



Shangri-La Hotel, Singapore



*R*eport of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2006.

Principal Activities and Geographical Analysis of Operations

The principal activity of the Company is investment holding.

The principal activities of the Company's subsidiaries are the ownership and operation of hotels and associated properties and the provision of hotel management and related services. The Company's subsidiaries are also the registered proprietors of various trademarks and service marks in various countries, including the brand names "Shangri-La", "Traders", "Rasa", "Summer Palace" and "Shang Palace" and related devices and logos.

The principal activities of the Company's associates are the leasing of office, commercial, residential and exhibition hall space and serviced apartments as well as the ownership and operation of hotels.

An analysis of the Group's performance for the year by geographical and business segments is set out in Note 5 to the financial statements.

Results and Appropriations

The results for the year are set out in the consolidated income statement on page 120.

The Board has declared an interim dividend of HK13 cents per share for the year.

The details of dividends paid and proposed during the year are set out in Note 34 to the financial statements.

Reserves

The movements in reserves during the year are set out in Notes 17 and 18 to the financial statements.

Donations

Charitable donations and other donations made by the Group during the year amounted to US\$654,000.

Fixed Assets

The details of movements in fixed assets during the year are set out in Notes 6 and 7 to the financial statements.

Principal Properties

The details of the principal hotel properties and investment properties are set out in Notes 40 and 41 to the financial statements respectively.

Share Capital

The details of share capital are set out in Note 17 to the financial statements.

Subsidiaries and Associates

The details of the Company's principal subsidiaries and associates are set out in Note 39 to the financial statements.

Particulars of Bank Loans, Overdrafts and Convertible Bonds

The particulars of bank loans, overdrafts and convertible bonds as at 31 December 2006 are set out in Notes 19 and 20 to the financial statements respectively.

Results, Assets and Liabilities

The results, assets and liabilities of the Group for the last five financial years are set out on page 200.

Directors

The Directors who held office during the year and up to the date of this report were:

Mr KUOK Khoon Loong, Edward (*Chairman*)

Mr LUI Man Shing (*elected as Deputy Chairman on 27 March 2007*)

Mr Giovanni ANGELINI

Mr NG Si Fong, Alan

Madam KUOK Oon Kwong

Mr HO Kian Guan

Mr LEE Yong Sun

Mr Roberto V. ONGPIN

+ Mr Alexander Reid HAMILTON

+ Mr WONG Kai Man (*appointed on 1 July 2006*)

+ Mr Timothy David DATTELS

Mr HO Kian Hock (*Alternate to Mr HO Kian Guan*)

Mr YE Longfei (*resigned on 27 March 2007*)

+ Mr TOW Heng Tan (*resigned on 1 July 2006*)

Non-Executive Directors

+ *Independent Non-Executive Directors*

Messrs Giovanni ANGELINI, HO Kian Guan, Roberto V. ONGPIN and Timothy David DATTELS retire by rotation in accordance with Bye-Law 99 of the Company's Bye-Laws. All retiring Directors, being eligible, offer themselves for re-election.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 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 HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") 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 31 December 2006
				Family Interests	Corporate Interests	Other Interests		
(i) The Company	Mr KUOK Khoon Loong, Edward	Ordinary	460,000	–	–	–	460,000	0.02%
	Mr LUI Man Shing	Ordinary	450,000	–	–	–	450,000	0.02%
	Mr Giovanni ANGELINI	Ordinary	100,000	–	–	–	100,000	0.00%
	Madam KUOK Oon Kwong	Ordinary	151,379	192,011 (Note 2)	108,673 (Note 3)	–	452,063	0.02%
	Mr HO Kian Guan	Ordinary	317,475	–	105,451,160 (Note 4)	–	105,768,635	4.13%
	Mr HO Kian Hock (Alternate to Mr HO Kian Guan)	Ordinary	–	–	105,451,160 (Note 4)	–	105,451,160	4.12%
(ii) Associated Corporation								
Shangri-La Hotels (Malaysia) Berhad	Madam KUOK Oon Kwong	Ordinary	–	–	10,000 (Note 3)	–	10,000	0.00%
Shangri-La Hotel Public Company Limited	Mr LUI Man Shing	Ordinary	10,000	–	–	–	10,000	0.01%

Notes:

1. These shares were held by the relevant Directors as beneficial owners.
2. These shares were held by the spouse of the relevant Director.
3. These shares were held through a company which was controlled as to 50% by Madam KUOK Oon Kwong.
4. 68,850,329 shares were held through companies which were 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 was controlled as to 25.00% by each of Mr HO Kian Guan and Mr HO Kian Hock.

