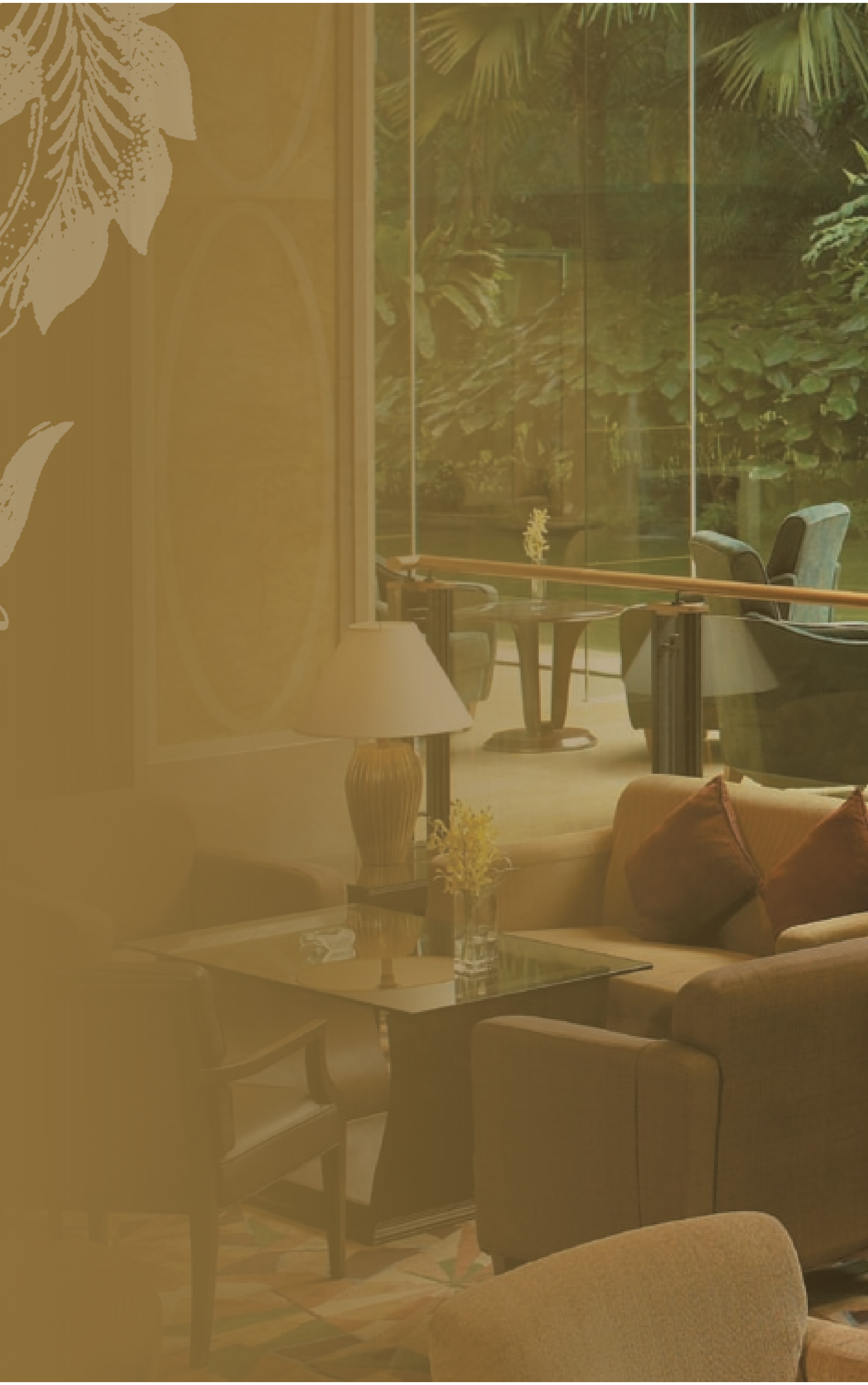
Management Discussion and Analysis



Shangri-La Hotel, Kuala Lumpur

1. Operations Review

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

The Group's turnover from operations is derived principally from its hotels. It has a dominant presence in the luxury segment of the hotel market in Asia, especially in Mainland China. Nearly all the Group's owned hotels benefited from the continuing robust travel demand from both leisure and business travel. Overall weighted average annual occupancy of the hotels owned by the subsidiaries and associates remained constant at 73% while weighted average room yield ("RevPAR") and room rates increased by 14% and 15%, respectively.

The performance of the Group's investment properties in Mainland China from which the Group derives the majority of its property rentals, continues to improve generally.

Revenues

For the year ended 31 December

Combined Revenue by Trade

	2006		2005		
	US$ million	%	US$ million	%	% Change
Hotel Operation	1,318.5	83%	1,132.8	82%	16%
Hotel Management	20.8	1%	16.5	1%	26%
Property Rentals	247.4	16%	230.4	17%	7%
Total	1,586.7	100%	1,379.7	100%	15%

Breakdown of Sales

For the year ended 31 December

	Subsidiaries 2006 US$ Million	Subsidiaries 2005 US$ Million	Subsidiaries % Change	Associates 2006 US$ Million	Associates 2005 US$ Million	Associates % Change
Hotel Operation						
The People's Republic of China						
Hong Kong	**212.5**	181.9	17%	**1.4**	–	NM
Mainland China	**319.5**	253.5	26%	**271.2**	252.7	7%
Singapore	**130.0**	110.6	18%	**29.3**	23.1	27%
The Philippines	**124.0**	104.0	19%	**–**	–	N/A
Malaysia	**86.2**	70.6	22%	**24.4**	21.7	12%
Thailand	**53.5**	48.4	10%	**–**	–	N/A
Fiji	**29.0**	32.1	(10%)	**–**	–	N/A
Indonesia	**–**	–	N/A	**31.4**	28.4	11%
Myanmar	**6.1**	5.8	5%	**–**	–	N/A
	960.8	806.9	19%	**357.7**	325.9	10%
Hotel Management	**20.8**	16.5	26%	**–**	–	N/A
Hotels Sub-total:	**981.6**	823.4	19%	**357.7**	325.9	10%
Property Rentals						
The People's Republic of China						
Mainland China	**7.2**	6.2	16%	**217.2**	201.3	8%
Singapore	**9.3**	8.5	9%	**8.9**	8.7	3%
Malaysia	**4.0**	3.1	29%	**–**	1.8	NM
Thailand	**0.8**	0.8	(3%)	**–**	–	N/A
Properties Sub-total:	**21.3**	18.6	14%	**226.1**	211.8	7%
Total	**1,002.9**	842.0	19%	**583.8**	537.7	9%

Notes: (i) Revenue of the hotel management group is stated after elimination of revenue earned from fellow subsidiaries.

(ii) In May 2005, the Group disposed its entire shareholding in an associate which owned a commercial and office complex in Johor Bahru, Malaysia.

N/A Not Applicable

NM Not Meaningful

(a) Revenue

Hotel Operations

As at 31 December 2006, the Group has equity interest in 37 operating hotels with 19,385 guest rooms owned by its subsidiaries and associates, including the Portman Ritz-Carlton Hotel, Shanghai (the "Portman") and the Novotel Century Harbourview, Hong Kong (the "Novotel"). It also has a 10% interest in the 389-room Shangri-La Hotel, Surabaya .

