



SHANGRI-LA ASIA LIMITED

(Incorporated in Bermuda with limited liability)

香格里拉(亞洲)有限公司

Interim Report 2006

stock code: 69

CORPORATE INFORMATION

As at 1 September 2006

Board of Directors

Executive Directors

Mr KUOK Khoon Loong, Edward (*Chairman*)
Mr YE Longfei (*Deputy Chairman*)
Mr Giovanni ANGELINI
Mr LUI Man Shing
Mr NG Si Fong, Alan

Non-Executive Directors

Madam KUOK Oon Kwong
Mr HO Kian Guan
Mr LEE Yong Sun
Mr Roberto V. ONGPIN
Mr Alexander Reid HAMILTON*
Mr WONG Kai Man*
Mr Timothy David DATTELS*
Mr HO Kian Hock
(*Alternate to Mr HO Kian Guan*)

* *Independent Non-Executive Directors*

Remuneration Committee

Mr KUOK Khoon Loong, Edward (*Chairman*)
Mr Alexander Reid HAMILTON
Mr WONG Kai Man

Audit Committee

Mr Alexander Reid HAMILTON (*Chairman*)
Mr HO Kian Guan
Mr WONG Kai Man

Company Secretary

Ms KO Sau Lai

Auditors

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor
Prince's Building
Central
Hong Kong

Head Office and Principal Place of Business

21st Floor
CITIC Tower
No. 1 Tim Mei Avenue
Central
Hong Kong

Branch Share Registrar in Hong Kong

Abacus Share Registrars Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Company's Website

<http://www.shangri-la.com>

Financial Information

<http://www.ir.shangri-la.com>

The Directors of Shangri-La Asia Limited (the “Company”) are pleased to announce the unaudited interim results of the Company and its subsidiaries (the “Group”), and associates for the six months ended 30 June 2006. These results have been reviewed by the Company’s auditors, PricewaterhouseCoopers, in accordance with the Hong Kong Statement of Auditing Standards SAS 700 “Engagements to Review Interim Financial Reports” and by the Audit Committee of the Board of Directors. The review report of the auditors is set out on page 3.

The consolidated profit attributable to equity holders of the Company for the six months ended 30 June 2006 increased to US\$82.0 million (US3.241 cents per share) from US\$60.6 million (US2.514 cents per share) in the same period last year.

The consolidated net asset value (total equity) increased to US\$2,761.3 million (US\$1.09 per share) as at 30 June 2006 from US\$2,630.2 million (US\$1.04 per share) as at 31 December 2005 and the Group’s net borrowings (total of bank loans, overdrafts and convertible bonds less cash and cash equivalents) to total equity ratio increased to 40.9% as at 30 June 2006 from 33.0% as at 31 December 2005.

The Directors have declared an interim dividend of **HK13 cents** per share for 2006 (2005: HK10 cents per share) payable on Wednesday, 11 October 2006, to shareholders whose names appear on the Registers of Members of the Company on Friday, 29 September 2006.



羅兵咸永道會計師事務所

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**INDEPENDENT REVIEW REPORT
TO THE BOARD OF DIRECTORS OF
SHANGRI-LA ASIA LIMITED**

(incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report of the Company set out on pages 4 to 25.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited requires the preparation of consolidated condensed interim financial statements to be in compliance with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on this interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 1 September 2006

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

(All amounts in US dollar thousands)

		As at	
		30 June 2006	31 December 2005
	Note	Unaudited	Audited
ASSETS			
Non-current assets			
Property, plant and equipment	4	2,405,152	2,155,403
Investment properties	4	323,802	353,159
Leasehold land and land use rights	4	380,061	375,143
Intangible assets	4	86,358	86,692
Interest in associates		855,462	790,466
Deferred income tax assets		4,795	5,179
Available-for-sale financial assets	5	3,562	1,422
Derivative financial instruments	13	18,896	–
Other receivables	6	3,761	3,522
		4,081,849	3,770,986
Current assets			
Inventories		20,899	20,711
Accounts receivables, prepayments and deposits	7	188,725	131,162
Due from associates		30,826	26,364
Financial assets held for trading	8	39,033	37,770
Cash and cash equivalents		324,255	276,074
		603,738	492,081
Total assets		4,685,587	4,263,067
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	9	1,190,781	1,181,117
Other reserves	10	995,263	940,569
Retained earnings			
– Proposed interim/final dividend	22	42,569	32,639
– Others		266,098	226,712
		2,494,711	2,381,037
Minority interests		266,584	249,177
Total equity		2,761,295	2,630,214

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (Continued)

(All amounts in US dollar thousands)

		As at	
		30 June	31 December
		2006	2005
	Note	Unaudited	Audited
LIABILITIES			
Non-current liabilities			
Bank loans	11	847,317	931,209
Convertible bonds	12	56,370	59,166
Derivative financial instruments	13	–	1,299
Due to minority shareholders	14	17,890	20,539
Deferred income tax liabilities		206,324	202,225
		1,127,901	1,214,438
Current liabilities			
Accounts payable and accruals	15	211,198	231,796
Due to minority shareholders	14	14,267	18,557
Current income tax liabilities		21,383	15,186
Bank loans and overdrafts	11	549,495	152,644
Derivative financial instruments	13	48	232
		796,391	418,415
Total liabilities		1,924,292	1,632,853
Total equity and liabilities		4,685,587	4,263,067
Net current (liabilities)/assets		(192,653)	73,666
Total assets less current liabilities		3,889,196	3,844,652

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

(All amounts in US dollar thousands)

		Six months ended 30 June	
	Note	2006 Unaudited	2005 Unaudited
Sales	3	469,976	388,711
Cost of goods sold	16	(183,136)	(153,626)
Gross profit		286,840	235,085
Other gains – net	17	32,102	3,006
Marketing costs	16	(17,230)	(15,933)
Administrative expenses	16	(38,545)	(32,169)
Other operating expenses	16	(142,722)	(114,311)
Operating profit		120,445	75,678
Finance costs	18	(15,383)	(14,381)
Share of profit of associates	19	11,408	22,849
Profit before income tax		116,470	84,146
Income tax expense	20	(27,083)	(17,669)
Profit for the period		89,387	66,477
Attributable to:			
Equity holders of the Company		82,006	60,553
Minority interests		7,381	5,924
		89,387	66,477
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in US cents per share)			
– basic	21	3.241	2.514
– diluted	21	3.237	2.510
Dividends	22	42,569	32,381

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

(All amounts in US dollar thousands)

	Note	Unaudited				Total
		Attributable to equity holders of the Company			Minority interests	
		Share capital	Other reserves	Retained earnings		
Balance at 1 January 2005		1,029,599	948,550	171,851	187,719	2,337,719
Currency translation differences		–	(23,649)	–	(2,592)	(26,241)
Net expenses recognised directly in equity		–	(23,649)	–	(2,592)	(26,241)
Profit for the period		–	–	60,553	5,924	66,477
Total recognised income/(expenses) for the six months ended 30 June 2005		–	(23,649)	60,553	3,332	40,236
Issue of shares upon conversion of convertible bonds – equity component	9	39,496	(3,798)	–	–	35,698
Exercise of share options – allotment of shares	9	4,371	–	–	–	4,371
Granting of option shares – value of employee service		–	868	–	–	868
Payment of 2004 final dividend		–	–	(30,878)	–	(30,878)
Dividend paid to and equity acquired from minority interests		–	–	–	(8,209)	(8,209)
		43,867	(2,930)	(30,878)	(8,209)	1,850
Balance at 30 June 2005		1,073,466	921,971	201,526	182,842	2,379,805
Balance at 1 January 2006		1,181,117	940,569	259,351	249,177	2,630,214
Currency translation differences		–	53,628	–	7,963	61,591
Net income recognised directly in equity		–	53,628	–	7,963	61,591
Profit for the period		–	–	82,006	7,381	89,387
Total recognised income for the six months ended 30 June 2006		–	53,628	82,006	15,344	150,978
Issue of shares upon conversion of convertible bonds – equity component	9	3,944	(439)	–	–	3,505
Exercise of share options – allotment of shares	9	5,201	–	–	–	5,201
Exercise of share options – transfer from option reserve to share premium	9	519	(519)	–	–	–
Granting of option shares – value of employee service		–	2,024	–	–	2,024
Payment of 2005 final dividend		–	–	(32,690)	–	(32,690)
Dividend paid to and equity acquired from minority interests		–	–	–	(7,475)	(7,475)
Equity injection from minority interests		–	–	–	9,656	9,656
Net change in equity loan due to minority interests		–	–	–	(118)	(118)
		9,664	1,066	(32,690)	2,063	(19,897)
Balance at 30 June 2006		1,190,781	995,263	308,667	266,584	2,761,295

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

(All amounts in US dollar thousands)

	Six months ended 30 June	
	2006	2005
	Unaudited	Unaudited
Cash flow from operating activities:	82,156	58,412
Cash flows from investing activities:		
– purchases of property, plant and equipment; investment properties and land use rights	(269,592)	(122,460)
– proceeds on disposal of property, plant and equipment	760	591
– acquisition of additional interest in a subsidiary	(2,520)	–
– proceeds from disposal of interest in an associate	–	14,341
– other investing cash flow – net	(44,029)	10,160
Net cash used in investing activities – net	(315,381)	(97,368)
Cash flows from financing activities:		
– dividend paid	(41,579)	(37,134)
– net increase in borrowings	318,873	104,844
– other finance cash flows - net	12,186	4,371
Cash flows from financing activities – net	289,480	72,081
Net increase in cash and cash equivalents and bank overdrafts	56,255	33,125
Cash and cash equivalents and bank overdrafts at 1 January	266,985	186,727
Cash and cash equivalents and bank overdrafts at 30 June	323,240	219,852
Analysis of balances of cash and cash equivalents and bank overdrafts		
Cash at bank and in hand	122,488	104,804
Short-term bank deposits	201,767	115,326
Cash and cash equivalents	324,255	220,130
Bank overdrafts	(1,015)	(278)
	323,240	219,852

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(All amounts in US dollar thousands unless otherwise stated)

1. GENERAL INFORMATION

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2006 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

These condensed consolidated interim financial statements should be read in conjunction with the 2005 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2005 with addition of the following amendments to standards and interpretation which are relevant to the Group's operation and are mandatory for financial year ending 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 – Int 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 operation but are not effective for 2006 and have not been early adopted:

HKFRS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives

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 HKFRS 1 Amendment and HKFRS 7.