3,890,942 shares were held through a company which was controlled as to 13.33% 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 6.64% and 6.80% 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 31 December 2006, details of share options granted under the Executive Option Scheme and the New Option Scheme to the Directors of the Company who held office during the year were stated in the section headed "Share Options" of this report.

Save as mentioned above, as at 31 December 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 by the Company under Section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code.

Directors' Interests in Contracts

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party, and in which any Director had a material interest, subsisted at the end of the year or at any time during the year.

Directors' Interests in Competing Business

Pursuant to Rule 8.10 of the HK Listing Rules, the Company disclosed below that during the year and up to the date of this report, the following Directors are considered to have interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors of the Company have been appointed/were appointed as Directors to represent the interests of the Company and/or the Group:

- (i) Madam KUOK Oon Kwong is a Non-Executive Director of Allgreen Properties Limited ("Allgreen"), a company listed on the SGX-ST.

Report of the Directors

Allgreen Group of companies (“Allgreen Group”) has a diversified portfolio of properties in Singapore including serviced apartments. Shangri-La Hotel Limited, Singapore (“SHL”), a wholly-owned subsidiary of the Company, also owns a serviced apartment and condominium development in Singapore. While SHL and the Allgreen Group may compete with each other in the area of serviced apartment business, the Directors believe that this competition does not pose any material threat to SHL’s business prospects because:

- SHL is principally engaged in the hotel business;
- the serviced apartment business is an ancillary part of SHL’s hotel business;
- the Group’s hotel business is effectively marketed on the strength of Shangri-La International Hotel Management Limited’s (“SLIM’s”) renowned position in the hotel industry worldwide built on its strong brands, brand recognition and high-quality services;
- SHL’s serviced apartment business is effectively marketed on the strength of SLIM’s renowned and high-quality services; and
- Madam KUOK Oon Kwong is only a Non-Executive Director of Allgreen.

(ii) Messrs HO Kian Guan and HO Kian Hock are substantial shareholders and Directors of the company which holds River View Hotel, Singapore. Messrs HO Kian Guan and HO Kian Hock are substantial shareholders of the company which holds Holiday Inn Riverside Wuhan (the “Holiday Inn Holding Company”). Mr HO Kian Guan is a Director of the Holiday Inn Holding Company.

While such businesses may compete with the Group’s hotel businesses in Singapore and Wuhan, the Directors believe that this competition does not pose any material threat to the Group’s hotel business prospects because:

- the hotels operated by the Group and those by the Directors with competing interests are targeting different segments or groups of customers in the market and the differentiation of the clientele segments is based on a combination of factors, such as the geographical locations of the hotels, the breadth of services and amenities available, the positioning of the hotels in the local market, the level of room rates, the size and scale of the hotel and the guest recognition program; and/or
- the Group’s hotel business is effectively marketed on the strength of SLIM’s renowned position in the hotel industry worldwide built on its strong brands, brand recognition and high-quality services.

The abovementioned competing businesses are operated and managed by companies with independent management and administration. In addition, the Board is independent of the boards of the abovementioned companies carrying on the competing businesses. Accordingly, the Group is capable of carrying on its business independent of, and at arm’s length from, the competing businesses mentioned above.

Share Options

Executive Share Option Scheme

The executive share option scheme of the Company was approved by the shareholders of the Company (the “Shareholders”) on 16 December 1997 (the “Executive Option Scheme”).