The key performance indicators of the Group's hotels on a combined basis are as follows:

Country	2006 Occupancy (%)	2006 Weighted Average Transient Room Rate (US$)	2006 RevPAR (US$)	2005 Occupancy (%)	2005 Weighted Average Transient Room Rate (US$)	2005 RevPAR (US$)
The People's Republic of China						
Hong Kong	81	273	216	76	248	188
Mainland China	70	126	87	72	112	78
Singapore	81	154	123	81	123	98
The Philippines	77	125	102	77	110	85
Malaysia	74	88	65	73	74	54
Thailand	76	131	97	79	117	89
Fiji	71	155	108	75	143	124
Indonesia	55	109	54	51	103	48
Myanmar	52	35	18	47	34	15

Key performance indicators of the Group on a combined basis for the last 5 years:

	Full Year				
Weighted average	**2006**	2005	2004	2003	2002
Occupancy (%)	**73**	73	71	55	63
Transient Room Rate (US$)	**135**	117	102	90	91
RevPAR (US$)	**96**	84	73	52	58

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

(ii) Performance indicators for 2006 for hotels in Hong Kong and Malaysia include the Novotel and Shangri-La's Rasa Sayang Resort & Spa, Penang ("RSR"), respectively. The Group acquired a 30% equity interest in the Novotel in September 2006. RSR, a resort that was closed down since 1 December 2004 for redevelopment, re-opened for business in September 2006. Performance indicators for the hotel in Fiji in 2005 have excluded Fiji Mocambo, Nadi which has been disposed by the Group in December 2005. The performance of the Shangri-La Hotel, Surabaya has not been included in these indicators.

Overall, combined room rentals increased by 17% to US$723.9 million while combined food and beverage revenue increased by 16% to US$504.6 million.

The People's Republic of China ("PRC")

Hong Kong

Hong Kong is the Group's second most important contributor both in terms of revenues and profits. Room rates continued to increase from 2005 with the two Shangri-La hotels enjoying a weighted average increase of 14% in room rates while average occupancies increased by 4 percentage points. RevPAR of the Island Shangri-La, Hong Kong and the Kowloon Shangri-La, Hong Kong increased by 16% and 20%, respectively. Going forward, the continuing strong demand from commercial travelers and the general shortage of rooms inventory in the five-star deluxe category will provide support for further growth in RevPAR.

Consolidated revenues of the two hotels increased by 17% in 2006 with room rentals increasing by 22% and food and beverage revenues increasing by 13%.

The 274-room Novotel recorded an average occupancy rate of 91% and an average room rate of US$106 in the post acquisition period. Benefiting from the rapidly growing travel market as arrivals from Mainland China under the Individual Travel Scheme continue to increase, the Group is optimistic that the performance of this hotel will continue to show further improvement.

Mainland China

As at 31 December 2006, 48% of the Group's hotel rooms inventory was located in Mainland China. These hotels accounted for 45% of the Group's combined revenues from hotel operations. These revenues increased by 17% over 2005 with room rentals increasing by 15% and food and beverage revenues increasing by 19%. All the hotels recorded increases in the average room rate ranging from 2% at the Portman to 17% at the Kerry Centre Hotel, Beijing. However, occupancies of some hotels experienced marginal declines, pending the absorption of increased supply and/or due to increased room rates. Despite this, all the hotels recorded improvement in RevPAR, with the exception of a marginal decrease of 2% recorded by Portman. Given the continuing growth in domestic travel and international arrivals, the Group remains optimistic on the overall prospects of its hotel business in Mainland China for the foreseeable future.

Situated adjacent to the Guangzhou International Convention and Exhibition Centre and in close proximity to the Pazhou mass transit railway station, the Shangri-La Hotel, Guangzhou which comprises 704 guest rooms and 26 serviced apartments, soft-opened for business on 27 January 2007.

Phase III of the Shangri-La Hotel, Beijing which consists of 142 guest rooms soft-opened for business on 8 March 2007.

Singapore

Business at the three Singapore hotels continued to improve with combined revenues increasing by 19%. Both weighted average room rates and RevPAR increased by 25%, the highest amongst all the countries in which the Group operates. The Singapore government has initiated steps for the development of integrated resorts to further improve its position as a preferred tourist-destination. The outlook for the Group's hotels in the medium term remains very positive.

Philippines

The performance of the Group's hotels continued to improve in line with the overall positive economic indicators for the country and improved security. RevPAR and room rate increases ranged between 13% to 26% and 10% to 18%, respectively. Affected by renovation of 188 guest rooms in Shangri-La's Mactan Resort & Spa, Cebu in the first half of 2006, the hotel recorded a decline in annual occupancies by 11 percentage points while the other two hotels in Manila recorded an increase in annual occupancies of 5 to 6 percentage points.

The overall outlook for the Group's hotels remains positive.

Malaysia

The Group's hotels recorded a weighted average increase in RevPAR by 21%, mainly attributable to the significant increase in room rate of 19%. In particular, both the Golden Sands Resort, Penang and Shangri-La's Tanjung Aru Resort, Kota Kinabalu recorded an increase in RevPAR by 28% with increased leisure arrivals. The performance of the Traders Hotel, Penang was also encouraging, i.e. an increase in RevPar by 21%. Shangri-La's Rasa Sayang Resort & Spa, Penang which closed for redevelopment on 1 December 2004 re-opened on 28 September 2006 and was repositioned as a high-end resort.

The Group's hotels and resorts are expected to make good progress in 2007 as they are in a strong position to benefit from the improving trends in both the leisure and business travel markets.

Thailand

Tourist arrivals into Thailand grew well into the third quarter of 2006 by over 23%. However, the political events in September dampened this trend. Besides, room rates and revenues were adversely affected by the appreciation of the Baht as most of the hotel rates are quoted in US dollars. Despite these, weighted average room rate and RevPAR of the Shangri-La Hotel, Bangkok increased by 12% and 9%, respectively, while annual occupancies decreased marginally by 2 percentage points. The continuing political and security concerns have curtailed leisure traffic into Bangkok temporarily but the overall prospects for 2007 remain healthy.

Fiji, Indonesia and Myanmar

The performance of the resort in Fiji was adversely affected by the country's uncertain political environment. Average room rate of the resort increased by 8% while RevPAR decreased by 12%. The Shangri-La Hotel, Jakarta commenced the renovation of the guest rooms at the end of 2005 and the renovated room products have been well received with average room rates and RevPAR increasing by 5% and 11%, respectively. The performance of the Traders Hotel, Yangon continued to be adversely affected by Myanmar's political and economic environment.

Hotel Management

The hotel management arm of the Group, SLIM International Limited and its subsidiaries (the "SLIM Group"), provides technical consultation and project management services for hotels under development or renovation and hotel management and marketing services for operating hotels. The SLIM Group has hotel management and/or technical consultation and project management services contracts in respect of all the hotels in which the Group has an interest, with the exception of the Portman and the Novotel. As at 31 December 2006, it had hotel management contracts with 49 operating hotels comprising 23,576 guest rooms, including 13 hotels with 4,651 guest rooms owned by third parties. The Traders Hotel, Kuala Lumpur and the Shangri-La Hotel, Suzhou in Mainland China, both owned by third parties, opened for business on 1 July 2006 and 8 July 2006, respectively. As at the date of this report, the SLIM Group also has technical services and hotel management contracts in respect of 17 hotel projects owned by third parties.

