

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

I 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

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

HKAS 39 Amendments

Transition and Initial Recognition of Financial Assets and Financial Liabilities

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

HKAS 39 & HKFRS 4
Amendments

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

HKFRS – Interpretation 4

Determining whether an Arrangement contains a Lease

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

Capital Disclosures

HKFRS 7

Financial Instruments: Disclosures

HK(IFRIC) - Interpretation 8

Scope of HKFRS 2

HK(IFRIC) - Interpretation 9

Reassessment of Embedded Derivatives

HK(IFRIC) - Interpretation 10

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	The People's Republic of China 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 – interest-rate swap contracts									(10.4)
Unallocated corporate expenses									(14.8)
Tax refund on reinvestment of dividend from subsidiaries and an associate									7.6
Excess of net assets over the cost of acquisition of additional interest in a subsidiary									0.7
Goodwill impairment									(1.0)
Operating profit									273.3
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		The						
	Hong Kong	Mainland China	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		The						
	Hong Kong	Mainland China	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		The						
	Hong Kong	Mainland China	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		The						
	Hong Kong	Mainland China	Philippines	Singapore	Thailand	Malaysia	Other	Elimination	Group
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		The						
	Hong Kong	Mainland China	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									<u>4,263.1</u>
Segment liabilities	(63.4)	(94.2)	(26.4)	(20.5)	(10.7)	(16.1)	(17.9)	16.3	(232.9)
Unallocated liabilities									<u>(1,400.0)</u>
Total liabilities									<u>(1,632.9)</u>

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)

	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).

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

	Goodwill US\$'000	Trademark & 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.

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).

II 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

	No. of shares (‘000)	Amount		
		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					Total consideration US\$'000
	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	
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

	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					Thai Baht
	HK\$	RMB	MYR	US\$	S\$	HK\$	RMB	MYR	US\$		
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	Compensation	Total US\$'000
						contribution to pension schemes US\$'000	for loss of office as director US\$'000	
Mr KUOK Khoo 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	Compensation	Total US\$'000
						contribution to pension schemes US\$'000	for loss of office as director 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

	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 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 HK\$	Excess of weighted average closing price per share on exercise date over exercise price HK\$	Exercisable Period
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

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 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 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	–	–	(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	Closing price per share on the business day immediately before date of grant HK\$	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 HK\$	Excess of weighted average closing price per share on exercise date over exercise price HK\$	Exercisable Period	
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

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 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 HK\$	Excess of weighted average closing price per share on exercise date over exercise price HK\$	Exercisable Period
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 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 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	

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 per share on exercise date over exercise 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	10,413	(3,539)
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
<hr/>	
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)
<hr/> Gain on disposal	<hr/> 297

The assets and liabilities disposed are as follows:

	Fair value and carrying amount US\$'000
<hr/>	
Investment properties (Note 7)	78,319
Cash and cash equivalent	11
Amount due to a shareholder	(1,481)
Other liabilities	(849)
<hr/> Net assets	<hr/> 76,000
1% minority interest	(760)
<hr/> The Group's share of net assets	<hr/> 75,240
Share of net assets disposed	(38,380)
<hr/> Share of net assets owned by the Group after disposal (Note 11)	<hr/> 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	1
Shangri-La Asia Treasury Limited	The British Virgin Islands	Ordinary HK\$780	100	–	Group financing	1
Shangri-La Finance Limited	The British Virgin Islands	Ordinary US\$1,000	100	–	Group financing	1
Kerry Industrial Company Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred HK\$10,000,000	–	100	Investment holding	1
Shangri-La Hotel (Kowloon) Limited	Hong Kong	Ordinary HK\$2 Non-voting deferred HK\$10,000,000	–	100	Hotel ownership and operation	1
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	1
Shenzhen Shangri-La Hotel Limited	The People's Republic of China	US\$32,000,000	–	51.30	Hotel ownership and operation	2, 5, 7
Beihai Shangri-La Hotel Ltd.	The People's Republic of China	US\$16,000,000	–	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	EUR10,000	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 EUR18,151	–	100	Licensing use of intellectual property rights	

Notes:

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

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	1

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.

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
Kowloon Shangri-La, Hong Kong 64 Mody Road, Tsimshatsui East, Kowloon, Hong Kong	Hotel operation	Medium lease
Island Shangri-La, Hong Kong Pacific Place, 88 Queensway, Central, Hong Kong	Hotel operation	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, Beihai 33 Chating Road, Beihai, Guangxi 536007, 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

Address	Existing use	Lease term
Traders Hotel, Shenyang 68 Zhong Hua Road, He Ping District, Shenyang 110001, The People's Republic of China	Hotel operation	Long 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, Qingdao 9 Xiang Gang Zhong Lu, Qingdao 266071, 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
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 Feringgi Beach, 11100 Penang, Malaysia	Hotel operation	Freehold

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. 1, 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 Guanghai 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.