The Executive Option Scheme is designed to give Executive Directors of, managers of or other employees holding an executive, managerial, supervisory or similar position in the Company or any of its subsidiaries an interest in preserving and maximising shareholder value in the longer term, to enable the Company to attract and retain individuals with experience and ability, and to provide individuals with incentives for future performance.

A summary of the Executive Option Scheme has been disclosed in the Company’s 2001 Annual Report.

In September 2001, HKSE amended the requirements for share option schemes under the HK Listing Rules. These new requirements make some of the provisions of the Executive Option Scheme no longer applicable.

At the Special General Meeting of the Company held on 24 May 2002 (the “Adoption Date”), the Shareholders approved the adoption of a new share option scheme (the “New Option Scheme”) (details of which are set out below) 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 provisions of the Executive Option Scheme shall remain in full force and effect).

New Option Scheme

The purpose of the New Option Scheme is to motivate Eligible Persons ^{Note 1} to optimise their future contributions to the Company, its Subsidiaries ^{Note 2} and Associates ^{Note 2}, and Invested Entities ^{Note 2} (collectively referred to as the “Enlarged Group”) and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Enlarged Group, and additionally in the case of Executives ^{Note 2}, to enable the Enlarged Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

The maximum number of shares in the Company (the “Shares”) in respect of which options may be granted under the New Option Scheme (and under any other share option scheme) shall not in aggregate exceed 10 per cent. of the Shares in issue as at the Adoption Date (the “Scheme Mandate Limit”). Shares which may be issued upon the exercise of all options granted under the Executive Option Scheme and outstanding as at the Adoption Date shall not be included in the calculation of the Scheme Mandate Limit as at the Adoption Date. The Company may from time to time as the Board may think fit seek approval from the Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the New Option Scheme (and any other share option scheme) shall not exceed 10 per cent. of the Shares in issue as at the date of approval by the Shareholders in the general meeting where such limit is refreshed. Notwithstanding the above, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Option Scheme (and under any other share option scheme) shall not exceed 30 per cent. of the Shares in issue from time to time.

Report of the Directors

As at the date of this report, a total of 177,693,491 Shares (representing approximately 6.89% of the existing issued share capital thereof) are available for issue under the New Option Scheme.

The maximum number of Shares issued and to be issued upon exercise of the options granted to any one Eligible Person (including exercised and outstanding options) in any 12-month period shall not exceed one percent of the Shares in issue from time to time.

The period under which an option must be exercised shall be such period as the Board may in its absolute discretion determine at the time of grant, save that such period shall not be more than 10 years commencing on the date of grant of an option. The minimum period for which an option must be held before it can be exercised is determined by the Board upon the grant of an option. The amount payable on acceptance of an option is HK\$1. The full amount of the exercise price for the subscription of Shares must be paid upon exercise of an option.

The exercise price for any particular option shall be such price as the Board of the Company may in its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the exercise price shall not be less than whichever is the highest of (a) the nominal value of a Share; (b) the closing price of the Shares as stated in HKSE's daily quotation sheets on the date of the Board resolution approving the grant of options (the "Offer Date"), which must be a day on which HKSE is open for the business of dealing in securities (the "Business Day"); and (c) the average of the closing prices of the Shares as stated in HKSE's daily quotation sheets for the five Business Days immediately preceding the Offer Date.

The New Option Scheme will expire on 23 May 2012.

Notes:

1. "Eligible Person" means any of the following persons:
 - (a) an Executive;
 - (b) a Director or proposed Director (including an Independent Non-Executive Director) of any member of the Enlarged Group;
 - (c) a direct or indirect shareholder of any member of the Enlarged Group;
 - (d) a supplier of goods or services to any member of the Enlarged Group;
 - (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Enlarged Group;
 - (f) a person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Enlarged Group;
 - (g) a landlord or tenant (including a sub-tenant) of any member of the Enlarged Group;
 - (h) any person approved by the shareholders of the Company; and
 - (i) an Associate of any of the foregoing persons.
2. The terms "Associates", "Executives", "Invested Entities" and "Subsidiaries" are defined under the circular to Shareholders dated 17 April 2002.