Aided by the strong growth of the hotels' business and successful signing of new contracts, the SLIM Group recorded a 26% increase in revenues on consolidation after elimination of revenue earned from fellow subsidiaries.

In 2006, the Group signed five new hotel management contracts for hotel projects owned by third parties:

- Shangri-La Hotel, Qaryat Al Beri, Abu Dhabi (opening in mid 2007)
- Shangri-La Hotel, Tainan (opening in early 2008)
- Shangri-La's Phuket Resort and Spa, Thailand (opening in end 2008)
- Shangri-La Hotel, Miami (opening in late 2010)
- Shangri-La Hotel, Las Vegas (opening in late 2010)

In February 2007, the Group signed a management contract for a 212 rooms five-star hotel to be developed in Toronto, Canada. The hotel is expected to open for business in mid 2011.

The Group terminated the management contract of the Shangri-La Dingshan, Nanjing, Mainland China in January 2006.

Property Rentals

The Group's investment properties are located principally in Shanghai and Beijing and are owned by associates. Average yields of commercial and office spaces in the Group's two centers in Beijing recorded increases ranging from 16% to 31% and 6% to 11%, respectively. Average yields of office space in the Group's two centers in Shanghai also recorded increases between 16% to 17%. The commercial space at the Shanghai Kerry Centre (the "SKC") recorded an increase in yields of 6% while Shanghai Centre registered a decrease of 4%. The re-enforcement of the tax rules on capital gains relating to residential properties by the government have affected property prices and rental yields in the primary cities. While yields of the serviced apartments in the China World Trade Center in Beijing recorded a marginal increase of 1%, the Beijing Kerry Centre and the SKC registered a decrease in yields of 6% and 10%, respectively. The Shangri-La Residence in Dalian recorded increase in yields of 23% with annual occupancies reaching 84%. Overall, combined revenue increased by 7% in 2006.

In Singapore, the weighted average yields of serviced apartments, commercial and office spaces increased by 12%, 5% and 8%, respectively.

In Bangkok, yields of office space remained unchanged. An increase in rental rates by 5% was neutralised by an occupancy rate decline from 94% to 89%. Yields of the serviced apartments recorded an increase of 11%.

In Kuala Lumpur, yields of commercial space and serviced apartments increased by 8% and 7%, respectively. Demand for office space has rebounded with occupancy rates increasing to 59% from 39% resulting in a yield improvement by 53%.

(b) Consolidated Profits

Consolidated profits attributable to the equity holders of the Company for 2006 increased to US$202.2 million from US$151.0 million in 2005. The financial performance reflected the combined effects of the 19% increase in consolidated turnover and 20% increase in gross profit and an increase of US$9.1 million in net income from non-operating items.

The detailed breakdown of the profit is as follows:

Consolidated Profit Attributable to Shareholders
(after tax and minority interests)
For the year ended 31 December

	2006 US$ million	2005 US$ million	% Change
Company & Subsidiaries			
Hotel Operation			
Hong Kong	**50.6**	40.4	25%
Mainland China	**52.6**	31.1	69%
Singapore	**24.7**	20.4	21%
The Philippines	**7.1**	(0.8)	NM
Malaysia	**2.4**	3.2	(27%)
Thailand	**9.5**	8.3	14%
Fiji	**4.9**	5.2	(7%)
Myanmar	**(1.2)**	(0.4)	(165%)
	150.6	107.4	40%
Property Rentals			
Mainland China	**1.7**	1.7	0%
Singapore	**3.7**	3.1	17%
Malaysia	**1.0**	0.8	18%
Thailand	**0.2**	0.2	14%
	6.6	5.8	12%
Hotel Management	**3.0**	(3.8)	NM
Associates			
Hotel Operation			
Hong Kong	**0.2**	–	NM
Mainland China	**19.7**	16.3	21%
Singapore	**1.3**	1.0	27%
Malaysia	**–**	1.2	NM
Indonesia	**–**	–	0%
	21.2	18.5	15%
Property Rentals			
Mainland China	**31.0**	27.8	11%
Singapore	**1.7**	1.8	(3%)
Malaysia	**–**	0.2	NM
	32.7	29.8	10%
Operating Profit After Tax	**214.1**	157.7	36%
Less:			
– Corporate expenses net	**(11.0)**	(10.5)	(4%)
– Pre-opening expenses and amortisation of land use rights for projects	**(11.8)**	(2.2)	(427%)
– Net finance costs on corporate bank borrowings	**(38.5)**	(30.4)	(26%)
– Interest expenses on convertible bonds	**(2.8)**	(6.7)	58%
Profit before Non-Operating Items	**150.0**	107.9	39%

	2006 US$ million	2005 US$ million	% Change
Non-Operating Items:			
– Fair value gains on investment properties	57.7	36.1	60%
– Realised and unrealised gains on financial assets held for trading	18.2	6.6	176%
– Fair value (losses)/gains on derivative financial instruments – interest-rate swap contracts	(10.4)	3.5	NM
– Gains on disposal of partial interest in subsidiaries	–	0.3	NM
– Losses on disposal of interest in associates	–	(2.1)	NM
– Loss arising from the implementation of the share reform scheme of an associate	(14.7)	–	NM
– Gain on disposal of a hotel	–	1.7	NM
– Excess of net assets over the cost of acquisition of additional interest in a subsidiary	0.7	–	NM
– Goodwill impairment	(1.0)	–	NM
– Impairment loss on properties under development	(1.5)	–	NM
– Expenses on share options granted	(4.4)	(3.5)	(27%)
– Tax refund on re-investment of dividend from subsidiaries and an associate in Mainland China	7.6	0.5	1,566%
Total of non-operating items	52.2	43.1	21%
Profit attributable to shareholders of the Group	202.2	151.0	34%

Notes:

1. Interest expenses of operating units' bank borrowings and deferred tax provision are included in operating results.

2. Profit of the hotel management group is stated before elimination of revenue earned from fellow subsidiaries and operating results of the subsidiaries are stated before elimination of management fees charged by the hotel management group.

NM: Not Meaningful

Profit after tax and before non-operating items for 2006 as compared to 2005 has been affected by the following:

(a) Net profit contribution from the subsidiaries and associates in Mainland China has included the exchange gain relating to its US dollars borrowings arising from the appreciation of the Renminbi.

(b) Net profit contribution from the three hotels in the Philippines of US$7.1 million compared to a net loss of US$0.8 million last year as US$7.2 million incremental deferred tax liabilities were provided in 2005 pursuant to an increase in the corporate income tax rate from 32% to 35%.

(c) Net profit contribution from the SLIM Group of US$3.0 million compared to a net loss of US$3.8 million last year as fee income from operating hotels increased and the Group signed new contracts for projects under development.

(c) Consolidated Net Asset Value and Gearing Ratio

As at 31 December 2006, the Group's net asset value (total equity) increased to US$2,975.3 million from last year's US$2,630.2 million largely due to the issuance of 33,314,074 new shares to holders of share options and convertible bonds who have exercised their rights, US$147,552,000 translation differences in non-monetary items credited to the exchange fluctuation reserve due to the general appreciation of Asian currencies and the Euro against the US dollar and the profits recorded during the year. The net borrowings to total equity ratio increased from 33.0% as at 31 December 2005 to 41.0% due to draw down of bank loans to fund project development.