3. SEGMENT INFORMATION

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

3. SEGMENT INFORMATION (Continued)

Primary reporting format – geographical segments

Segment income statement

For the six months ended 30 June 2006 (US\$ million)

	Hong Kong	The People's Republic of China Mainland China	The Philippines	Singapore	Thailand	Malaysia	Other	Elimination	Group
Sales									
External sales	102.4	153.6	58.3	66.0	27.4	41.3	21.0	-	470.0
Inter-segment sales	3.6	8.5	3.7	1.7	1.3	1.2	0.5	(20.5)	-
Total	106.0	162.1	62.0	67.7	28.7	42.5	21.5	(20.5)	470.0
Result									
Segment results	10.1	33.8	12.2	19.4	10.6	8.4	4.5	-	99.0
Interest income									4.2
Dividend income									0.5
Net realised and unrealised gains on financial assets held for trading									8.1
Fair value gains on derivative financial instruments – interest-rate swap contracts									19.5
Unallocated corporate expenses									(10.5)
Excess of net assets over the cost of acquisition of additional interest in a subsidiary									0.7
Goodwill impairment									(1.0)
Operating profit									120.5
Finance costs									(15.4)
Share of profit of associates	-	9.8	-	0.7	-	0.9	-	-	11.4
Profit before income tax									116.5
Depreciation of property, plant and equipment	(6.6)	(24.6)	(9.1)	(6.4)	(4.0)	(4.5)	(1.5)	-	(56.7)
Amortisation of leasehold land and land use rights	(1.0)	(2.8)	-	(0.1)	-	(0.1)	(0.1)	-	(4.1)
Capital expenditures, excluding intangible assets	2.9	107.8	13.2	6.8	5.9	8.8	130.1	-	275.5
Segment balance sheet As at 30 June 2006 (US\$ million)									
Segment assets	280.0	1,483.8	421.7	643.6	178.0	353.3	252.3	(15.9)	3,596.8
Interest in associates	-	729.3	-	66.3	-	25.2	34.7	-	855.5
Unallocated assets									147.0
Intangible assets									86.3
Total assets									4,685.6
Segment liabilities	(50.4)	(91.9)	(25.8)	(19.3)	(11.6)	(16.6)	(17.2)	15.9	(216.9)
Unallocated liabilities									(1,707.4)
Total liabilities									(1,924.3)

3. SEGMENT INFORMATION (Continued)

Primary reporting format – geographical segments (Continued)

Segment income statement

For the six months ended 30 June 2005 (US\$ million)

	Hong Kong	The People's Republic of China Mainland China	The Philippines	Singapore	Thailand	Malaysia	Other	Elimination	Group
Sales									
External sales	86.7	116.0	51.2	56.6	24.1	34.8	19.3	-	388.7
Inter-segment sales	2.6	4.8	3.0	1.5	1.1	1.0	0.4	(14.4)	-
Total	89.3	120.8	54.2	58.1	25.2	35.8	19.7	(14.4)	388.7
Result									
Segment results	12.1	21.2	9.1	14.8	8.7	6.3	5.9	-	78.1
Interest income									1.8
Dividend income									0.7
Net realised and unrealised gains on financial assets held for trading									2.1
Fair value gains on derivative financial instruments – interest-rate swap contracts									0.6
Unallocated corporate expenses									(4.7)
Loss on disposal of interest in associates									(2.9)
Operating profit									75.7
Finance costs									(14.4)
Share of profit of associates	-	20.7	-	0.8	-	0.7	0.6	-	22.8
Profit before income tax									84.1
Depreciation of property, plant and equipment	(6.1)	(19.3)	(8.3)	(6.5)	(3.8)	(4.2)	(1.2)	-	(49.4)
Amortisation of leasehold land and land use rights	(0.9)	(2.5)	-	-	-	(0.1)	(0.2)	-	(3.7)
Capital expenditures, excluding intangible assets	9.2	86.5	15.2	1.1	2.1	4.6	7.0	-	125.7
Segment balance sheet									
As at 31 December 2005 (US\$ million)									
Segment assets	291.1	1,362.7	413.3	634.1	167.0	336.6	114.1	(16.3)	3,302.6
Interest in associates	-	669.7	-	62.7	-	23.3	34.8	-	790.5
Unallocated assets									83.3
Intangible assets									86.7
Total assets									4,263.1
Segment liabilities	(63.4)	(94.2)	(26.4)	(20.5)	(10.7)	(16.1)	(17.9)	16.3	(232.9)
Unallocated liabilities									(1,400.0)
Total liabilities									(1,632.9)

3. SEGMENT INFORMATION (Continued)

Secondary reporting format – business segments

For the six months ended/as at 30 June 2006 (US\$ million)

	Sales	Segment results	Total assets	Capital expenditures
Hotel operation				
– Room rentals	243.5			
– Food and beverage sales	173.9			
– Renderings of ancillary services	33.6			
	<u>451.0</u>	92.9	3,139.8	273.9
Hotel management	29.8	2.6	44.2	0.1
Property rentals	9.7	3.5	428.7	1.5
Elimination	(20.5)	–	(15.9)	–
	<u>470.0</u>	<u>99.0</u>	<u>3,596.8</u>	<u>275.5</u>
Interest in associates			855.5	–
Unallocated assets			147.0	–
Intangible assets			86.3	–
			<u>4,685.6</u>	<u>275.5</u>

For the six months ended 30 June 2005 (US\$ million)

Hotel operation				
– Room rentals	199.1			
– Food and beverage sales	145.2			
– Renderings of ancillary services	27.8			
	<u>372.1</u>	70.5		124.9
Hotel management	22.1	4.6		0.7
Property rentals	8.9	3.0		0.1
Elimination	(14.4)	–		–
	<u>388.7</u>	<u>78.1</u>		<u>125.7</u>
Interest in associates				–
Unallocated assets				–
Intangible assets				–
				<u>125.7</u>

As at 31 December 2005 (US\$ million)

Hotel operation		2,861.2
Hotel management		38.9
Property rentals		418.8
Elimination		(16.3)
		<u>3,302.6</u>
Interest in associates		790.5
Unallocated assets		83.3
Intangible assets		86.7
		<u>4,263.1</u>

4. CAPITAL EXPENDITURE

	Investment properties	Property, plant & equipment	Leasehold land and land use rights	Intangible assets
Opening net book amount as at 1 January 2006	353,159	2,155,403	375,143	86,692
Additions	1,638	268,830	5,006	958
Exchange differences	12,717	44,876	4,044	–
Disposals/goodwill impairment	(44)	(7,182)	–	(1,026)
Reclassified as deposit	(43,668)	–	–	–
Depreciation/amortisation charge (Note 16)	–	(56,775)	(4,132)	(266)
Closing net book amount as at 30 June 2006	323,802	2,405,152	380,061	86,358
Opening net book amount as at 1 January 2005 (including opening adjustment)	407,291	1,986,414	379,516	75,424
Additions	68	122,495	3,099	367
Exchange differences	(5,776)	(19,281)	–	–
Disposals	(72)	(2,512)	–	–
Depreciation/amortisation charge (Note 16)	–	(49,506)	(3,706)	–
Closing net book amount as at 30 June 2005	401,511	2,037,610	378,909	75,791

5. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at	
	30 June 2006	31 December 2005
Equity securities:		
Overseas unlisted shares, at cost	1,916	1,916
– Exchange differences	(78)	(175)
– Provision for impairment losses	(319)	(319)
	1,519	1,422
Club debentures	2,043	–
	3,562	1,422

6. OTHER RECEIVABLES

	As at	
	30 June 2006	31 December 2005
Loans to a managed hotel (note (a))	3,761	3,522

Note:

- (a) 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 year 2012 according to a fixed repayment schedule. These loans are interest-free except for a fixed amount of A\$2,000,000 (equivalent US\$1,542,000) which is interest bearing at LIBOR plus 1% per annum.

The effective interest rate applied to calculate the fair value on the interest free portion is 5.74% per annum.

7. ACCOUNTS RECEIVABLES, PREPAYMENTS AND DEPOSITS

	30 June 2006	As at 31 December 2005
Trade receivables	47,631	43,294
Prepayments and deposits	106,995	30,579
Account receivables	34,099	17,801
Consideration receivables from disposal of partial interest in a subsidiary	–	39,488
	188,725	131,162

- (a) The fair value of the trade and other receivables are not materially different from their carrying value.
- (b) The majority of the Group's sales are by credit cards or with deposit payment. 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:

	30 June 2006	As at 31 December 2005
0 – 3 months	44,822	40,755
4 – 6 months	1,544	1,495
Over 6 months	1,265	1,044
	47,631	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.

8. FINANCIAL ASSETS HELD FOR TRADING

	30 June 2006	As at 31 December 2005
Equity securities, at market value		
Shares listed in Hong Kong	37,177	35,829
Shares listed outside Hong Kong	1,856	1,941
	39,033	37,770

Equity securities listed in Hong Kong included 11,805,055 (31 December 2005: 11,805,055) ordinary shares in the Company ("such SA shares") with a carrying value of US\$22,620,000 (31 December 2005: US\$19,726,000) held by a wholly owned subsidiary of Shangri-La Hotel Public Company Limited, Thailand ("SHPCL"). Such SA shares, representing approximately 0.5% (31 December 2005: 0.5%) of the issued share capital of the Company as at 30 June 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 SA shares to independent parties. In view of the temporary nature of this holding in such SA shares, they have been classified as financial assets held for trading.

