75,933 | 65,251 |

At a meeting held on 27 March 2007, the Board proposed a final dividend of HK10 cents per ordinary share for the year ended 31 December 2006, 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 2007.

35 Notes to the consolidated cash flow statement

(a) Cash generated from operations

| | 2006 US\$'000 | 2005 US\$'000 |
|--|------------------|------------------|
| Profit before income tax | 282,820 | 219,835 |
| Share of results of associates | (41,957) | (64,317) |
| Fair value gains on investment properties | (51,503) | (26,410) |
| Depreciation | 114,925 | 104,521 |
| Amortisation of leasehold land and land use rights and trademark | 9,019 | 8,512 |
| Interest on bank loans and overdrafts, other loans and convertible bonds | 49,708 | 34,545 |
| Interest income | (7,929) | (4,940) |
| Dividend income | (864) | (1,008) |

| | 2006 US\$'000 | 2005 US\$'000 |
|---|------------------|------------------|
| Loss on disposal of fixed assets and discarding of fixed assets due to properties renovations and impairment loss | 11,787 | 5,134 |
| Gain on disposal of a hotel | – | (2,389) |
| Realised and unrealised gains on financial assets held for trading (Reversal of impairment)/ impairment losses on available-for-sale financial assets | (21,022) | (7,494) |
| Expenses on share options granted | 4,415 | 3,468 |
| Fair value losses/(gains) on derivative financial instruments – interest-rate swap contracts | (319) | 74 |
| Goodwill impairment | 1,026 | – |
| Excess of net assets over the cost of acquisition of additional interest in a subsidiary | (694) | – |
| Gains on disposal of partial interest in subsidiaries | – | (340) |
| Losses on disposal of associates | – | 2,925 |
| Operating profit before working capital changes | 359,825 | 268,577 |
| Increase in inventories | (1,308) | (1,785) |
| Increase in accounts receivable, prepayments and deposits | (22,569) | (16,661) |
| Decrease/(increase) in amounts due from associates | 2,132 | (3,703) |
| Increase in accounts payable and accruals | 40,101 | 41,793 |
| Net cash generated from operations | 378,181 | 288,221 |

35 Notes to the consolidated cash flow statement (continued)

(b) Disposal of partial interests in subsidiaries in 2005

- (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 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 |

The assets and liabilities disposed are as follows:

| | Fair value and carrying amount US\$'000 |
|--|--|
| 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 interest | (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 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 during the year ended 31 December 2005.
- (iii) Total gains on disposal of partial interests in subsidiaries during the year ended 31 December 2005 were US\$340,000 (Note 26).

36 Financial guarantees, contingencies and charges over assets

(a) Financial guarantees

As at 31 December 2006, financial guarantees 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\$1,441,224,000 (2005: US\$1,009,813,000) for the subsidiaries and US\$22,419,000 (2005: US\$20,439,000) for associates.
- (ii) The Group executed proportionate guarantees 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\$41,039,000 (2005: US\$30,385,000).

Guarantees are stated at their respective contracted amounts. The Board are of the opinion that it is not probable that such guarantees will be called upon.

(b) Contingent liabilities

As at 31 December 2006, contingent liabilities of the Group were as follows:

- (i) 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\$5,376,000 (equivalent to US\$4,251,000) (2005: A\$10,000,000).
- (ii) The Group executed a performance guarantee in favour of the Government of the Republic of Maldives for the development of a resort in Maldives in accordance with an agreed work plan. The guarantee is valid until 26 April 2008 and will be discharged no later than 30 days following the date of completion of the resort in accordance with the agreement. The maximum cumulative amount of liability under such guarantee is US\$4,375,000 (2005: Nil).

(c) Charges over assets

As at 31 December 2006, bank loans of a subsidiary amounting to US\$3,000 (2005: US\$36,000) were secured by charges over certain motor vehicles of the subsidiary with net book values totaling US\$70,000 (2005: US\$93,000).