The currency mix of the Group's total tangible assets and total liabilities as at 31 December 2006 is as follows:

	Total Tangible Assets	Total Liabilities
In Hong Kong dollars	7%	58%
In US dollars	2%	17%
In Renminbi	48%	9%
In Singapore dollars	16%	2%
In Philippine Pesos	9%	6%
In Malaysian Ringgit	8%	4%
In Thai Baht	4%	2%
In Fiji dollars	1%	1%
In other currencies	5%	1%
	100%	100%

Note: Total tangible assets included all non-current and current assets with the exception of goodwill and trademarks while total liabilities included balances of minority interests and loans from them.

Financial indicators of the Group

	2006	2005
Return on Equity [Profit attributable to equity holders of the Company/Average equity attributable to equity holders of the Company]	**7.96%**	6.93%
EBITDA (in US$'000) [Earnings before interest, tax, depreciation, amortisation and non-operating items (including losses on disposal)]	**350,424**	265,261
EBITDA Margin [EBITDA/Sales]	**34.94%**	31.50%

2. Corporate Debt and Financial Conditions

Taking advantage of the liquidity in the banking system and with a view to address its capital commitment requirements, the Group executed six unsecured bilateral Hong Kong dollars or US dollars corporate loan agreements and one Hong Kong dollars/US dollars dual currency corporate loan agreement with individual banks in 2006 in a total amount of equivalent to US$471.9 million. These loans have a maturity of 5 years with an all-inclusive cost ranging from 33 to 36 basis points over HIBOR/LIBOR. In November 2006, the Group executed a five-year unsecured loan agreement with a consortium of banks in an amount of HK$4,200 million with an all-inclusive cost of 36 basis points over HIBOR. These new loans have served to push out loan maturities, reduced the loan interest margin and have also given the Group the flexibility for shifting the currency of its borrowings from time to time considering financial market conditions. With these facilities in place, the Group prepaid by end of September 2006 all the outstanding amount under a HK$3,000 million loan agreement maturing in March 2007, which carried a higher interest rate. The Group also repaid the HK$800 million loan that matured in December 2006. Following the exercise of the conversion right by most of the convertible bondholders, 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$26.1 million as at 31 December 2006. Subsequent to the year end, convertible bonds with principal amount of US$16.9 million were also converted and the outstanding principal balance reduced further to US$9.2 million at the date of this report. Unless previously redeemed, converted or purchased and cancelled, the outstanding bonds will be redeemed at 114.633 percent of their principal amount on the maturity date.

The Group has satisfactorily complied with all covenants under its borrowing agreements.

The analysis of borrowings outstanding as at 31 December 2006 is as follows:

	Maturities of Borrowings Contracted as at 31 December 2006				
			Repayment		
(US$ million)	Within 1 year	In the 2nd year	In the 3rd to 5th year	After 5 years	Total
Borrowings					
Corporate bank loans	–	141.9	1,020.3	–	1,162.2
Project bank loans and overdrafts	42.9	20.3	297.2	–	360.4
Convertible bonds	–	–	26.7	–	26.7
Total	**42.9**	**162.2**	**1,344.2**	**–**	**1,549.3**
Undrawn but committed facilities					
Bank loans and overdrafts	**173.6**	**24.8**	**789.0**	**–**	**987.4**

As at 31 December 2006, all the above borrowings were unsecured except the bank loan of a subsidiary amounting to US$3,000 (2005: US$36,000) which was secured by charges over certain motor vehicles of the subsidiary with net book values totaling US$70,000 (2005: US$93,000).

The currency-mix of the borrowings and cash and bank balances as at 31 December 2006 is as follows:

(US$ million)	Borrowings	Cash and Bank Balances
In Hong Kong dollars	1,113.1	20.1
In US dollars	342.5	119.6
In Renminbi	40.5	113.8
In Singapore dollars	3.3	7.1
In Philippine Pesos	–	5.9
In Malaysian Ringgit	49.9	3.6
In Thai Baht	–	41.0
In Fiji dollars	–	3.2
In Euros	–	15.3
In other currencies	–	0.6
	1,549.3	**330.2**

The borrowings in Hong Kong dollars, Singapore dollars, Malaysian Ringgit and US dollars (with the exception of the convertible bonds) are at variable rates of interest at spreads over HIBOR, Money Market Rate, 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 31 December 2006, of the Group's cash and bank balances, US$247.3 million (2005: US$193.4 million) were kept in Mainland China, Malaysia, Thailand, the Philippines, Myanmar, Fiji 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.

The Group also executed guarantees for securing banking facilities granted to certain associates. The utilised amount of such facilities covered by the Group's guarantees for these associates as at 31 December 2006, amounted to US$41.0 million (2005: US$30.4 million).

3. Treasury Policies

The treasury policies 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.

During the year, the Group executed new corporate loan agreements to re-finance substantial portion of the loans drawn down under the earlier agreements which carried a higher interest rate. 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 amounting to Renminbi 121 million were lent to the 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.

The Group has also sought to hedge its medium term interest rate risk by entering into HIBOR and LIBOR interest-rate swap contracts at a reasonable price. During the year, the Group has entered into new seven-year HIBOR interest-rate swap contracts for an aggregate principal amount of HK$600 million in replacement of some of the matured contracts. As at 31 December 2006, the Group had outstanding contracts for an aggregate principal amount of HK$4,460 million at fixed interest rates ranging between 4.335% and 4.63% per annum, and US$100 million at a fixed interest rate of 4.70% per annum. In January 2007, the Group contracted another seven-year HIBOR interest swap contract for a principal amount of HK$300 million. The interest cover continues through January 2014. Including the new contract executed in January 2007 and together with the convertible bonds outstanding and the Renminbi loans, the Group has fixed its interest liability on 50% of its term loans outstanding.

(b) Minimise Currency Risk

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

The Group attempts to align the currencies of its loan portfolio with the currency mix of the Group's investments and revenues in various countries. Given the continued strengthening of the Renminbi, subsidiaries in Mainland China have, to the extent allowable, contracted new bank loans in US dollars. As mentioned earlier, the Group has secured corporate bank loans in dual-currencies to provide flexibility to switch the currency in the event of relative weakness of either currency.

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

4. Properties Valuations

(a) Properties values* – by Geographical Area

	2006		2005	
	US$ million	**%**	US$ million	%
The People's Republic of China				
Hong Kong	**240**	**5%**	220	6%
Mainland China	**2,365**	**51%**	1,994	51%
Singapore	**783**	**17%**	681	18%
The Philippines	**406**	**9%**	383	10%
Malaysia	**386**	**9%**	345	9%
Thailand	**155**	**3%**	127	3%
Fiji	**60**	**1%**	53	1%
France	**133**	**3%**	–	–
Indonesia	**35**	**1%**	35	1%
Myanmar	**26**	**1%**	31	1%
Maldives	**10**	**0%**	5	0%
Republic of Mongolia	**9**	**0%**	–	–
Total	**4,608**	**100%**	3,874	100%

* *Including total value of property, plant and equipment, investment properties, leasehold land and land use rights owned by subsidiaries and the effective interest share of these assets value owned by associates.*

(b) Valuation of Properties

The Group adopted the following accounting policies for its hotel properties in accordance with the Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (the "HKAS") issued by the Hong Kong Institute of Certified Public Accountants:

(1) The underlying buildings and integral plant and machinery are stated at cost less accumulated depreciation and impairment, if any, under HKAS 16 "Property, Plant and Equipment";

(2) the underlying freehold land is stated at cost less impairment, if any, under HKAS 16 "Property, Plant and Equipment" and

(3) the underlying leasehold land is stated at cost and subject to annual operating lease rental charge (amortisation of land cost) as required by HKAS 17 "Leases".