9. SHARE CAPITAL

	Number of shares (‘000)	Amount		Total
		Ordinary shares	Share premium	
Authorised				
– Ordinary shares of HK\$1 each				
At 31 December 2005 and 30 June 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))	4,336	560	4,641	5,201
– transfer from option reserve	–	–	519	519
Issue of shares upon conversion of convertible bonds (note (b))	3,078	397	3,547	3,944
At 30 June 2006	2,534,853	327,334	863,447	1,190,781
At 1 January 2005	2,404,292	310,588	719,011	1,029,599
Exercise of share options – allotment of shares	4,500	577	3,794	4,371
Issue of shares upon conversion of convertible bonds	31,911	4,091	35,405	39,496
At 30 June 2005	2,440,703	315,256	758,210	1,073,466
Exercise of share options – allotment of shares	1,429	183	1,337	1,520
Issue of shares upon conversion of convertible bonds	85,307	10,938	95,193	106,131
At 31 December 2005	2,527,439	326,377	854,740	1,181,117

- (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
	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
For the six months ended 30 June 2006	1,555,099	630,538	600,000	210,000	1,341,000	5,201
For the six months ended 30 June 2005	1,339,308	562,082	271,684	2,327,000	–	4,371
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\$14.64.

9. SHARE CAPITAL (Continued)

- (b) During the period, the following convertible bonds issued by a wholly owned subsidiary of the Company have been converted by the bond holders 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	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
	3,650	3,077,832

611,351 ordinary shares were issued subsequent to 30 June 2006 for convertible bonds with face value of US\$725,000 converted in June 2006.

Share options

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

The Company has two share option schemes: the Executive Option Scheme and the New Option Scheme. Details of these two schemes are stated under the section headed "Share Options" of this report.

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

	For the six months ended 30 June 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	9.29	(4,336,637)	7.75	(5,929,002)
Lapsed	10.93	(430,000)	10.32	(509,555)
At 30 June/31 December	11.37	31,337,239	10.26	29,023,876

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

Expiry date	Exercise price in HK\$ per option share	Number of option shares as at	
		30 June 2006	31 December 2005
Executive Option Scheme			
30 April 2008	8.26	2,131,613	3,686,712
14 January 2010	8.82	3,052,362	3,682,900
14 January 2011	8.18	894,264	1,494,264
		6,078,239	8,863,876
New Option Scheme			
28 May 2012	6.81	2,070,000	2,340,000
27 April 2015	11.60	16,109,000	17,820,000
15 June 2016	14.60	7,080,000	-
		25,259,000	20,160,000

9. SHARE CAPITAL (Continued)

Share options (Continued)

The fair value of each option granted during the six months ended 30 June 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 88,529 shares, 657,141 shares, 67,921 shares, 150,000 shares and 249,000 shares with exercise price per share of HK\$8.26, HK\$8.82, HK\$8.18, HK\$6.81 and HK\$11.60, respectively have been exercised subsequent to 30 June 2006 and up to the date of this report. Options on 150,000 shares with exercise price per share of HK\$11.60 have lapsed subsequent to 30 June 2006 and up to the date of this report.

10. OTHER RESERVES

	Option	Convertible bonds	Capital redemption	Exchange fluctuation	Capital	Other	Contributed surplus	Total
Balance at 1 January 2005	–	20,075	10,666	(74,790)	601,490	1,368	389,741	948,550
Issue of shares upon conversion of convertible bonds – equity component	–	(3,798)	–	–	–	–	–	(3,798)
Granting of option shares	868	–	–	–	–	–	–	868
Currency translation differences	–	–	–	(23,649)	–	–	–	(23,649)
Balance at 30 June 2005	868	16,277	10,666	(98,439)	601,490	1,368	389,741	921,971
Currency translation differences	–	–	–	26,153	–	–	–	26,153
Issue of shares upon conversion of convertible bonds – equity component	–	(10,155)	–	–	–	–	–	(10,155)
Granting of option shares	2,600	–	–	–	–	–	–	2,600
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	–	–	–	53,628	–	–	–	53,628
Issue of shares upon conversion of convertible bonds – equity component	–	(439)	–	–	–	–	–	(439)
Granting of option shares	2,024	–	–	–	–	–	–	2,024
Exercise of share options – transfer to share premium	(519)	–	–	–	–	–	–	(519)
Balance at 30 June 2006	4,973	5,683	10,666	(18,658)	601,490	1,368	389,741	995,263

11. BANK LOANS AND OVERDRAFTS

	As at	
	30 June 2006	31 December 2005
Overdrafts – unsecured	1,015	9,089
Bank loans – secured (<i>Note 23</i>)	20	36
Bank loans – unsecured	1,395,777	1,074,728
	1,396,812	1,083,853

The maturity of bank loans and overdrafts is as follows:

	As at	
	30 June 2006	31 December 2005
Within 1 year	549,495	152,644
Between 1 and 2 years	24,665	407,422
Between 2 and 5 years	822,652	509,806
Wholly repayable within 5 years	1,396,812	1,069,872
Over 5 years	–	13,981
	1,396,812	1,083,853

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

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

	30 June 2006					31 December 2005				
	HK\$	RMB	MYR	US\$	S\$	HK\$	RMB	MYR	US\$	Thai Baht
Bank overdrafts	8.25%	–	6.80%	–	–	–	–	6.50%	–	6.75%
Bank borrowings	4.65%	5.58%	4.49%	5.62%	3.96%	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:

	As at	
	30 June 2006	31 December 2005
Hong Kong dollar	1,056,362	897,481
Renminbi	69,183	47,261
Malaysian Ringgit	39,808	36,034
Singapore dollar	5,349	–
US dollar	226,110	103,031
Thai Baht	–	46
	1,396,812	1,083,853

The Group has the following undrawn borrowing facilities:

	As at	
	30 June 2006	31 December 2005
Floating rate		
– expiring within one year	140,959	158,711
– expiring beyond one year	429,411	482,173
Fixed rate		
– expiring within one year	5,555	4,873
– expiring beyond one year	24,256	46,679
	600,181	692,436

As at 30 June 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\$6,452,000 (31 December 2005: US\$6,040,000).

12. 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 10*).

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

	As at	
	30 June 2006	31 December 2005
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)
	<hr/>	<hr/>
Liability component on initial recognition at 15 March 2004	176,740	176,740
Accumulated interest expense	15,602	14,100
Right of conversion exercised by bond holders	(135,972)	(131,674)
	<hr/>	<hr/>
Liability component	56,370	59,166

The face value of the outstanding bonds at 30 June 2006 amounted to US\$56,617,000. 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 30 June 2006 amounted to US\$54,547,000 and is calculated using cash flows discounted at a rate based on the borrowings rate of 5.53%.

During the period, convertible bonds with face value US\$4,375,000 were converted and 3,077,832 ordinary shares of the Company were allotted during the period (*Note 9(b)*) while 611,351 ordinary shares were allotted after 30 June 2006.

Subsequent to 30 June 2006 and up to the date of this report, bond holders have served conversion notices and convertible bonds with face value of US\$1,325,000 have been converted to 1,117,293 ordinary shares of the Company.

13. DERIVATIVE FINANCIAL INSTRUMENTS

	As at	
	30 June 2006	31 December 2005
Assets/(liabilities)		
Interest-rate swap contracts – non-hedging		
– Current portion	(48)	(232)
– Non-current portion	18,896	(1,299)
	<hr/>	<hr/>
	18,848	(1,531)

The notional principal amounts of the outstanding HIBOR and LIBOR interest-rate swap contracts at 30 June 2006 were HK\$3,984,000,000 and US\$100,000,000, respectively (31 December 2005: HK\$4,360,000,000 and US\$100,000,000 respectively).

At 30 June 2006, the fixed interest rates vary from 4.335% to 5.29% per annum (31 December 2005: 4.335% to 5.29%).

14. DUE TO MINORITY SHAREHOLDERS

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

	30 June 2006	As at 31 December 2005
HIBOR plus 1.0% per annum and wholly repayable on 30 June 2015	15,061	17,719
LIBOR plus 2.5% per annum and wholly repayable on 30 June 2015	660	651
6.0% per annum and wholly repayable on 31 December 2015	2,169	2,169
	17,890	20,539

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

	30 June 2006	As at 31 December 2005
HIBOR plus 1.0% per annum and wholly repayable on 30 June 2015	1,772	780
Interest free with no fixed repayment terms	12,495	17,777
	14,267	18,557

15. ACCOUNTS PAYABLE AND ACCRUALS

	30 June 2006	As at 31 December 2005
Trade payables	32,830	41,738
Construction cost payable and accrued expenses	178,368	190,058
	211,198	231,796

At 30 June 2006, the ageing analysis of the trade payables were as follows:

	30 June 2006	As at 31 December 2005
0 – 3 months	30,029	39,066
4 – 6 months	782	1,195
Over 6 months	2,019	1,477
	32,830	41,738

16. EXPENSES BY NATURE

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

	30 June 2006	For the six months ended 30 June 2005
Depreciation of property, plant and equipment (net of amount capitalised of US\$86,000 (2005: US\$72,000)) (Note 4)	56,689	49,434
Amortisation of leasehold land and land use rights (Note 4)	4,132	3,706
Amortisation of trade mark and licences (Note 4)	266	–
Employee benefit expenses	130,166	102,120
Cost of inventories sold or consumed in operation	56,880	48,410
Loss on disposal of property, plant and equipment and investment properties	227	323
Discarding of property, plant and equipment due to renovation of hotels	3,001	1,744
Impairment loss on properties under development	2,758	–
Expenses on share options granted	2,024	868

17. OTHER GAINS – NET

	For the six months ended	
	30 June 2006	30 June 2005
Available-for-sale financial assets:		
– impairment losses	–	(33)
Gains (realised and unrealised) on financial assets held for trading	8,059	2,148
Derivative financial instruments:		
– interest-rate swap contracts: transactions not qualifying as hedges	19,520	569
Loss on disposal of associates	–	(2,925)
Excess of net assets over the cost of acquisition of additional interest in a subsidiary acquired	694	–
Goodwill impairment	(1,026)	–
Interest income	4,188	1,763
Dividend income	545	675
Others	122	809
	32,102	3,006

18. FINANCE COSTS

	For the six months ended	
	30 June 2006	30 June 2005
Interest expense:		
– bank loans and overdrafts	29,410	12,438
– other borrowings wholly repayable within five years	736	246
– convertible bonds wholly repayable within five years	1,502	4,786
	31,648	17,470
Less: amount capitalised	(5,796)	(3,129)
	25,852	14,341
Net foreign exchange transactions (gains)/losses	(10,469)	40
	15,383	14,381

19. SHARE OF PROFIT OF ASSOCIATES

Share of profit in 2006 is stated after the share of loss of US\$14,677,000 due to implementation of the share reform scheme of a listed subsidiary in Mainland China owned by an associate.

20. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

	For the six months ended	
	30 June 2006	30 June 2005
Current income tax		
– Hong Kong profits tax	5,767	4,256
– Overseas taxation	19,220	12,002
Deferred income tax	2,096	1,411
	27,083	17,669

Share of associates' taxation for the six months ended 30 June 2006 of US\$14,078,000 (2005: US\$12,259,000) are included in the income statement as share of profit of associates.

21. 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 period.

	For the six months ended	
	30 June 2006	30 June 2005
Profit attributable to equity holders of the Company	82,006	60,553
Weighted average number of ordinary shares in issue (<i>thousands</i>)	2,530,302	2,408,711
Basic earnings per share (<i>US cents per share</i>)	3.241	2.514

Diluted

Diluted earnings per share is calculated by 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 six months ended 30 June 2006, all the share options issued under the Executive Option Scheme and share options at exercise price of HK\$6.81 and HK\$11.60 per option share issued under the New Option Scheme have the greatest dilution effect. For the six months ended 30 June 2005, all the share options issued under the Executive Option Scheme and share options at exercise price of HK\$6.81 per option share issued under the New Option Scheme have the greatest dilution effect.

	For the six months ended	
	30 June 2006	30 June 2005
Profit attributable to equity holders of the Company	82,006	60,553
Weighted average number of ordinary shares in issue (<i>thousands</i>)	2,530,302	2,408,711
Adjustments for – share options (<i>thousands</i>)	3,225	4,123
Weighted average number of ordinary shares for diluted earnings per share (<i>thousands</i>)	2,533,527	2,412,834
Diluted earnings per share (<i>US cents per share</i>)	3.237	2.510

22. DIVIDENDS

	For the six months ended	
	30 June 2006	30 June 2005
Interim dividend proposed of HK13 cents (2005: HK10 cents) per ordinary share	42,569	32,381

Notes:

- (a) At a meeting held on 4 April 2006, the directors proposed a final dividend of HK10 cents per ordinary share for the year ended 31 December 2005, which was paid on 2 June 2006 and has been reflected as an appropriation of retained earnings for the six months ended 30 June 2006.
- (b) At a meeting held on 1 September 2006, the directors declared an interim dividend of HK13 cents per ordinary share for the year ending 31 December 2006. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as a distribution of retained earnings for the year ending 31 December 2006.

23. CONTINGENCIES AND CHARGES OVER ASSETS

(a) Contingent liabilities

As at 30 June 2006, contingent liabilities of the Group were as follows:

- (i) The Group executed proportionate guarantees in favour of banks for securing banking facilities granted to certain associates. The utilised amount of such facilities covered by the Group's guarantees for these associates amounts to US\$20,440,000 (31 December 2005: US\$30,385,000).
- (ii) The Group executed a performance guarantee in favour of the owner of a hotel in Sydney for the financial performance of the hotel under a management contract. The maximum cumulative amount of liability under such guarantee is A\$10,000,000 (equivalent to US\$7,710,000) (31 December 2005: A\$10,000,000).

(b) Charges over assets

As at 30 June 2006, bank loans of a subsidiary amounting to US\$20,000 (31 December 2005: US\$36,000) were secured by charges over certain motor vehicles of the subsidiary with net book values totaling US\$82,000 (31 December 2005: US\$93,000).

24. COMMITMENTS

Capital expenditure at the balance sheet date committed but not yet incurred is as follows:

	As at	
	30 June 2006	31 December 2005
Property, plant and equipment at existing properties		
Contracted but not provided for	26,307	28,693
Authorised but not contracted for	23,558	36,771
Development projects		
Contracted but not provided for	355,271	324,531
Authorised but not contracted for	1,080,696	1,502,325
	1,485,832	1,892,320

25. RELATED-PARTY TRANSACTIONS

Kerry Group Limited ("KGL"), which owns approximately 49.83% 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 30 June 2006, has significant influence over the Company.

The following transactions were carried out with related parties:

	For the six months ended	
	30 June 2006	30 June 2005
(a) Transactions with subsidiaries of KGL		
Receipt of hotel management and related services and royalty fees	1,037	918
Reimbursement of office expenses and payment of administration and related expenses	573	357
Payment of office rental, management fee and rates	159	169
Purchase of edible oil	33	242
	4,093	3,506
(b) Transactions with associates (excluding a subsidiary of KGL included under item (a) above)		
Receipt of hotel management and related services and royalty fees	4,093	3,506
Receipt for laundry service	340	322

25. RELATED-PARTY TRANSACTIONS (Continued)

	30 June 2006	As at 31 December 2005
(c) Financial assistance provided to subsidiaries of KGL		
Balance of loan to associates	69,064	53,447
Balance of guarantees executed in favor of banks for securing bank loans/facilities granted to associates	16,782	20,440

	30 June 2006	As at 31 December 2005
(d) Financial assistance provided to associates (excluding item (c) above)		
Balance of loan to associates	41,067	53,730
Balance of guarantees executed in favor of banks for securing bank loans/facilities granted to an associate	4,005	10,886

There are no material changes to the terms of these transactions during the period.

	30 June 2006	For the six months ended 30 June 2005
(e) Key management compensation		
Fees, salaries and other short-term employee benefits	1,298	1,117
Post employment benefits	59	40
	<u>1,357</u>	<u>1,157</u>

26. EVENTS AFTER THE BALANCE SHEET DATE

- (a) In July 2006, the Company issued 611,351 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 30 June 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 30 June 2006 and up to the date of this report:

Issue date of ordinary shares	Face value of convertible bonds	Number of new ordinary shares issued
July 2006	729	614,721
August 2006	596	502,572
	<u>1,325</u>	<u>1,117,293</u>

- (c) The Company issued a total of 1,212,591 new ordinary shares to share option holders who have exercised their rights to subscribe for shares of the Company subsequent to 30 June 2006 and up to the date of this report.
- (d) In July 2006, the Group executed two unsecured bilateral HK dollar loan agreements with two banks at a total amount of HK\$450 million. The Group executed another two unsecured bilateral HK dollar loan agreements at a total amount of HK\$1,200 million with two banks in August 2006. These loans have a maturity of 5 years and at variable rates of interest at spreads over HIBOR.
- (e) In August 2006, the Company executed 2 HIBOR interest-rate swap contracts for an aggregate principal amount of HK\$400 million for a period of 7 years at fixed interest rate of 4.63% per annum to reduce its interest rate exposure.

OPERATIONS REVIEW

(Performance compared to the corresponding period last year)

The Group's business is organised into three main segments:

Hotel operation	–	Hotel ownership and operation
Hotel management	–	Provision of hotel management and related services to Group-owned hotels and to hotels owned by third parties
Property rentals	–	Ownership and leasing of office properties, commercial properties and serviced apartments

(a) Revenues

Hotel Operation

The Group's turnover from operations is derived principally from its hotels. As at 30 June 2006, the Group has equity interest in 36 operating hotels, including the Portman Ritz-Carlton Hotel, Shanghai and the Shangri-La Hotel, Surabaya (in which the Group has only 10% interest). These represented an inventory of 19,129 rooms.

Both weighted average room rates and room yields ("RevPAR") of the Group's hotels increased by 16% while weighted average occupancy remained unchanged at 72%. Correspondingly, the combined food and beverage revenue also increased by 15%.

48% of the Group's hotel rooms inventory is located in Mainland China. Given the continuing growth in domestic travel and international arrivals, the hotels in Mainland China recorded a weighted average increase in RevPAR and room rates of 11% and 16%, respectively, while weighted average occupancy rate decreased marginally by 3 percentage points. Given the general shortage of new five-star hotel rooms inventory in Hong Kong, the weighted average room rate and RevPAR increased by 15% and 19%, respectively. The Group's hotels in other countries also recorded increase in room rates (ranging from 6% to 33%) and RevPAR (ranging from 4% to 40%) save for the resort in Fiji which recorded a decrease in RevPAR by 13% relative to the previous year which was attributable to a reduced inventory supply due to room renovations.

The Group is optimistic that the growth momentum would continue in the second half of the year, supported by a continuing buoyancy in business and leisure travel in all its markets.

The key performance indicators of the Group on a combined basis for the period are as follows:

Country	2006 Weighted Average Transient			2005 Weighted Average Transient		
	Occupancy (%)	Room Rate (US\$)	RevPAR (US\$)	Occupancy (%)	Room Rate (US\$)	RevPAR (US\$)
The People's Republic of China						
Hong Kong	80	277	217	74	241	182
Mainland China	68	125	84	71	108	75
Singapore	79	150	117	81	121	96
The Philippines	75	121	101	78	107	81
Malaysia	77	80	60	70	70	49
Thailand	80	130	101	77	118	87
Fiji	71	144	101	63	133	116
Indonesia	52	109	51	55	103	49
Myanmar	51	35	18	47	33	15

OPERATIONS REVIEW *(Continued)*

(a) Revenues *(Continued)*

Hotel Operation (Continued)

The key performance indicators of the Group on a combined basis for the last 5 years are as follows:

Weighted average	Full Year				
	2005	2004	2003	2002	2001
Occupancy (%)	73	71	55	63	60
Transient Room Rate (US\$)	117	102	90	91	96
RevPAR (US\$)	84	73	52	58	57

Notes: (i) The RevPAR of hotels under renovation has been computed by excluding the number of rooms under renovation.

(ii) Performance indicators for hotel in Fiji in 2005 interim have excluded Fiji Mocambo, Nadi which has been disposed by the Group in December 2005.

(iii) The performance of the Shangri-La Hotel, Surabaya in which the Group only has 10% equity interest has not been included in the performance indicators.

Hotel Management

The hotel management arm of the Group, SLIM International Limited and its subsidiaries (the "SLIM Group"), has hotel management and/or technical consultation and project management services contracts in respect of all the Group's hotels with the exception of the Portman Ritz-Carlton Hotel, Shanghai. As at 30 June 2006, it also had hotel management contracts in respect of 11 operating hotels with 3,883 rooms and technical services and hotel management contracts in respect of 18 hotel projects owned by third parties. Aided by the strong growth of the hotels' business, the hotel management arm of the Group recorded a 20% increase in revenues on consolidation after elimination of revenue earned from fellow subsidiaries.