37 Commitments

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

| | 2006 US\$'000 | 2005 US\$'000 |
|---|------------------|------------------|
| Existing properties – Property, plant and equipment and investment properties | | |
| Contracted but not provided for | 20,986 | 28,693 |
| Authorised but not contracted for | 43,046 | 36,771 |
| Development projects | | |
| Contracted but not provided for | 461,038 | 324,531 |
| Authorised but not contracted for | 927,670 | 1,502,325 |
| | 1,452,740 | 1,892,320 |

- (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:

| | 2006 US\$'000 | 2005 US\$'000 |
|---|------------------|------------------|
| Not later than one year | 11,875 | 10,136 |
| Later than one year and not later than five years | 26,279 | 24,866 |
| Later than five years | 119,873 | 118,752 |
| | 158,027 | 153,754 |

- (c) At 31 December 2006, the Group had future aggregate minimum lease rental receivable under non-cancellable operating leases in respect of land and buildings as follows:

| | 2006 US\$'000 | 2005 US\$'000 |
|---|------------------|------------------|
| Not later than one year | 13,259 | 10,268 |
| Later than one year and not later than five years | 9,504 | 7,212 |
| Later than five years | – | 36 |
| | 22,763 | 17,516 |

- (d) The Company had entered into HIBOR and LIBOR interest-rate swap contracts for an aggregate principal amount of HK\$4,460,000,000 and US\$100,000,000 at fixed interest rates between 4.335% to 4.70% per annum to reduce its interest rate exposure. These contracts will be maturing between March 2010 through September 2013.

38 Related party transactions

Kerry Group Limited ("KGL"), which owns approximately 49.32% 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 2006, has significant influence over the Company.

The following transactions were carried out with related parties:

| | 2006 US\$'000 | 2005 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 | 2,085 | 1,874 |
| Reimbursement of office expenses and payment of administration and related expenses | 1,173 | 1,754 |
| Payment of office rental, management fees and rates | 304 | 329 |
| Purchase of edible oil | 61 | 519 |
| (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 | 8,370 | 7,106 |
| Receipt for laundry services | 728 | 660 |

| | 2006 US\$'000 | 2005 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 | 84,082 | 53,447 |
| Balance of guarantees executed in favour of banks for securing bank loans/facilities granted to associates of the Group | 22,418 | 20,440 |
| (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 | 56,145 | 53,730 |
| Balance of guarantees executed for securing bank loans/facilities granted to associates of the Group | 18,620 | 10,886 |
| 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 | 9,790 | 8,823 |
| Post employment benefits | 107 | 82 |

39 Group structure – principal subsidiaries and associates

(a) At 31 December 2006, the Company held interests in the following principal subsidiaries:

| Name | Place of establishment/ operation | Paid up/ issued capital | Percentage holding 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 | I |
| Shangri-La Asia Treasury Limited | The British Virgin Islands | Ordinary HK\$780 | 100 | – | Group financing | I |
| Shangri-La Finance Limited | The British Virgin Islands | Ordinary US\$1,000 | 100 | – | Group financing | I |
| Kerry Industrial Company Limited | Hong Kong | Ordinary HK\$2 Non-voting deferred HK\$10,000,000 | – | 100 | Investment holding | I |
| Shangri-La Hotel (Kowloon) Limited | Hong Kong | Ordinary HK\$2 Non-voting deferred HK\$10,000,000 | – | 100 | Hotel ownership and operation | I |
| Shangri-La International Hotels (Pacific Place) Limited | Hong Kong | Ordinary HK\$5,000 Non-voting deferred HK\$10,000,000 | – | 80 | Hotel ownership and operation | I |
| 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 | – | 100 | Hotel ownership and operation | 6, 7 |