The Group's investment properties continue to be stated at fair value. All changes in the fair value of investment properties from one balance sheet date to the next will be reported in the income statement. All investment properties are stated at professional valuations carried out by the following independent firms of professional valuers as at 31 December 2006:

CB Richard Ellis Limited, DTZ Debenham Tie Leung Limited and Chesterton Petty Limited	:	For properties in Mainland China
Colliers International Consultancy & Valuation (Singapore) Pte Ltd and DTZ Debenham Tie Leung (SEA) Pte Limited	:	For properties in Singapore
W.M. Malik & Kamaruzaman	:	For properties in Malaysia

The valuations of all the investment properties made at the end of 2006 resulted in a net increase in profit of US$57.7 million after adjustment of minority interests and additional provision for deferred tax liabilities relating to the full effect of temporary differences arising from revaluation of the properties.

5. Financial Assets held for Trading – Trading Securities

The Group continued to gradually dispose of its investment portfolio in trading securities. In 2006, this disposal for US$8.8 million recorded realised gains of US$2.3 million before adjustment for minority interests (US$2.1 million after minority interests). Dividend income from trading securities of US$0.9 million before adjustment of minority interests (US$0.8 million after minority interests) was recorded.

As at 31 December 2006, the market value of the Group's investment portfolio was US$50.1 million which included an unrealised gain of US$18.8 million before adjustment of minority interests (US$16.1 million after minority interests). The investment portfolio included 10,867,055 ordinary shares in the Company with a market value of US$28.1 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 shares were held by the wholly owned subsidiary of SHPCL before the Company acquired a controlling interest in it in late 1999. The Company had undertaken, subject to market conditions, to use its reasonable endeavours to procure SHPCL to dispose of all such shares to parties independent of the Kuok Group. 938,000 shares in the Company owned by the above subsidiary of SHPCL were disposed on The Stock Exchange of Hong Kong Limited in 2006.

6. Acquisition

On 29 September 2006, the Group together with KPL and Kerry Holdings Limited (the controlling shareholder of the Company) completed the connected transactions in respect of the formation of a joint venture company, Expert Vision Holdings Limited ("EVHL"), for the acquisition of the entire interest in the Novotel at the acquisition cost of HK$588,380,000. The Group's effective equity interest in EVHL is 30%. Its share of the cash consideration, being the fair value of its share of the net identifiable assets at the date of acquisition, was HK$176,514,000.

7. Development Programmes

Construction work of the following hotels is progressing satisfactorily:

	Hotel Rooms	Serviced Apartments	Projected Opening
In Mainland China			
Shangri-La Hotel, Chengdu (and an office tower)	593	–	May 2007
Shangri-La Hotel, Baotou	371	–	Mid 2007
Shangri-La Hotel, Huhhot	386	–	Mid 2007
Shangri-La Hotel, Xian	397	–	Late 2007
Shangri-La Hotel, Qingdao (Phase II)	219	–	End 2007
Shangri-La Hotel, Futian	546	51	Early 2008
Shangri-La Hotel, Manzhouli	216	–	Mid 2008
Shangri-La Hotel, Ningbo	564	60	Mid 2008
Shangri-La Hotel, Wenzhou	419	–	Late 2008
Shangri-La Hotel, Guilin	430	–	Early 2009
China World Hotel, Beijing (Phase III – Mega Tower)	276	–	Late 2009

	Hotel Rooms	Serviced Apartments	Projected Opening
In other countries			
Shangri-La's Rasa Ria Resort, Dalit Bay Golf Club & Spa, Sabah (Phase II)	90	–	End 2007
Shangri-La Hotel & Spa Chiangmai, Thailand	281	–	Early 2008
Shangri-La Resort & Spa, Boracay, The Philippines	219	–	Mid 2008
Shangri-La Villingili Resort & Spa, Maldives	142	–	Mid 2008
Office Tower, Ulaanbaatar, Republic of Mongolia	N/A	–	Mid 2008

The Group has also acquired land in Zhoushan, Mainland China for future hotel development. The construction of the 280-room hotel is expected to commence in the second half of 2007 with completion scheduled for late 2009.

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 four connected 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. In 2006, the Group and KPL have completed the joint acquisition of all the parcels of land and the Group now owns 49% interest in this project. The maximum total investment in the entire project is not expected to exceed US$700 million. Phase I of this project has commenced in late 2006 and is expected to be completed in 2011.

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

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 are 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 a 550-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 has commenced at year end 2006 and is expected to be completed in early 2010. The total investment in the entire project is not expected to exceed US$590 million.

In January 2006, the Group acquired the entire interest in the historic palace of Prince Roland Bonaparte at a consideration of Euros 92 million. It plans to convert it to a 118-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.

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.

At a special general meeting held on 1 September 2006, the independent shareholders of the Company approved the connected transactions for entering into the Share Transfer Agreement and the Joint Venture Agreement 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, serviced apartments, offices, residential apartments, shopping mall and ancillary facilities). Upon obtaining all the necessary approvals from the local government, the Group will transfer 49% and 31% equity interest (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. The Group's 20% share of the total investment is not expected to exceed Renminbi 1,000 million (approximately US$128 million). The project will be developed in phases. Development work on the first phase is expected to commence in the second quarter of 2007 after completion of the share transfer and will be completed by end 2009.

The estimated incremental funding required directly at the corporate level and by the subsidiaries for all the new projects is currently estimated at US$1,388.7 million and will be mainly financed by existing surplus cash on hand, operating fund flows, available borrowing facilities and local project loans to be contracted. Joint venture partners will provide the balance of funds required for those developments not wholly owned by the Group.

The Group is committed to maintaining its hotels and investment properties in excellent condition to retain their competitive advantage. It will constantly assess the need to renovate or upgade their facilities and introduce new concepts. Renovations currently being undertaken by some of the Group's subsidiaries will involve capital expenditure of approximately US$64.0 million. This expenditure will be financed mainly from operating cash flows of the properties, supplemented by locally contracted short-term bank loans, where appropriate.

8. Management Contracts

In the last three years, the Group has embarked on a rapid pace of expansion by also entering into management contracts for third-party-owned hotels that do not require capital commitment. The total number of operating hotels owned by third parties under management contracts increased from 6 with 1,940 rooms as at 31 December 2003 to 13 with 4,651 rooms as at the date of this report.

In addition, the Group currently has contracts on hand for development of 17 new hotels. These represent an inventory of 6,939 rooms. The development projects are located in Abu Dhabi, Doha (Qatar), Vancouver, Chicago, Miami, Las Vegas, Toronto, Seychelles, Phuket, Bangalore (India) (3 hotels), Tainan (Taiwan), Macau (2 hotels), Dongguan and Urumqi (all in Mainland China).