Property Rentals

The Group's investment properties are located principally in Shanghai and Beijing and are owned by associates. While the yields of the serviced apartments recorded a decrease ranging from 2% in the China World Trade Center in Beijing to 7% in the Beijing Kerry Centre and Shanghai Kerry Centre, office and commercial space in these two cities recorded an increase ranging from 2% for the commercial space in Shanghai Centre to 23% for the office space of the Shanghai Kerry Centre. The yield of the Shangri-La Residences, Dalian increased by 18% with occupancy increasing from 64% to 80%. The yields of the investment properties in other countries in general have also improved.

(b) Consolidated Profits

The consolidated profit attributable to the equity holders of the Company increased to US\$82.0 million from US\$60.6 million in the same period last year. The financial performance reflected the combined effects of the 21% increase in consolidated turnover and 0.6 percentage point increase in the gross profit ratio, US\$19.5 million contribution from gains from non-hedging interest-rate swap contracts (US\$0.6 million in the same period last year) and US\$14.7 million loss arising from the implementation of the share reform scheme of China World Trade Center Company Limited, a listed subsidiary of an associate of the Group.

OPERATIONS REVIEW *(Continued)*

(c) Consolidated Net Asset Value and Gearing Ratio

The Group's net asset value (total equity) increased from US\$2,630.2 million as at 31 December 2005 to US\$2,761.3 million due to the issuance of 7,414,469 new shares to holders of share options and convertible bonds who have exercised their rights, translation differences on non-monetary items credited to the exchange fluctuation reserve due to the general appreciation of Asian currencies against the US dollar and the profits recorded during the period. The net borrowings to total equity ratio increased from 33.0% as at 31 December 2005 to 40.9% due to drawdown of bank loans to fund project developments.

The currency mix of the Group's total tangible assets and total liabilities as at 30 June 2006 is as follows:

	Total tangible assets	Total liabilities
In Hong Kong dollars	7%	60%
In Renminbi	47%	10%
In Singapore dollars	15%	2%
In Philippine Pesos	9%	6%
In Malaysian Ringgit	8%	3%
In Thai Baht	4%	2%
In Euros	3%	–
In United States dollars	3%	15%
In Fiji dollars	2%	1%
In other currencies	2%	1%
	100%	100%

(d) Financial Indicators of the Group

	For the six months ended	
	30 June 2006	30 June 2005
Annualised Return on Equity [Profit attributable to equity holders of the Company Average equity attributable to equity holders of the Company] x 2	6.7%	5.8%
EBITDA (<i>US\$ million</i>) [Earning before interest, tax, depreciation, amortisation and non-operating items]	167.9	125.8
EBITDA Margin [EBITDA/Sales]	35.7%	32.4%

CORPORATE DEBT AND FINANCIAL CONDITIONS

The Group has satisfactorily complied with all covenants under its borrowing agreements. The analysis of borrowings outstanding as at 30 June 2006 is as follows:

<i>(US\$ million)</i>	Maturities of borrowings contracted as at 30 June 2006				Total
	Within 1 year	In the 2nd year	Repayment In the 3rd to 5th year	After 5 years	
Borrowings					
Convertible bonds	–	–	56.4	–	56.4
Corporate bank loans	490.3	–	630.7	–	1,121.0
Project bank loans and overdrafts	59.2	24.7	191.9	–	275.8
Total	549.5	24.7	879.0	–	1,453.2
Undrawn but committed facilities					
Bank loans and overdrafts	146.5	4.8	448.9	–	600.2

Note: The undrawn but committed facilities balances excluded HK\$450 million and HK\$1,200 million new five-year facilities contracted in July 2006 and August 2006, respectively.

The currency-mix of the borrowings and cash and cash equivalents as at 30 June 2006 is as follows:

<i>(US\$ million)</i>	Borrowings	Cash and cash equivalents
In Hong Kong dollars	1,056.4	13.6
In Singapore dollars	5.3	4.1
In Malaysian Ringgit	39.8	3.2
In Renminbi	69.2	103.5
In United States dollars	282.5	125.6
In Thai Baht	–	36.2
In Philippine Pesos	–	8.5
In Fiji dollars	–	9.0
In Euros	–	14.6
In other currencies	–	6.0
	1,453.2	324.3

The borrowings in Hong Kong dollars, Malaysian Ringgit and United States dollars (with the exception of the convertible bonds) are at variable rates of interest at spreads over HIBOR, Cost of Funds and SIBOR/LIBOR, respectively. The loans in Renminbi are at rates specified by The People's Bank of China from time to time. As at 30 June 2006, all the borrowings were unsecured except the bank loan of a subsidiary amounting to US\$20,000 (31 December 2005: US\$36,000) which was secured by charges over certain motor vehicles of the subsidiary with net book values totaling US\$82,000 (31 December 2005: US\$93,000).

As at 30 June 2006, of the Group's cash and cash equivalents, US\$220.5 million (31 December 2005: US\$193.4 million) were kept in Mainland China, Malaysia, Thailand, the Philippines, Fiji, Myanmar and Republic of Mongolia. The remittance of funds out of these countries is subject to rules and regulations of foreign exchange control promulgated by the governments of the respective countries.

TREASURY POLICIES

The treasury policies consistently followed by the Group aim to:

(a) Minimise interest risk

This is accomplished in the loan re-financing and loan negotiation process. The Group closely monitors its loan portfolio and compares the interest margin under existing agreements against new offers and borrowing rates under different currencies. In June 2006, the Group has executed a new five-year unsecured dual currencies (HK/US dollar) loan agreement for a total amount of HK\$1,000 million at an all-inclusive cost of HIBOR/LIBOR plus 36 basis points per annum. The Group executed further new five-year unsecured HK dollar loan agreements of HK\$450 million and HK\$1,200 million in July 2006 and August 2006, respectively. The subsidiaries in Mainland China have also executed new five-year unsecured loan agreements for a total amount of US\$100 million in June 2006 to re-finance the outstanding loans granted by a wholly owned overseas subsidiary. With the undrawn facilities on hand and these new facilities in place, the Group has adequate funding to re-finance a total of HK\$3,800 million (equivalent to US\$490.3 million) corporate borrowings maturing within the next nine months and its commitment to on-going development projects.

Subsequent to the period end, the Group's subsidiaries in Mainland China entered into entrusted loan agreements with a local bank under which the surplus cash of certain operating hotels were lent to Pudong Shangri-La, Shanghai to meet its outstanding project cost payments. Under such arrangement, the Group only needs to pay an estimated net cost of 0.41% per annum which is substantially lower than the interest spread between Renminbi deposit rate and borrowing rate.

Following the exercise of the conversion right by some of the convertible bonds holders, the outstanding aggregate principal amount of the zero coupon guaranteed convertible bonds due March 2009 with an initial conversion price of HK\$9.25 per share of the Company (subject to adjustment) reduced to US\$56.6 million as at 30 June 2006. Subsequent to the period end, convertible bonds with principal amount of US\$1.33 million were also converted.

The Group has also sought to reduce its interest rate exposure by entering into interest-rate swap contracts. As at 30 June 2006, the Group had outstanding contracts for an aggregate principal amount of HK\$3,984 million at fixed interest rates ranging between 4.335% and 5.29% per annum, and US\$100 million at fixed interest rate of 4.7% per annum. The interest cover continues through November 2012. Together with the convertible bonds outstanding, the Group has fixed its interest liability on 51% of its loans outstanding.

(b) Minimise currency exposure

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

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 loan facilities in US dollars. The Group has also secured new corporate bank loans in dual currencies to provide flexibility to switch the currency based on the relative weakness of either currency.

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

FINANCIAL ASSETS HELD FOR TRADING – TRADING SECURITIES

The Group continued to gradually dispose its investment portfolio in trading securities. During the period, this disposal for US\$6.8 million recorded realised gains of US\$1.8 million (both before and after adjustment for minority interests). As at 30 June 2006, the market value of the Group's investment portfolio was US\$39.0 million which included an unrealised gain of US\$6.2 million before adjustment of minority interests (US\$5.4 million after minority interests). The investment portfolio included 11,805,055 ordinary shares in the Company ("such SA shares") with a market value of US\$22.6 million held by a wholly owned subsidiary of Shangri-La Hotel Public Company Limited, Thailand ("SHPCL"), one of the principal subsidiaries of the Group, which is listed on the Stock Exchange of Thailand. Such SA shares were held by the wholly owned subsidiary of SHPCL before the Company acquired a controlling interest in it in late 1999. The Company has undertaken, subject to market conditions, to use its reasonable endeavours to procure SHPCL to dispose all such SA shares to independent parties. The investment portfolio also included 4,273,468 ordinary shares in Kerry Properties Limited ("KPL") with a market value of US\$14.6 million as at 30 June 2006.

DEVELOPMENT PROGRAMMES

Construction work at the following properties is progressing satisfactorily:

	Hotel rooms	Serviced apartments	Projected opening
In Mainland China			
Shangri-La Hotel, Beijing (Phase III)	142	–	Early 2007
Shangri-La Pazhou, Guangzhou	710	18	Early 2007
Shangri-La Hotel, Chengdu (and an office tower)	568	26	Early 2007
Shangri-La Hotel, Xian	397	–	Mid 2007
Shangri-La Hotel, Baotou, Inner Mongolia	360	11	Mid 2007
Shangri-La Hotel, Huhhot, Inner Mongolia	375	11	Mid 2007
Shangri-La Futian, Shenzhen	550	60	Late 2007
Shangri-La Hotel, Qingdao (Phase II)	190	13	Late 2007
Shangri-La Hotel, Wenzhou	350	10	Early 2008
Shangri-La Hotel, Ningbo	562	51	Early 2008
Shangri-La Hotel, Manzhouli, Inner Mongolia	200	16	Mid 2008
Shangri-La Hotel, Guilin	418	–	Early 2009
China World Hotel, Beijing (Phase III – Mega Tower)	270	–	End 2009
In other countries			
Shangri-La's Rasa Sayang Resort & Spa, Penang, Malaysia (redevelopment)	304	–	September 2006
Shangri-La Hotel & Spa, Chiangmai, Thailand	280	–	Late 2007
Shangri-La Resort & Spa, Boracay, The Philippines	180	–	Early 2008
Shangri-La Maldives Resort & Spa, Villingili Island	112	–	Early 2008
Office Tower, Ulaanbaatar, Republic of Mongolia	N/A	N/A	End 2008

In June 2004, the independent shareholders of the Company and KPL approved at their respective special general meetings, the entering into of the discloseable and connected transactions relating to the joint acquisition, ownership and development of sites in Jingan District, Shanghai in which the Group and KPL will have an interest up to a maximum of 49% and 51%, respectively. It is intended to develop a high-end composite development consisting of offices, high-end retail and two luxury hotels with a total of 1,100 rooms. As at 30 June 2006, the Group and KPL have completed the joint acquisition of all the parcels of land. Development work will commence in the second half of 2006. The Group's share of the maximum total investment in the entire project is not expected to exceed US\$343 million. Phase I of this project is expected to be completed in 2010.