39 Group structure – principal subsidiaries and associates (continued)

(a) At 31 December 2006, the Company held interests in the following principal subsidiaries: (continued)

| Name | Place of establishment/ operation | Paid up/ issued capital | Percentage holding in the voting shares | Nature of business | Notes | |
|--|--------------------------------------|----------------------------|--|--------------------|---|---------|
| | | | Direct | Indirect | | |
| Shanghai Pu Dong New Area Shangri-La Hotel Co., Ltd. | The People's Republic of China | US\$47,000,000 | – | 100 | Hotel ownership and operation | 2, 4, 7 |
| Shenyang Traders Hotel Ltd. | The People's Republic of China | US\$28,334,000 | – | 100 | Hotel ownership and operation | 6, 7 |
| Changchun Shangri-La Hotel Co., Ltd. | The People's Republic of China | RMB167,000,000 | – | 90 | Hotel ownership and operation and real estate operation | 5, 7 |
| Jilin Province Kerry Real Estate Development Ltd | The People's Republic of China | RMB25,000,000 | – | 90 | Real estate development and operation | 5, 7 |
| Qingdao Shangri-La Hotel Co., Ltd. | The People's Republic of China | US\$44,000,000 | – | 100 | Hotel ownership and operation and real estate development and operation | 6, 7 |
| Dalian Shangri-La Hotel Co., Ltd. | The People's Republic of China | US\$51,666,670 | – | 100 | Hotel ownership and operation and real estate development and operation | 6, 7 |
| Xian Shangri-La Golden Flower Hotel Co., Ltd | The People's Republic of China | US\$12,000,000 | – | 100 | Hotel ownership and operation | 4, 7 |
| Harbin Shangri-La Hotel Co., Ltd. | The People's Republic of China | US\$20,767,000 | – | 100 | Hotel ownership and operation | 6, 7 |

39 Group structure – principal subsidiaries and associates (continued)

(a) At 31 December 2006, the Company held interests in the following principal subsidiaries: (continued)

| Name | Place of establishment/ operation | Paid up/ issued capital | Percentage holding 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 | RMB486,502,250 | – | 100 | Real estate development and operation | 3, 6, 7 |
| Shangri-La Hotel (Chengdu) Co., Ltd. | The People's Republic of China | US\$41,540,000 | – | 80 | Hotel ownership and operation | 3, 6, 7 |
| Shangri-La Hotel (Guangzhou Pazhou) Co., Ltd. | The People's Republic of China | US\$48,340,000 | – | 100 | Hotel ownership and operation | 3, 6, 7 |

39 Group structure – principal subsidiaries and associates (continued)

(a) At 31 December 2006, the Company held interests in the following principal subsidiaries: (continued)

| Name | Place of establishment/ operation | Paid up/ issued capital | Percentage holding 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\$53,270,000 | – | 95 | Hotel ownership and operation | 3, 6, 7 |
| Shangri-La Hotel (Wenzhou) Co., Ltd. | The People's Republic of China | US\$16,500,000 | – | 100 | Hotel ownership and operation | 3, 6, 7 |
| Shangri-La Hotel (Xian) Co., Ltd. | The People's Republic of China | US\$16,800,000 | – | 100 | Hotel ownership and operation | 3, 6, 7 |
| Shangri-La Hotel (Guilin) Co., Ltd. | The People's Republic of China | US\$21,670,000 | – | 100 | Hotel ownership and operation | 3, 6, 7 |
| Shangri-La Hotel (Baotou) Co., Ltd. | The People's Republic of China | US\$24,400,000 | – | 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\$8,200,000 | – | 100 | Hotel ownership and operation | 3, 6, 7 |
| Shangri-La Hotel (Zhoushan) Co., Ltd. | The People's Republic of China | RMB18,490,620 | – | 100 | Hotel ownership and operation | 3, 6, 7 |