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

9. Corporate Social Responsibility

The Group has a long history of ensuring that it operates in the interests of all stakeholders. Its approach to corporate social responsibility is based on policies covering commitments to the environment, local communities, health and safety, suppliers, staff and philanthropic efforts. Activities in these areas make the Group a preferred employer, a good corporate citizen and enhance its dedication to service excellence.

The Group recognises that corporate social responsibility is increasingly an important part of its profile and is currently embarking on a two-year development strategy in this area.

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.

Environmental Management

The Group's ongoing commitment to the protection of the environment is central to its activities.

Dedication to managing environmental aspects of operations has resulted in 22 hotels and resorts now having gained ISO14001 environmental management system certification. More will gain certification soon.

The Group is increasingly aware that obligations to the environment also extend to protecting biodiversity and conserving nature. Several properties have innovative programs in this area.

For example, at Shangri-La's Rasa Ria Resort, Dalit Bay Golf Club & Spa, Sabah in Kota Kinabalu, its acclaimed nature reserve is the first and only facility in Sabah to rehabilitate baby orangutans. Many have been rehabilitated and moved on to the next stage of the program for eventual release into the wild. The resort's nature interpretation centre, opened in partnership with the government, now fosters nature and wildlife education.

Shangri-La's Barr Al Jissah Resort & Spa, Sultanate of Oman has made a considerable effort to support biodiversity and conservation and has a dedicated Turtle Ranger to guide guests in the rare opportunity to observe sea turtles nesting, laying eggs and hatching on the resort's beaches.

Shangri-La's Fijian Resort, Yanuca Island's Marine Protected Area has been chosen as an International Coral Reef Action Network model site for coral reef conservation by the United Nations Environment Programme. Hotel guests and staff support several long term reef restoration and marine conservation projects.

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 US. 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.

Community Investment

In many hotel and resort locations, a very high proportion of the hotel staff is employed from the local area with the aim of training and developing them to move into senior roles. Comprehensive internship, apprenticeship and trainee programs for the local community are in place throughout the Group.

The Group's Rasa Sentosa Resort, Singapore has embarked on an innovative program of hiring students with developmental difficulties and training them in gardening and stewarding.

Many hotel and resort employee volunteers are involved in river and beach clean-ups, blood donations, making visits to local children's hospitals and old age homes, and fundraising for local charities that focus on children and people with disabilities.

Health and Safety

The safety and security of guests, employees, the general public and property is a vital aspect of hotel operations.

In 2006, the Shangri-La Hotel, Kuala Lumpur led the way on new health and safety commitments through certification to the OHSAS 18001 occupational health and safety system to ensure a safe environment for clients, staff and business partners.

With increasing global concerns of the H5N1 virus and its potential for causing major health problems for human beings, the Group has in place a comprehensive programme of processes and training programs to improve staff awareness of the need to maintain a good overall health environment both at the workplace and at home.

The Group places a major emphasis on food safety both for guests and employees and is an industry leader in this area. Ten of the Group's hotels are now HACCP (Hazard Analysis and Critical Control Point System) certified, a food safety system standard that is one of the most sought-after accreditations in the hospitality industry. By 2008, 32 other hotels are anticipated to be awarded the certificate.

All the Group's hotels and resorts follow a stringent and comprehensive food safety management system which has been in place for more than five years and covers receiving, preparing, cooking and serving food items and safeguards against cross contamination of products. Each hotel has a qualified hygienist in its employment responsible for monitoring the implementation of food safety.

Suppliers

The Group recognizes that many social and environmental impacts are derived from activities in the supply chain and is therefore rolling out a number of programmes to ensure that suppliers share its commitments. Wherever possible, the Group sources local products for purchase in order to reduce the environmental damage caused by transportation and to support local community economic development.

Staff Commitment

The Group conducts itself as an equal opportunity employer. Salaries and benefits, including pension funds, 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 Group encourages each hotel and resort to implement its own set of employee initiatives, while sharing corporate values.

The Group focuses heavily on developing the skills and abilities of staff. The Group's service culture training, through its Shangri-La Care Programme, has continued to create a competitive advantage and enhance its reputation for award-winning, highly personalized service.

Philanthropy

The Group contributes to a wide range of charities worldwide. As well, its corporate charity partner is Care for Children ("CFC"), a registered charity which works in partnership with national and local governments in mainland China to introduce foster care and other strategic initiatives to enrich the lives of orphans and other children in need. This campaign has raised over HK$1 million in 2006. As CFC expands its efforts to other Asia Pacific areas, the Group will be developing additional supporting initiatives.

Individual hotels and resorts also have their own charity initiatives with many donating to local schools, orphanages and old age homes. In 2006 of the Group's hotels donated linen, furniture, blankets and televisions to various hospital day care centres and charities, as well as refurbished personal computers to low income families.

The Company is also a regular donor under the Corporate Contribution Program of The Community Chest of Hong Kong. The Company donated HK$430,000 in 2006.

The Group's subsidiaries have also teamed up with various social charitable organisation in different countries. In 2006, the Group contributed to various charities in the immediate aftermath of the nature disaster in different countries, including Australian $30,000 to the Cyclone Larry Relief Funds of Australia and Reminbi 750,000 to the Shenzhen charity body to help the victims of Typhoon Bilis.

10. Management Strategies

General

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, recognising opportunities well ahead of others. Since then, it has been expanding its hotel network in the major cities. The Mainland China government has recently implemented additional series of macro-economic austerity measures (including re-enforcement of tax laws and regulations) intended to slow down the growth of certain industries, including the property sector. However, the Group has every confidence in the long-term stability and continued economic growth of the country, in the resilience of the hotel business characterised by increasing foreign arrivals and domestic and outbound travel; and that property values will continue to appreciate. Currently, the Group has equity interests in 19 hotels and manages 3 hotels in Mainland China with an inventory of 11,048 rooms. Another 14 development projects and one extension project in which the Group has equity interests are currently under the construction or planning stages. The Group will continue to identify investment opportunities and selectively enter into management contracts for third-party-owned hotels to expand its hotel coverage in the major cities and to fill the gaps in its network.

While the Group believes that strong demand from commercial travellers could provide support for further RevPAR growth for luxury hotels in Hong Kong, the Group has invested in its first mid priced business hotel in the city to tap the rapidly growing mass travel market as arrivals from Mainland China 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. Considering the successful history of co-operation and taking into account the investment commitment 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 the quality of its brand, the Group's strategic plan envisages the expansion of the Shangri-La brand to Europe and North America through the operation of hotels in key gateways cities, depending on individual circumstance, through equity investments, leases or management contracts. The target is to bring the total number of operating hotels under ownership and/or management to over 100 by 2012.

Prospects

The record profits for the year enjoyed by the Group was the outcome of favourable global and regional economic conditions supplemented by a stable competitive environment. In general, 2007 is expected to follow this trend, albeit at a slightly reduced pace. The pricing momentum experienced by the Group's hotels is expected to continue through 2007 giving scope to further improve operating margins. The recent amendments to the corporate income tax regime in Mainland China which take effect from 1 January 2008 will further improve profit contribution from the Group's hotels from this area. Barring any major adverse developments, the Group remains optimistic about its financial performance for 2007.