Details of the outstanding option shares as at 31 December 2006 which have been granted under 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 year	Transfer from other category during the year	Transfer to other category during the year	No. of option shares exercised during the year (Note 3)	No. of option shares lapsed during the year	No. of option shares held as at 31 December 2006	Exercise price per option share HK\$	Exercisable Period
1. Directors											
Mr Giovanni	15 January 2000	I	266,505	–	–	–	(266,505)	–	–	8.82	15 January 2001 - 14 January 2010
ANGELINI	15 January 2000	II	266,505	–	–	–	(266,505)	–	–	8.82	15 January 2002 - 14 January 2010
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
2. Continuous Contract Employees											
	1 May 1998	I	261,252	–	–	–	(58,056)	–	203,196	8.26	1 May 1999 - 30 April 2008
	1 May 1998	II	261,252	–	–	–	(58,056)	–	203,196	8.26	1 May 2000 - 30 April 2008
	1 May 1998	III	261,252	–	–	–	(58,056)	–	203,196	8.26	1 May 2001 - 30 April 2008
	15 January 2000	I	591,157	–	–	–	(193,822)	–	397,335	8.82	15 January 2001 - 14 January 2010
	15 January 2000	II	698,045	–	–	–	(300,714)	–	397,331	8.82	15 January 2002 - 14 January 2010
	15 January 2001	I	194,062	–	–	–	(67,922)	–	126,140	8.18	15 January 2002 - 14 January 2011
	15 January 2001	II	194,058	–	–	–	(67,920)	–	126,138	8.18	15 January 2003 - 14 January 2011
3. Other Participants											
	1 May 1998	I	783,758	–	–	–	(527,802)	–	255,956	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	–	–	–	(1,035,202)	–	299,956	8.26	1 May 2001 - 30 April 2008
	15 January 2000	I	930,346	–	–	–	(484,556)	–	445,790	8.82	15 January 2001 - 14 January 2010
	15 January 2000	II	930,342	–	–	–	(484,554)	–	445,788	8.82	15 January 2002 - 14 January 2010
	15 January 2001	I	213,467	–	–	–	(145,545)	–	67,922	8.18	15 January 2002 - 14 January 2011
	15 January 2001	II	213,465	–	–	–	(145,545)	–	67,920	8.18	15 January 2003 - 14 January 2011
Total:			8,863,876	–	–	–	(5,244,844)	–	3,619,032		

Report of the Directors

Details of the outstanding option shares as at 31 December 2006 which have been granted under the New 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 year (Notes 1, 2)	Transfer from other category during the year	Transfer to other category during the year	No. of option shares exercised during the year (Note 3)	No. of option shares lapsed during the year	No. of option shares held as at 31 December 2006	Exercise price per option share HK\$	Exercisable Period
I. Directors											
Mr KUOK	28 April 2005	I	250,000	–	–	–	(230,000)	–	20,000	11.60	28 April 2006 - 27 April 2015
Khoon 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 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 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 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

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I. Directors (Continued)											
Madam KUOK Oon Kwong	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 HO Kian Guan	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 LEE Yong Sun	29 May 2002	I	75,000	–	–	–	(75,000)	–	–	6.81	29 May 2003 - 28 May 2012
	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. ONGPIN	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 Alexander Reid HAMILTON	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

Report of the Directors

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I. Directors (Continued)											
Mr Timothy	28 April 2005	I	75,000	–	–	–	–	–	75,000	11.60	28 April 2006 - 27 April 2015
David	28 April 2005	II	75,000	–	–	–	–	–	75,000	11.60	28 April 2007 - 27 April 2015
DATTELS	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 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 TOW Heng	28 April 2005	I	75,000	–	–	–	–	(75,000)	–	11.60	28 April 2006 - 27 April 2015
Tan (Note 4)	28 April 2005	II	75,000	–	–	–	–	(75,000)	–	11.60	28 April 2007 - 27 April 2015