39 Group structure – principal subsidiaries and associates (continued)

(a) At 31 December 2006, the Company held interests in the following principal subsidiaries: (continued)

| Name | Place of establishment/ operation | Paid up/ issued capital | Percentage holding in the voting shares | | Nature of business | Notes |
|---|--------------------------------------|---|--|----------|--|-------|
| | | | Direct | Indirect | | |
| Shangri-La Ulaanbaatar Limited | Republic of Mongolia | US\$5,000,000 | – | 60 | Property Investment | 3 |
| Makati Shangri-La Hotel & Resort, Inc. | The Philippines | Common Peso 921,948,400 | – | 100 | Hotel ownership and operation | |
| Edsa Shangri-La Hotel & Resort, Inc. | The Philippines | Common Peso 792,128,700 | – | 100 | Hotel ownership and operation | |
| Mactan Shangri-La Hotel & Resort, Inc. | The Philippines | Common Peso 272,630,000 Preferred Peso 170,741,500 | – | 100 | Hotel ownership and operation | |
| Boracay Shangri-La Hotel & Resort, Inc. | The Philippines | Common Peso 10,825,000 | – | 100 | Hotel ownership and operation | 3 |
| Addu Investments Private Limited | Maldives | Rufiyaa 65,000,000 | – | 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 | |

39 Group structure – principal subsidiaries and associates (continued)

(a) At 31 December 2006, the Company held interests in the following principal subsidiaries: (continued)

| Name | Place of establishment/ operation | Paid up/ issued capital | Percentage holding 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 (Malaysia) Berhad | Malaysia | Ordinary RM440,000,000 | – | 52.78 | Investment holding and hotel ownership and operation | |
| Shangri-La Hotel (KL) Sdn Bhd | Malaysia | Ordinary RM150,000,000 | – | 52.78 | Hotel ownership and operation | |
| Golden Sands Beach 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 Sdn Bhd | Malaysia | Ordinary RM135,000,000 | – | 64.59 | Hotel and golf club ownership and operation | |
| UBN Tower Sdn Bhd | Malaysia | Ordinary RM500,000 | – | 52.78 | Property investment and office management | |
| UBN Holdings Sdn Bhd | Malaysia | Ordinary RM45,000,000 | – | 52.78 | Investment holding and property investment | |
| Traders Yangon Company Limited | Myanmar | Ordinary Kyat 21,600,000 | – | 59.16 | Hotel ownership and operation | |
| Shangri-La Hotel Public Company Limited | Thailand | Common Baht 1,300,000,000 | – | 73.61 | Hotel, serviced apartments and office ownership and operation | |

39 Group structure – principal subsidiaries and associates (continued)

(a) At 31 December 2006, the Company held interests in the following principal subsidiaries: (continued)

| Name | Place of establishment/ operation | Paid up/ issued capital | Percentage holding in the voting shares | | Nature of business | Notes |
|---|--------------------------------------|----------------------------|--|----------|---|-------|
| | | | Direct | Indirect | | |
| Shangri-La Hotels (Paris) SARL | France | EUR 10,000 | 100 | – | Hotel ownership and operation | 3 |
| 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 EUR 18,151 | – | 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.

39 Group structure – principal subsidiaries and associates (continued)

(b) At 31 December 2006, the Group held interests in the following principal associates:

| Name | Place of establishment/ operation | Percentage holding in the registered capital by the Group | Nature of business | Notes |
|--|--------------------------------------|---|---|-------|
| 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 | 49 | Real estate development and operation | 2, 3 |
| Shanghai Jin Ci Hou Properties Company Limited | The People's Republic of China | 49 | Real estate development and operation | 3 |

39 Group structure – principal subsidiaries and associates (continued)

(b) At 31 December 2006, the Group held interests in the following principal associates: (continued)

| Name | Place of establishment/ operation | Percentage holding in the registered capital by the Group | Nature of business | Notes |
|---|--------------------------------------|---|---|-------|
| Shanghai Ming Cheng Real Estate Development Co., Ltd. | The People's Republic of China | 49 | Real estate development and operation | 3 |
| Shanghai Pudong Kerry City Properties Co., Ltd. | The People's Republic of China | 23.20 | Hotel ownership and operation and property investment | 3 |
| 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 | |
| Fine Winner Holdings Limited | Hong Kong | 30 | Hotel ownership and operation | I |

Notes:

1 Associates audited by PricewaterhouseCoopers, Hong Kong.

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

3 Associates which are under various stages of real estate and hotel development and have not yet commenced business operations as at the balance sheet date.