II. Marketing

Revenue Management/Global Accounts

Yield

The Group's revenue management culture which is based on the 'Ideas' automated yield management system was strengthened in 2006 and it is planned to take the successful and proven formula from selling rooms into Event management and Spa operations.

Global Accounts

The number of centrally negotiated Global Accounts has grown to above 500 in 2006 and this group, which is made up of multinational companies across a range of industries is a significant contributor to the Group's revenues.

The concept to have one contact for travel managers and the ability to negotiate corporate rates across all the Group's hotels has proven to be successful. It provides a strong platform to expand the Group's corporate business across regions and cities where the Group's customers are doing business. The Group's Global Account partners will be extremely valuable to support the strategy of extending the Group's network of hotels particularly to Europe and North America.

Online Distribution

There was a strong performance in the overall Internet channel in 2006, where growth exceeded 100% from the Group's proprietary website, Shangri-La.com, as well as from its external online travel partners.

The major factor contributing to this growth is the gradual shift of the preferred booking method from traditional means (telephone/fax) to the Internet as an outcome of the Group's efforts to promote the use of Shangri-La.com as a quicker and more convenient channel of reservations in 2006.

Shangri-La's partnership with major third party travel websites like Expedia, Travelocity, Orbitz, CTrip, etc, also saw a tremendous growth of 140% year-on-year in 2006.

Loyalty & Partner Marketing

The Group's exclusive guest recognition programme, Golden Circle, launched in August 1997, remained a strong marketing focus in 2006.

Unlike other hotel programmes, Golden Circle does not offer points and membership is by invitation only. It is a recognition-based programme that delivers a consistent high-level of individualised services and amenities to its members. The programme builds strong customer relationships and provides insights into the preferences of the Group's most valuable customers and thereby enables the maximisation of the life-time value of these members.

The year concluded with over 1 million Golden Circle members worldwide. Golden Circle members revenues accounted for more than 24% of the total guest room folio revenue for the Group.

In 2006, the Group maintained its well established relationships with 31 airlines worldwide through productive frequent flyer programme partnerships. These partnerships provide the Group with a high yield distribution channel. Special emphasis was placed to exploit the marketing potential of the customers database from a partner, given the potential business and highly targeted promotional opportunities.

Corporate Advertising

The television advertising campaign "Where will you find your Shangri-La" continued its regional run on CNN, Discovery, ESPN and BBC, as well as Mainland China and Hong Kong local television stations. This was complemented by in-flight TV display on key global airline networks.

The global print advertising campaign "Heaven & Earth" was expanded to include additional advertising creative for the Shangri-La brand and ran in key business, lifestyle and travel publications in Mainland China, Europe and North America.

With the introduction of CHI, The Spa at Shangri-La in late 2004, a supporting advertising campaign was developed and ran in premium lifestyle titles in Hong Kong and Singapore as well as regional Asia and Spa titles.

The Traders advertising campaign shared the travel secrets of the smart traveler and highlighted the brand as the smart choice for travelers looking for practicality and efficiency in a convenient location.

12. Food and Beverage Operations

Catering

The Group's catering revenue has increased by 18% from the previous year due to renovation of some of the facilities and implementation of the "We commit F&B program". The program is designed to provide Event Sales Managers tailor-made training modules, which will increase their product knowledge and equip them to take informed decisions at the customer contact point. New initiatives for 2007 will focus on the Meetings & Conventions market for large city hotels to increase both covers and revenues.

All Day Dining

The 21 renovated All Day Dining restaurants have consolidated their positioning in their respective cities and have shown improved operating profit after their renovation.

New generation of speciality restaurants and bars were launched with the opening of the Group's new Italian restaurant at the Kowloon Shangri-La, Hong Kong, which has already positioned itself as the preferred casual fine dining venue in the area as also the Blu Lobster, a causal fine dining restaurant at the Shangri-La Hotel, Beijing.

Shangri-La Hotel, Qingdao has redefined the life style of bar and entertainment concept in the city with the opening of Q bar which was voted the best bar in China.

Life Style Cuisine

A qualified nutritionist has been appointed to develop a healthy menu to cater for Shangri-La's frequent business travellers. Special dishes will be launched group-wide in early 2007.

HACCP

To ensure the highest level of food safety after Shangri-La food safety management, all hotels are required to be HACCP certified by 2008. We have currently 10 hotels certified and 32 are planning to be certified by 2008.

13. Human Resources

As at 31 December 2006, the Company and its subsidiaries had approximately 20,500 employees. The headcount of all the Group's managed hotels totaled 29,600. Salaries and benefits, including provident fund, insurance and medical cover, housing and share option schemes were maintained at competitive level. Bonuses were awarded based on individual performance as well as the financial performance of business units.

The Company has two share option schemes. Details of these two schemes are provided in the section headed "Share Options" of the Report of the Directors. As of this date, options outstanding under the two schemes are as follows:

	Executive Option Scheme			New Option Scheme		
Grant Date	1 May 1998	15 January 2000	15 January 2001	29 May 2002	28 April 2005	16 June 2006
Exercise price per option share	HK$8.26	HK$8.82	HK$8.18	HK$6.81	HK$11.60	HK$14.60
Balance as at 1 January 2006	3,686,712	3,682,900	1,494,264	2,340,000	17,820,000	–
Granted in 2006	–	–	–	–	–	7,080,000
Lapsed in 2006	–	–	–	(140,000)	(595,000)	(92,500)
Exercised in 2006	(2,221,256)	(1,996,656)	(1,026,932)	(660,000)	(2,230,000)	–
Balance as at 31 December 2006	**1,465,456**	**1,686,244**	**467,332**	**1,540,000**	**14,995,000**	**6,987,500**
Lapsed subsequent to 31 December 2006	–	–	–	–	(50,000)	(40,000)
Exercised subsequent to 31 December 2006	(327,084)	–	(252,278)	(110,000)	(401,000)	–
Balance as at 27 March 2007	1,138,372	1,686,244	215,054	1,430,000	14,544,000	6,947,500

The Group charged US$4,415,000 in its 2006 income statement for options granted in 2005 and 2006.

The Board's remuneration committee reviews matters relating to the compensation and the incentives proposed for senior management and executive directors.

People Development

The Shangri-La Academy continued to accelerate and intensify employee training in keeping with the Group's expansion. Since its opening in December 2004, it has trained about 2,000 employees through its four core certificate programs, its diploma program and its various management development programs. The Academy has also embarked on partnership programs with leading universities and polytechnics in mainland China to train about 2,000 additional supervisory level staff for its China hotels over the next three years. The establishment of this Academy is integral to the Group's effort at standardising the delivery of the Shangri-La's brand promise throughout its network of hotels worldwide.

The development of managerial staff with high potential continued under the Group's three core talent development programs – the 18-month Corporate Management Trainee Program (CMT), 12-month Corporate Executive Trainee Program (CET) and the 18-month Corporate Trainee Program (CT). To-date, a total of 70 employees have been systematically trained through these programs.

Twenty-eight of the Group's hotels' General Managers and two Corporate Officers went through Module 1 of the General Managers Program conducted by the Cornell-Nanyang Institute of Hospitality Management in Singapore. They will complete Module 2 in 2007. Thirty Resident Managers also completed the 3rd module of their Executive Development Program in Financial Management.