DEVELOPMENT PROGRAMMES *(Continued)*

The architectural planning work for the deluxe, 195-room Shangri-La Hotel, At London Bridge Tower under an operating lease agreement is on-going and scheduled to open in 2011.

In January 2006, the Group acquired the entire interest in the historic palace of Prince Roland Bonaparte at a consideration of EUR92 million. It plans to convert it to a 140-deluxe-guestrooms Shangri-La Hotel, Paris. The architectural and mechanical engineering planning work has commenced. It is expected that the hotel will open for business in early 2009.

Following the approval by the independent shareholders of the Company in February 2006 for the entering into of connected transactions with KPL and Allgreen Properties Limited ("AG") (both connected persons to the Company) relating to the establishment of a joint venture company in Pudong, Shanghai to acquire a piece of prime land for a mixed-use development which is currently intended to comprise an approximately 600-room hotel, offices, serviced suites/serviced apartments, commercial and related ancillary facilities, a joint venture company was formed in which the Group has 23.2% interest. Construction work will commence in the second half of 2006 and is expected to be completed in late 2009. The Group's share of the total investment is not expected to exceed US\$136.88 million.

On 30 August 2006, the Group signed an operating lease agreement with Mori Trust Co., Ltd. for the Shangri-La Hotel, Tokyo, marking the Group's Japanese debut. Scheduled to open in early 2009, this hotel will be located in Marunouchi district, beside the Tokyo Station, the capital's only station with railway connections to all points in Japan. The deluxe, 204-room Shangri-La will occupy the top 11 floors of the 37-storey Marunouchi Trust Tower Main Building, presently under construction. The Group's investment for fit-out costs and pre-opening expenses is estimated at US\$25 million and will be largely incurred in 2008.

At a special general meeting held on the date of this report, the independent shareholders of the Company approved the connected transactions for entering into the Share Transfer Agreement and the Joint Venture Contract with KPL and AG relating to the joint development of a site at Hedong District, Tianjin in Mainland China into a mixed-use development (including a hotel with approximately 450 rooms, serviced apartments, offices, residential apartments, shopping mall and ancillary facilities). The Group will transfer 49% and 31% equity interests (together with the proportionate shareholders' loans) in an indirect wholly owned subsidiary which holds the project site to KPL and AG at a total consideration of approximately US\$45.4 million and US\$28.7 million respectively, under the Share Transfer Agreement. The Group's 20% share of the total investment is not expected to exceed RMB1,000 million (approximately US\$125 million). The project will be developed in phases. Development work on the first phase is expected to commence in the fourth quarter of 2006 and be completed in late 2009.

MANAGEMENT CONTRACTS

As at 30 June 2006, the Group has 11 management contracts for third-party-owned operating hotels after excluding the hotel in Dingshan, Nanjing the management contract in respect of which was terminated by the Group in January 2006.

The Group signed the following management contracts during the current period:

- Shangri-La Hotel, Abu Dhabi (220 rooms, opening early 2007)
- Shangri-La Hotel, Miami (147 rooms, opening early 2008)
- Shangri-La Hotel, Tainan (339 rooms, opening late 2008)
- Shangri-La Hotel, Las Vegas (400 rooms, opening early 2010)

The 571-room Traders Hotel, Kuala Lumpur and the 390-room Shangri-La Hotel, Suzhou in Mainland China opened for business on 1 July 2006 and 8 July 2006, respectively.

MANAGEMENT CONTRACTS *(Continued)*

As at the date of this report, in addition to the 13 hotels (4,844 rooms) under operation which the Group manages for third party developers/investors, it has contracts on hand for development of 16 new hotels (5,954 rooms). The development projects are located in Abu Dhabi, Doha (Qatar), Vancouver, Chicago, Las Vegas, Miami, Seychelles, Bangalore (India) (3 hotels), Tainan (Taiwan), Macau (2 hotels), Dongguan, Sunny Bay – Sanya, and Urumqi (all in Mainland China).

The Group continues to review proposals it receives for management opportunities worldwide and intends to secure contracts in locations/cities which it considers to be of long-term strategic interest.

CORPORATE PHILANTHROPY

The Group is committed to supporting the communities in which it operates. A special committee, the Corporate Social Responsibility Committee, comprising senior executives from various divisions at the Group's corporate office seeks to widen the scope of the Group's support of worthy social and environmental causes.

Care for Children ("CFC"), a Beijing-based charity organisation which seeks to provide foster care to destitute children in Mainland China, is the Group's corporate charity partner. The Group supported CFC by leveraging its substantial network, providing financial assistance through guest donation programmes, sponsoring venues for charity events and workshops, etc. The Group has also rolled out the "Dare to Care" fundraising campaign in most of the hotels under which the Chinese "hong baos" ("red packets") are placed in restaurant bill folders and on guestroom turndown trays.

The Company is also a regular donor under the Corporate Contribution Program of The Community Chest of Hong Kong. The Company donated HK\$180,000 in March 2006.

ENVIRONMENTAL INITIATIVES AND PRACTICES

The Group, a founding member of the Asia Pacific Hotels Environmental Initiative, has historically been an industry leader in environment-friendly initiatives and practices. In accordance with the Group's Environmental Policy, all Shangri-La and Traders hotels have "Green Programmes" to identify ways to reduce wastage and eradicate practices that could damage the environment.

The Group's commitment to environmental awareness has, to date, resulted in 20 hotel properties receiving certification to ISO 14001, the international Environmental Management System standard. The Group has an extensive list of internally developed environmental "best practices" which hotels not yet certified as ISO 14001 also follow. All properties use an Environmental Management System manual as a guideline. This helps to identify and address the immediate and long-term impact of every hotel's operations on its local environment and ensures on-going compliance with national and international requirements.

In March 2006, the Group donated HK\$4 million to The Nature Conservancy, a leading global conservation organisation founded in 1951 by leading scientists in the USA. The Conservancy is now helping the Chinese government to develop a Biodiversity Conservation Blueprint for all of Mainland China – the first comprehensive and systematic assessment of biodiversity and conservation priorities in the nation's history. The Conservation Blueprint will lay a solid scientific and policy foundation for conservation work in Mainland China while helping to train the next generation of Chinese conservation science practitioners.

CORPORATE STRATEGY

The Group is one of the leaders in the hotel market in Asia, especially in Mainland China. The Group has been committed to the Mainland China market since opening its first hotel in Hangzhou in 1984. The Group has every confidence in long-term stability, continued economic growth of the country and that property values will continue to appreciate. Mainland China remains the Group's main focus for business and capital investment. Currently, there are 16 development projects in Mainland China in which the Group has an equity stake. The Group will continue to identify investment opportunities in the country.

Hong Kong remains the Group's second important market, in terms of both revenue and profit contribution. While the Group believes the strong demand from corporate travelers could provide support for further RevPAR growth for luxury hotels, the Group is also looking for investment opportunities to tap the rapidly growing mass tourism market as arrivals from Mainland China under the Individual Travel Scheme continue to increase.

The Group has already participated in a few composite developments in conjunction with KPL and/or AG. Both KPL and AG are significant property groups and have experience and expertise in developing and managing large scale high-end, mixed-use property projects. Taking into account the investment commitments and with a view to benefiting from synergies inherent in such developments, the Group considers that this mode of partnership may be adopted for large scale, high-end, mixed-use property projects in future, where appropriate.

Having achieved market leadership in Asia with unique awareness and perception of quality for its brand, the Group's strategic plan envisages the expansion of the Shangri-La brand globally through the operation of hotels in key gateway cities and resort destinations around the world, preferably through management agreements and depending on individual circumstance, through equity investments.

PROSPECTS

The performance in the first half of this year has been very encouraging. Despite the price of crude oil and correspondingly its derivatives e.g. jet fuel having increased tremendously, thus far it has not dampened travel volumes either regionally or globally. The pricing momentum remains very strong. The Group expects to maintain the RevPAR growth through the rest of the year. The Group recorded the best result in its history in 2005. The Group is optimistic that the full year results this year will show further improvement, barring any unforeseen circumstances.

HUMAN RESOURCES

As at 30 June 2006, the Company and its subsidiaries had approximately 19,100 employees. The headcount of all the Group's managed hotels totalled 29,400. Salaries and benefits including provident fund, insurance and medical cover, housing and share option schemes are maintained at competitive levels and bonuses are awarded based on individual performance as well as the financial performance of business units. The Board's Remuneration Committee reviews matters relating to the compensation and the incentives proposed for senior management and executive Directors.

The Shangri-La Academy in Beijing will continue to accelerate and intensify employee training in keeping with the Group's expansion, especially in Mainland China.

Efforts to develop managerial staff with high potential continue under the Group's three core talent development programs – the Corporate Management Trainee Program, the Corporate Executive Training Program and the Corporate Trainee Program.