(c) The above tables list out the subsidiaries and associates of the Company as at 31 December 2006 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 2006

40 Hotel properties of subsidiaries and associates

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

| Address | Existing use | Lease term | Address | Existing use | Lease term |
|--|-----------------|--------------|--|---|--------------|
| Kowloon Shangri-La, Hong Kong 64 Mody Road, Tsimshatsui East, Kowloon, Hong Kong | Hotel operation | Medium lease | Traders Hotel, Shenyang 68 Zhong Hua Road, He Ping District, Shenyang 110001, The People's Republic of China | Hotel operation | Long lease |
| Island Shangri-La, Hong Kong Pacific Place, 88 Queensway, Central, Hong Kong | Hotel operation | Medium lease | Shangri-La Hotel, Changchun 569 Xian Road, Changchun 130061, The People's Republic of China | Hotel operation and commercial and residential rental | Medium lease |
| Shangri-La Hotel, Shenzhen East Side, Railway Station, 1002 Jianshe Road, Shenzhen 518001, The People's Republic of China | Hotel operation | Medium lease | Shangri-La Hotel, Qingdao 9 Xiang Gang Zhong Lu, Qingdao 266071, The People's Republic of China | Hotel operation | Medium lease |
| Shangri-La Hotel, Beihai 33 Chating Road, Beihai, Guangxi 536007, The People's Republic of China | Hotel operation | Medium lease | Shangri-La Hotel, Dalian 66 Renmin Road, Dalian 116001, The People's Republic of China | Hotel operation | Medium lease |
| Pudong Shangri-La, Shanghai 33 Fu Cheng Lu, Pudong New Area, Shanghai 200120, The People's Republic of China | Hotel operation | Medium lease | Shangri-La Golden Flower Hotel, Xian 8 Chang Le Road West, Xian 710032, Shaanxi, The People's Republic of China | Hotel operation | Medium lease |
| | | | Shangri-La Hotel, Harbin 555 You Yi Road, Dao Li District, Harbin 150018, The People's Republic of China | Hotel operation | Medium lease |

40 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, Wuhan No. 700, Jianshe Avenue, Hankou, Wuhan 430015, The People's Republic of China | Hotel operation | Medium lease |
| Shangri-La Hotel, Zhongshan 16 Qi Wan Road North, Eastern Area, Zhongshan 528403, The People's Republic of China | Hotel operation | Long lease |
| Shangri-La Hotel, Fuzhou No. 9 Xin Quan Nan Road, Fuzhou 350005, The People's Republic of China | Hotel operation | Long lease |
| Makati Shangri-La, Manila Ayala Avenue, corner Makati Avenue, Makati City, Metro Manila 1200, The Philippines | Hotel operation | Medium lease |
| Edsa Shangri-La, Manila 1 Garden Way, Ortigas Center, Mandaluyong City 1650, Metro Manila, The Philippines | Hotel operation | Medium lease |

| Address | Existing use | Lease term |
|--|-----------------|--------------|
| Shangri-La's Mactan Resort & Spa, Cebu Punta Engano Road, Mactan Island, Cebu, The Philippines | Hotel operation | Medium lease |
| Shangri-La's Fijian Resort, Yanuca Yanuca Island, Sigatoka, Nadroga, Fiji | Hotel operation | Long lease |
| Shangri-La Hotel, Singapore 22 & 28 Orange Grove Road, Singapore 258350 | Hotel operation | Freehold |
| Rasa Sentosa Resort, Singapore 101 Siloso Road, Sentosa, Singapore 098970 | Hotel operation | Long lease |
| Shangri-La Hotel, Kuala Lumpur 11 Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia | Hotel operation | Freehold |
| Shangri-La's Rasa Sayang Resort, Penang Batu Ferringi Beach, 11100 Penang, Malaysia | Hotel operation | Freehold |