Proprietary Service Culture Training

The Group's service culture training, through its Shangri-La Care Program, has given the Group a competitive advantage and enhanced its reputation for award-winning highly personalised service. The Shangri-La Care Program is designed to develop a consistent style of service that will deliver the Shangri-La experience for the guests and build brand loyalty. With the completion of training of all 29,600 employees of the Group in the four modules of Shangri-La Care, the Program will undergo a revamp to ensure that contents are current, practical while taking on a more international perspective of service. All collaterals will be changed to be aligned with the brand image.

The Group continues to view the development and retention of its staff talents as a strategic imperative.

14. Information Technology

The Group is a recognised industry leader for its astute use of information technology. It pioneered the development and rollout of a distributed reservation, trilingual point of sale and sophisticated yield management systems through strategic partnerships with software vendors. These strategically co-developed applications enable the Group to deploy the IT applications across the various geographies it operates in, regardless of infrastructural or other limitations in these locations. The Group is continuing its plan to upgrade its information technology infrastructure with the aim of maximising revenue potential, improving productivity and further strengthening customer relations.

On Line Booking

The Group's proprietary bilingual web booking engine has been enhanced to allow bookings for a wider range of negotiated rates, and also offers a best rate guarantee to the bookers. The Group's Revenue Management System also covers the online bookings, thereby enhancing rate integrity across the booking channels.

The Group has also substantially completed the revamp of its website (www.shangri-la.com) to further strengthen its online brand image, and to make the online bookings process even easier. The new website is scheduled for launch in May 2007.

Sales Force Automation

The roll-out of a new Group-wide Sales Force Automation System is by and large completed. This includes the hotels as well as the Regional Sales Offices. A custom-developed Chinese enabled version is also implemented. The Sales & Catering software fully interfaces with the hotel Property Management System for the exchange of Group bookings, customer profiles and sales production data.

Other Management Systems

OPERA PMS, the new generation Property Management System, is being introduced to all new hotels. Migration of existing properties is ongoing and is targeted for completion in 2009. All key properties have been equipped with a computerised revenue management system which exchanges last available rate/room data with the Central Reservation System including on-line reservations on the Internet. This enables the Group to offer the best rate guarantee for bookings through the Internet as well as those made at the Worldwide Reservation Offices. New software solutions in the areas of Materials Management and Human Resources, and upgraded systems for Restaurant Table Management are in the process of being rolled out.

Data Warehouse

With the Data Warehousing platform, the Group is now able to deploy more analytical applications to the properties enabling them to analyse the on-book situation and develop tactical business improvement opportunities.

In the near future, the Group will be focusing on leveraging its data asset and facilitating more sophisticated use of the data like data mining projects.

Intranet

The Group has already implemented an Intranet web site to share the Group's information and to facilitate workflow and team collaboration. The Group has also launched the Best Practices application to effectively capture knowledge and expertise from the properties for sharing across the Group.

IT Staff Training

The Group emphasises training for all IT staff, covering technical as well as managerial aspects. Specific training sessions and workshops have also been organised on a regional basis. The Group has also made available a wide range of comprehensive training courses including the management program, eCornell, provided and conducted by Cornell University.

Broadband Internet Access

High speed internet access is a standard across the Group. This includes wired access in the guest rooms and wireless access in public areas. Wireless broadband access in the rooms is being rolled out as warranted in specific locations. These systems are also being continuously enhanced to improve internet access performance and security.

Information Security

Information security, especially customer data protection, remains a top priority. The Group has engaged security experts to conduct industry standard penetration tests on its internal systems to ensure they are sufficiently protected. The Systems tested include email, web-booking engine, Central Reservation System, the Shangri-La web site and the Intranet. This is now being rolled out at the properties too. New versions of Anti-Virus, Anti-Spyware and Anti-Spam software have been deployed Groupwide which provide centralised management ability to ensure comprehensive protection for the whole Group.

Business Continuity Plan

A Groupwide business continuity plan had been implemented. This includes revamped operating procedures, formation of crisis management teams, greater emphasis on vital service redundancy, additional data protection measures and an enhanced understanding of the measures needed to quickly recover the operations from disaster situations.

All hotels have completed a disaster recovery drill to validate the effectiveness of the business continuity plan.

Future-Proof Guest Rooms

The Group has enhanced the design guide for guest rooms incorporating future proof technologies in the areas of Broadband Internet access, communication and entertainment services, etc.

15. Energy & Utility Cost Saving Initiatives

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 is aware of the seriousness of Global Warming crisis and has made its unwavering commitment to this challenge. The best practices include actions to reduce emissions and energy usage, energy conservation equipments for new capital expenditure planning and comprehensive upgrade of design guides to ensure a high level of energy efficiency for new projects. A senior executive committee has set up to review the effort and progress made in each property.

A wide range of initiatives are now in place spanning new projects, renovations, retrofits and hotel operation:

These include:

New Projects

Careful evaluation of design options and concepts to ensure selection of system designs that provide energy efficient and flexible operating solutions while ensuring a high standard of guest comfort.

Solutions include:

(a) Rain water harvesting to reduce operating costs in our resorts particularly where the alternative using reverse osmosis plant is energy intensive.

(b) Use of high efficiency sewage treatment, chiller and desalination plant (Operational savings 40 to 50% compared to conventional plant normally used).

(c) Installation of constant flow constant pressure water saving devices to selected hotel areas. Use of proximity sensors for taps to reduce consumption.

(d) Hot water production using solar panels or heat pumps. For the latter, utilizing the available free cooling from the pumps for pre-cooling of fresh air to selected areas thereby reducing overall cooling loads for chillers.

(e) Improvements in building envelope design to reduce heat loss or heat gain as well as air infiltration.

(f) Use of guestroom electronic control systems to improve operational efficiency and reduce energy consumption.

(g) Energy recovery systems for boiler condensate, chiller cooling systems or power generators.

(h) Use of high efficiency lighting including compact fluorescent lamps, discharge lighting and LED lighting.

(i) Use of LED signage system.

Retrofitting of Energy Saving in Existing Hotels

(j) Replacement programme of low efficiency chillers with new environmentally friendly high efficiency chillers with ROI starting at 14 months.

Incorporating variable speed drives and computerized chiller operation optimisation plant as warranted.

(k) Upgrading of desalination plant and sewage treatment plant allowing improved production and quality while reducing utility consumption between 40 to 50% in Shangri-La's Mactan Resort & Spa, Cebu.

(l) Progressively retrofitting of solar hot water system, heat pumps, fitting wet back boilers, condensate recovery systems, variable speed fans, variable speed pumping systems, high efficiency motors, all based on attractive rate of return calculations.

(m) Retrofitting electrical metering hot and cold water metering, gas metering to quantify actual consumption for internal profit and cost centers.

(n) Modify existing sewage treatment plant using Sequenced Batch Reactor resulting in reducing in energy cost approximately 50%.

Hotel Operation Utility Consumption Initiatives

(o) A major initiative is the progressive introduction of a computerized management system that permits:

- benchmarking of utility costs and energy usage for all internal "costs" and "profit" centers.

- the monitoring and measurement of Best Practices developed for each hotel and each profit and cost center, including benchmarking.

- quantifying of the various categories of maintenance for each profit and cost center (routine maintenance, breakdown maintenance and unwarranted breakages).

All of these will be linked to performance of each profit and cost center, allowing benchmarking, setting of performance goals and linking this to a desired reward system.