SHARE OPTIONS

Details of the outstanding option shares as at 30 June 2006 which have been granted under the executive share option scheme adopted by the shareholders of the Company on 16 December 1997 (the "Executive Option Scheme") are as follows:

	Date of grant	Tranche	No. of option shares held as at 1 January 2006	No. of option shares granted during the period	Transfer from other category during the period	Transfer to other category during the period	No. of option shares exercised during the period <i>(Note 3)</i>	No. of option shares lapsed during the period	No. of option shares held as at 30 June 2006	Exercise price per option share <i>HK\$</i>	Exercisable Period
1. Directors											
Mr YE Longfei	15 January 2001	I	339,606	-	-	-	(339,606)	-	-	8.18	15 January 2002 – 14 January 2011
	15 January 2001	II	339,606	-	-	-	(260,394)	-	79,212	8.18	15 January 2003 – 14 January 2011
Mr Giovanni ANGELINI	15 January 2000	I	266,505	-	-	-	(266,505)	-	-	8.82	15 January 2001 – 14 January 2010
	15 January 2000	II	266,505	-	-	-	(266,505)	-	-	8.82	15 January 2002 – 14 January 2010
2. Continuous Contract Employees	1 May 1998	I	261,252	-	-	-	-	-	261,252	8.26	1 May 1999 – 30 April 2008
	1 May 1998	II	261,252	-	-	-	-	-	261,252	8.26	1 May 2000 – 30 April 2008
	1 May 1998	III	261,252	-	-	-	-	-	261,252	8.26	1 May 2001 – 30 April 2008
	15 January 2000	I	591,157	-	-	-	(58,147)	-	533,010	8.82	15 January 2001 – 14 January 2010
	15 January 2000	II	698,045	-	-	-	(39,381)	-	658,664	8.82	15 January 2002 – 14 January 2010
	15 January 2001	I	194,062	-	-	-	-	-	194,062	8.18	15 January 2002 – 14 January 2011
	15 January 2001	II	194,058	-	-	-	-	-	194,058	8.18	15 January 2003 – 14 January 2011
3. Other Participants	1 May 1998	I	783,758	-	-	-	(483,802)	-	299,956	8.26	1 May 1999 – 30 April 2008
	1 May 1998	II	784,040	-	-	-	(484,084)	-	299,956	8.26	1 May 2000 – 30 April 2008
	1 May 1998	III	1,335,158	-	-	-	(587,213)	-	747,945	8.26	1 May 2001 – 30 April 2008
	15 January 2000	I	930,346	-	-	-	-	-	930,346	8.82	15 January 2001 – 14 January 2010
	15 January 2000	II	930,342	-	-	-	-	-	930,342	8.82	15 January 2002 – 14 January 2010
	15 January 2001	I	213,467	-	-	-	-	-	213,467	8.18	15 January 2002 – 14 January 2011
	15 January 2001	II	213,465	-	-	-	-	-	213,465	8.18	15 January 2003 – 14 January 2011
Total:			8,863,876	-	-	-	(2,785,637)	-	6,078,239		

SHARE OPTIONS (Continued)

Details of the outstanding option shares as at 30 June 2006 which have been granted under the share option scheme adopted by the shareholders of the Company on 24 May 2002 (the "New Option Scheme") are as follows:

	Date of grant	Tranche	No. of option shares held as at 1 January 2006 <i>(Notes 1, 2)</i>	No. of option shares granted during the period <i>(Notes 1, 2)</i>	Transfer from other category during the period	Transfer to other category during the period	No. of option shares exercised during the period <i>(Note 3)</i>	No. of option shares lapsed during the period	No. of option shares held as at 30 June 2006	Exercise price per option share <i>HK\$</i>	Exercisable Period
1. Directors											
Mr KUOK Khoo	28 April 2005	I	250,000	-	-	-	(80,000)	-	170,000	11.60	28 April 2006 – 27 April 2015
Loong	28 April 2005	II	250,000	-	-	-	-	-	250,000	11.60	28 April 2007 – 27 April 2015
Edward	16 June 2006	I	-	100,000	-	-	-	-	100,000	14.60	16 June 2007 – 15 June 2016
	16 June 2006	II	-	100,000	-	-	-	-	100,000	14.60	16 June 2008 – 15 June 2016
Mr YE Longfei	29 May 2002	II	150,000	-	-	-	(150,000)	-	-	6.81	29 May 2004 – 28 May 2012
	28 April 2005	I	250,000	-	-	-	-	-	250,000	11.60	28 April 2006 – 27 April 2015
	28 April 2005	II	250,000	-	-	-	-	-	250,000	11.60	28 April 2007 – 27 April 2015
	16 June 2006	I	-	100,000	-	-	-	-	100,000	14.60	16 June 2007 – 15 June 2016
	16 June 2006	II	-	100,000	-	-	-	-	100,000	14.60	16 June 2008 – 15 June 2016
Mr Giovanni	28 April 2005	I	500,000	-	-	-	-	-	500,000	11.60	28 April 2006 – 27 April 2015
ANGELINI	28 April 2005	II	500,000	-	-	-	-	-	500,000	11.60	28 April 2007 – 27 April 2015
	16 June 2006	I	-	100,000	-	-	-	-	100,000	14.60	16 June 2007 – 15 June 2016
	16 June 2006	II	-	100,000	-	-	-	-	100,000	14.60	16 June 2008 – 15 June 2016
Mr LUI Man	29 May 2002	I	150,000	-	-	-	-	-	150,000	6.81	29 May 2003 – 28 May 2012
Shing	29 May 2002	II	150,000	-	-	-	-	-	150,000	6.81	29 May 2004 – 28 May 2012
	28 April 2005	I	150,000	-	-	-	-	-	150,000	11.60	28 April 2006 – 27 April 2015
	28 April 2005	II	150,000	-	-	-	-	-	150,000	11.60	28 April 2007 – 27 April 2015
	16 June 2006	I	-	60,000	-	-	-	-	60,000	14.60	16 June 2007 – 15 June 2016
	16 June 2006	II	-	60,000	-	-	-	-	60,000	14.60	16 June 2008 – 15 June 2016
Mr NG Si Fong	29 May 2002	I	60,000	-	-	-	-	-	60,000	6.81	29 May 2003 – 28 May 2012
Alan	29 May 2002	II	60,000	-	-	-	-	-	60,000	6.81	29 May 2004 – 28 May 2012
	28 April 2005	I	150,000	-	-	-	-	-	150,000	11.60	28 April 2006 – 27 April 2015
	28 April 2005	II	150,000	-	-	-	-	-	150,000	11.60	28 April 2007 – 27 April 2015
	16 June 2006	I	-	50,000	-	-	-	-	50,000	14.60	16 June 2007 – 15 June 2016
	16 June 2006	II	-	50,000	-	-	-	-	50,000	14.60	16 June 2008 – 15 June 2016
Madam KUOK	28 April 2005	I	150,000	-	-	-	-	-	150,000	11.60	28 April 2006 – 27 April 2015
Oon Kwong	28 April 2005	II	150,000	-	-	-	-	-	150,000	11.60	28 April 2007 – 27 April 2015
	16 June 2006	I	-	60,000	-	-	-	-	60,000	14.60	16 June 2007 – 15 June 2016
	16 June 2006	II	-	60,000	-	-	-	-	60,000	14.60	16 June 2008 – 15 June 2016
Mr HO Kian	28 April 2005	I	75,000	-	-	-	-	-	75,000	11.60	28 April 2006 – 27 April 2015
Guan	28 April 2005	II	75,000	-	-	-	-	-	75,000	11.60	28 April 2007 – 27 April 2015
	16 June 2006	I	-	30,000	-	-	-	-	30,000	14.60	16 June 2007 – 15 June 2016
	16 June 2006	II	-	30,000	-	-	-	-	30,000	14.60	16 June 2008 – 15 June 2016
Mr LEE Yong	29 May 2002	I	75,000	-	-	-	-	-	75,000	6.81	29 May 2003 – 28 May 2012
Sun	29 May 2002	II	75,000	-	-	-	-	-	75,000	6.81	29 May 2004 – 28 May 2012
	28 April 2005	I	75,000	-	-	-	-	-	75,000	11.60	28 April 2006 – 27 April 2015
	28 April 2005	II	75,000	-	-	-	-	-	75,000	11.60	28 April 2007 – 27 April 2015
	16 June 2006	I	-	30,000	-	-	-	-	30,000	14.60	16 June 2007 – 15 June 2016
	16 June 2006	II	-	30,000	-	-	-	-	30,000	14.60	16 June 2008 – 15 June 2016
Mr Roberto V.	28 April 2005	I	75,000	-	-	-	-	-	75,000	11.60	28 April 2006 – 27 April 2015
ONGPIN	28 April 2005	II	75,000	-	-	-	-	-	75,000	11.60	28 April 2007 – 27 April 2015
	16 June 2006	I	-	30,000	-	-	-	-	30,000	14.60	16 June 2007 – 15 June 2016
	16 June 2006	II	-	30,000	-	-	-	-	30,000	14.60	16 June 2008 – 15 June 2016

SHARE OPTIONS (Continued)