For the year ended 31 December 2006

40 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 |
|--|--|--------------|
| Traders Hotel, Penang Magazine Road, 10300 Penang, Malaysia | Hotel operation | Long lease |
| Golden Sands Resort, Penang Batu Feringgi Beach, 11100 Penang, Malaysia | Hotel operation | Freehold |
| Shangri-La's Rasa Ria Resort, Dalit Bay Golf Club & Spa, Sabah Pantai Dalit, 89208 Tuaran, Sabah, Malaysia | Hotel and golf club operation | Long lease |
| Traders Hotel, Yangon 223 Sule Pagoda Road, Yangon, Myanmar | Hotel operation | Medium lease |
| Shangri-La Hotel, Bangkok 89 Soi Wat Suan Plu, New Road, Bangrak, Bangkok 10500, Thailand | Hotel operation, residential and office rental | Freehold |

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

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

40 Hotel properties of subsidiaries and associates (continued)

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

| Address | Existing use | Lease term |
|---|---------------------|-------------------|
| Traders Hotel, Singapore 1A Cuscaden Road, Singapore 249716 | Hotel operation | Long lease |
| Shangri-La's Tanjung Aru Resort, Kota Kinabalu 88995 Kota Kinabalu, Sabah, Malaysia | Hotel operation | Long lease |
| Shangri-La Hotel, Jakarta Kota BNI, Jalan Jend Sudirman Kav. I, Jakarta 10220, Indonesia | Hotel operation | Medium lease |
| Novotel Century Harbourview, Hong Kong No. 508 Queen's Road West, Western District, Hong Kong | Hotel operation | Medium lease |

41 Investment properties of subsidiaries and associates

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

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

41 Investment properties of subsidiaries and associates

(continued)

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

| Address | Existing use | Lease term |
|--|---|--------------|
| China World Trade Center 1 Jian Guo Men Wai Avenue, Beijing 100004, The People's Republic of China | Hotel operation and office, commercial, residential and exhibition hall space rental | Medium lease |
| Shanghai Centre 1376 Nanjing Xi Lu, Shanghai 200040, The People's Republic of China | Hotel operation and office, commercial, residential and exhibition hall space rental | Medium lease |
| Beijing Kerry Centre 1 Guanghua Road, Chaoyang District, Beijing 100020, The People's Republic of China | Hotel operation and office, commercial and residential rental | Medium lease |
| Shanghai Kerry Centre No. 1515 Nanjing Road West, Jingan District, Shanghai 200040, The People's Republic of China | Office, commercial and residential rental | Medium lease |
| Tanglin Mall, Singapore 163 Tanglin Road, Singapore 247933 | Commercial rental | Long lease |
| Tanglin Place, Singapore 91 Tanglin Road, Singapore 247918 | Office and commercial rental | Freehold |

42 Events after the balance sheet date

- (a) In January 2007, the Company issued 4,216,216 new ordinary shares to a holder of convertible bonds who has exercised the right of conversion at a conversion price of HK\$9.25 per ordinary share before 31 December 2006.
- (b) The Company issued the following new ordinary shares to holders of convertible bonds who have exercised the right of conversion at a conversion price of HK\$9.25 per ordinary share subsequent to 31 December 2006 and up to the approval date of these financial statements:

| Issue date of ordinary shares | Face value of convertible bonds US\$'000 | Number of new ordinary shares issued |
|-------------------------------|--|--|
| February 2007 | 16,932 | 14,277,794 |

- (c) The Company issued a total of 1,090,362 new ordinary shares to share option holders who have exercised their rights to subscribe for shares of the Company subsequent to 31 December 2006 and up to the approval date of these financial statements.
- (d) In January 2007, the Company executed a HIBOR interest-rate swap contract for a principal amount of HK\$300 million for a period of 7 years at fixed interest rate of 4.28% per annum to reduce its interest rate exposure.

43 Approval of financial statements

The financial statements were approved by the Board on 27 March 2007.