	Date of grant	Tranche	No. of option shares held as at 1 January 2006 <i>(Notes 1, 2)</i>	No. of option shares granted during the period <i>(Notes 1, 2)</i>	Transfer from other category during the period	Transfer to other category during the period	No. of option shares exercised during the period <i>(Note 3)</i>	No. of option shares lapsed during the period	No. of option shares held as at 30 June 2006	Exercise price per option share HK\$	Exercisable Period
1. Directors (Continued)											
Mr Alexander Reid	28 April 2005	I	75,000	-	-	-	-	-	75,000	11.60	28 April 2006 – 27 April 2015
	28 April 2005	II	75,000	-	-	-	-	-	75,000	11.60	28 April 2007 – 27 April 2015
HAMILTON	16 June 2006	I	-	30,000	-	-	-	-	30,000	14.60	16 June 2007 – 15 June 2016
	16 June 2006	II	-	30,000	-	-	-	-	30,000	14.60	16 June 2008 – 15 June 2016
Mr TOW Heng Tan (Note 4)	28 April 2005	I	75,000	-	-	-	-	-	75,000	11.60	28 April 2006 – 27 April 2015
	28 April 2005	II	75,000	-	-	-	-	-	75,000	11.60	28 April 2007 – 27 April 2015
Mr Timothy David DATTELS	28 April 2005	I	75,000	-	-	-	-	-	75,000	11.60	28 April 2006 – 27 April 2015
	28 April 2005	II	75,000	-	-	-	-	-	75,000	11.60	28 April 2007 – 27 April 2015
	16 June 2006	I	-	30,000	-	-	-	-	30,000	14.60	16 June 2007 – 15 June 2016
	16 June 2006	II	-	30,000	-	-	-	-	30,000	14.60	16 June 2008 – 15 June 2016
2. Continuous Contract Employees											
	29 May 2002	I	619,500	-	-	-	(30,000)	-	589,500	6.81	29 May 2003 – 28 May 2012
	29 May 2002	II	540,500	-	-	-	(30,000)	-	510,500	6.81	29 May 2004 – 28 May 2012
	28 April 2005	I	6,440,000	-	-	(75,000)	(1,185,000)	(130,000)	5,050,000	11.60	28 April 2006 – 27 April 2015
	28 April 2005	II	6,440,000	-	-	(125,000)	-	(180,000)	6,135,000	11.60	28 April 2007 – 27 April 2015
	16 June 2006	I	-	2,672,500	-	-	-	-	2,672,500	14.60	16 June 2007 – 15 June 2016
	16 June 2006	II	-	2,672,500	-	-	-	-	2,672,500	14.60	16 June 2008 – 15 June 2016
3. Other Participants											
	29 May 2002	I	245,000	-	-	-	-	(30,000)	215,000	6.81	29 May 2003 – 28 May 2012
	29 May 2002	II	215,000	-	-	-	-	(30,000)	185,000	6.81	29 May 2004 – 28 May 2012
	28 April 2005	I	570,000	-	75,000	-	(76,000)	(30,000)	539,000	11.60	28 April 2006 – 27 April 2015
	28 April 2005	II	570,000	-	75,000	-	-	(30,000)	615,000	11.60	28 April 2007 – 27 April 2015
	28 April 2005	II	-	-	50,000	-	-	-	50,000	11.60	28 April 2007 – 2 May 2008
	16 June 2006	I	-	247,500	-	-	-	-	247,500	14.60	16 June 2007 – 15 June 2016
	16 June 2006	II	-	247,500	-	-	-	-	247,500	14.60	16 June 2008 – 15 June 2016
Total:			20,160,000	7,080,000	200,000	(200,000)	(1,551,000)	(430,000)	25,259,000		

Notes:

- The closing price per share of the shares trading on The Stock Exchange of Hong Kong Limited on 15 June 2006 (i.e. the business day immediately before the grant on 16 June 2006) was HK\$14.
- Please refer to Note 2 and Note 9 of the condensed consolidated interim financial statements included in this report for the accounting policy adopted for the share options and the fair value of the options.
- The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$14.64.
- Mr TOW Heng Tan resigned as Director of the Company with effect from 1 July 2006. The options granted to Mr TOW has lapsed following his resignation on 1 July 2006.
- At the Special General Meeting of the Company held on 24 May 2002, the shareholders of the Company approved the adoption of the New Option Scheme and the termination of the operation of the Executive Option Scheme such that no further options shall thereafter be offered under the Executive Option Scheme but in all other respects the provision of the Executive Option Scheme shall remain in full force and effect.
- No options were cancelled under the Executive Option Scheme and the New Option Scheme during the period and subsequent to 30 June 2006.
- Options on 150,000 shares were lapsed under the New Option Scheme subsequent to 30 June 2006 and no options were lapsed under the Executive Option Scheme subsequent to 30 June 2006.
- Options on 813,591 shares were exercised under the Executive Option Scheme and options on 399,000 shares were exercised under the New Option Scheme subsequent to 30 June 2006.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2006, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (the "Associated Corporations") as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "HKSE") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities on the HKSE (the "HK Listing Rules") were as follows:

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

Name of Company	Name of Director	Class of Shares	Personal Interests (Note 1)	Number of Shares held			Total	Percentage of Total Issued Share Capital of the Relevant Company as at 30 June 2006
				Family Interests	Corporate Interests	Other Interests		
(i) The Company	Mr KUOK Khoon Loong, Edward	Ordinary	83,456	-	227,410 (Note 2)	-	310,866	0.01%
	Mr YE Longfei	Ordinary	6,000	-	-	-	6,000	0.00%
	Mr Giovanni ANGELINI	Ordinary	100,000	-	-	-	100,000	0.00%
	Madam KUOK Oon Kwong	Ordinary	151,379	192,011 (Note 3)	108,673 (Note 4)	-	452,063	0.02%
	Mr HO Kian Guan	Ordinary	317,475	-	104,205,928 (Note 5)	-	104,523,403	4.12%
	Mr HO Kian Hock (Alternate to Mr HO Kian Guan)	Ordinary	-	-	104,205,928 (Note 5)	-	104,205,928	4.11%
(ii) Associated Corporation								
Shangri-La Hotels (Malaysia) Berhad	Madam KUOK Oon Kwong	Ordinary	-	-	10,000 (Note 4)	-	10,000	0.00%
Shangri-La Hotel Public Company Limited	Mr LUI Man Shing	Ordinary	10,000	-	-	-	10,000	0.01%

Notes:

- These shares were held by the relevant Directors as beneficial owners.
- These shares represent the interest of a controlled corporation.
- These shares were held by the spouse of the relevant Director.
- These shares were held through a company which is owned as to 50% by Madam KUOK Oon Kwong.
- 67,600,329 shares were held through companies which are controlled as to 33.33% by each of Mr HO Kian Guan and Mr HO Kian Hock.

4,165,848 shares were held through a company which is controlled as to 21.88% by each of Mr HO Kian Guan and Mr HO Kian Hock.

3,895,710 shares were held through companies which were controlled as to 13.30% and 7.08% by Mr HO Kian Guan and Mr HO Kian Hock respectively.

28,544,041 shares were held through companies which were controlled as to 6.55% and 6.74% by Mr HO Kian Guan and Mr HO Kian Hock respectively.

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

As at 30 June 2006, details of share options granted under the Executive Option Scheme and the New Option Scheme to the Directors were stated in the previous section headed "Share Options" of this report.

Save as mentioned above, as at 30 June 2006, none of the Directors had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its Associated Corporations which had been recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2006, the interests and short positions of those persons (other than the Directors) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long positions in shares of the Company

Name	Capacity in which Shares were Held	Number of Ordinary Shares Held	Percentage of Total Issued Share Capital of the Company as at 30 June 2006
Substantial Shareholders			
Kerry Group Limited ("KGL")	Interest of controlled corporations	1,263,073,372	49.83%
Kerry Holdings Limited ("KHL") (Notes 1 and 2)	Beneficial owner	63,414,628	49.83%
	Interest of controlled corporations	1,199,658,744	
Caninco Investments Limited (Notes 2 and 3)	Beneficial owner	479,424,818	22.71%
	Interest of a controlled corporation	96,330,633	
Paruni Limited (Notes 2 and 3)	Beneficial owner	270,596,554	10.69%
	Interest of a controlled corporation	420,665	
Persons other than Substantial Shareholders			
Darmex Holdings Limited (Notes 2 and 3)	Beneficial owner	239,302,975	9.44%
Capital Research and Management Company	Investment Manager	127,732,000	5.04%

Notes:

1. Out of KHL's corporate interest in 1,199,658,744 shares, 1,174,194,166 shares were held through its wholly owned subsidiaries, 13,659,523 shares were held through companies in which KHL controls more than one third of the voting power (other than those wholly owned subsidiaries as aforementioned) and 11,805,055 shares were held through a wholly owned subsidiary of Shangri-La Hotel Public Company Limited, Thailand, a 73.61% owned subsidiary of the Company.
2. These companies are wholly owned subsidiaries of KGL, and their interests in the shares of the Company are included in the interests held by KGL.
3. These companies are wholly owned subsidiaries of KHL, and their interests in the shares of the Company are included in the interests held by KHL.

Save as mentioned above, as at 30 June 2006, the Company had not been notified of any interests and short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the six months ended 30 June 2006.

CORPORATE GOVERNANCE

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

CORPORATE GOVERNANCE *(Continued)*

During the period under review, the Company has met the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 of the HK Listing Rules, except that the Company has not appointed a chief executive officer since Mr Giovanni ANGELINI is already, and has been since 1999, a chief executive officer of Shangri-La International Hotel Management Limited, which administers on a day-to-day basis the hotel business which accounts for a substantial portion of the Group's business interests. It therefore considers it unnecessary to appoint a chief executive officer of the Company. As for the management of the Board of Directors of the Company, this is a function already performed by Mr KUOK Khoon Loong, Edward as the Chairman of the Board of Directors of the Company. The Board of Directors of the Company considers that this structure will not impair the balance of power and authority between the Board and the Management.

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

SECURITIES TRANSACTIONS BY DIRECTORS

The Board of Directors of the Company has adopted the Model Code as set out in Appendix 10 of the HK Listing Rules as the Code for Securities Transactions by Directors of the Company (the "Securities Dealing Code"). The Company has made specific enquiry of all Directors who confirmed compliance with the required standard set out in the Securities Dealing Code during the period under review.

REMUNERATION COMMITTEE

A Remuneration Committee of the Board of Directors was set up on 17 October 1997. The Committee currently comprises three members including the Chairman and two Independent Non-Executive Directors. The Committee acts in accordance with written terms of reference. The current Committee members are Mr KUOK Khoon Loong, Edward, Mr Alexander Reid HAMILTON and Mr WONG Kai Man.

AUDIT COMMITTEE

The Company set up an Audit Committee of the Board of Directors on 25 August 1998. The Committee comprises three Non-Executive Directors, two of them being independent. The Committee acts in accordance with written terms of reference. The current Committee members are Mr Alexander Reid HAMILTON, Mr HO Kian Guan and Mr WONG Kai Man. The Committee reviewed the Group's 2006 interim financial statements before they were tabled for the Board's review and approval.

REGISTERS OF MEMBERS

The registers of members will be closed from Wednesday, 27 September 2006, to Friday, 29 September 2006, both dates inclusive. To qualify for the proposed interim dividend, all share transfers must be lodged with the Company's branch share registrar in Hong Kong, Abacus Share Registrars Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:00 p.m. on Tuesday, 26 September 2006.

On behalf of the Board of Directors



KUOK Khoon Loong, Edward
Chairman

Hong Kong, 1 September 2006