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2. Continuous Contract Employees	29 May 2002	I	619,500	–	–	(160,000)	(30,000)	(40,000)	389,500	6.81	29 May 2003 - 28 May 2012
	29 May 2002	II	540,500	–	–	(200,000)	(30,000)	(40,000)	270,500	6.81	29 May 2004 - 28 May 2012
	28 April 2005	I	6,440,000	–	–	(375,000)	(1,600,000)	(155,000)	4,310,000	11.60	28 April 2006 - 27 April 2015
	28 April 2005	II	6,440,000	–	–	(425,000)	–	(230,000)	5,785,000	11.60	28 April 2007 - 27 April 2015
	16 June 2006	I	–	2,672,500	–	(167,500)	–	(27,500)	2,477,500	14.60	16 June 2007 - 15 June 2016
	16 June 2006	II	–	2,672,500	–	(130,000)	–	(65,000)	2,477,500	14.60	16 June 2008 - 15 June 2016
3. Other Participants	29 May 2002	I	245,000	–	160,000	–	–	(30,000)	375,000	6.81	29 May 2003 - 28 May 2012
	29 May 2002	II	215,000	–	200,000	–	–	(30,000)	385,000	6.81	29 May 2004 - 28 May 2012
	28 April 2005	I	570,000	–	275,000	–	(175,000)	(30,000)	640,000	11.60	28 April 2006 - 27 April 2015
	28 April 2005	II	570,000	–	275,000	–	–	(30,000)	815,000	11.60	28 April 2007 - 27 April 2015
	28 April 2005	I	–	–	100,000	–	–	–	100,000	11.60	28 April 2006 - 30 June 2007
	28 April 2005	II	–	–	100,000	–	–	–	100,000	11.60	28 April 2007 - 30 June 2007
	28 April 2005	II	–	–	50,000	–	–	–	50,000	11.60	28 April 2007 - 2 May 2008
	16 June 2006	I	–	247,500	130,000	–	–	–	377,500	14.60	16 June 2007 - 15 June 2016
	16 June 2006	I	–	–	37,500	–	–	–	37,500	14.60	16 June 2007 - 30 June 2007
	16 June 2006	II	–	247,500	130,000	–	–	–	377,500	14.60	16 June 2008 - 15 June 2016
Total:			20,160,000	7,080,000	1,457,500	(1,457,500)	(2,890,000)	(827,500)	23,522,500		

Notes:

1. The closing price per share of the shares trading on the HKSE on 15 June 2006 (i.e. the business day immediately before the grant on 16 June 2006) was HK\$14.
2. Please refer to Note 2.25 and Note 17 of the consolidated financial statements included in this report for the accounting policy adopted for the share options and the fair value of the options.
3. The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$15.46.
4. 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.
5. 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.
6. No options were cancelled under the Executive Option Scheme and the New Option Scheme during the year and subsequent to 31 December 2006 and up to the date of this report.
7. Options on 90,000 shares were lapsed under the New Option Scheme and no options were lapsed under the Executive Option Scheme subsequent to 31 December 2006 and up to the date of this report.
8. Options on 579,362 shares were exercised under the Executive Option Scheme and options on 511,000 shares were exercised under the New Option Scheme subsequent to 31 December 2006 and up to the date of this report.

Directors' Rights to Acquire Shares or Debentures

As at 31 December 2006, details of options granted under the Executive Option Scheme and the New Option Scheme to the Directors of the Company who held office during the year were stated in the previous section headed "Share Options" of this report.

Apart from the aforesaid, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors or their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Connected Transactions

During the financial year ended 31 December 2006 and in the normal course of business, the Company and its subsidiaries had various commercial transactions with certain connected persons. These transactions are considered to be connected transactions under the HK Listing Rules. Details of these transactions are as follows:

1. On 13 April 2004, the Company entered into with Kerry Properties Limited ("KPL"), a subsidiary of Kerry Group Limited ("KGL") which is a substantial shareholder of the Company, a Master Agreement relating to the joint acquisition, ownership and development of certain sites in Jingan District, Shanghai in which the Group will have a 48.5% interest and up to a maximum of 49% interest. Such transaction constituted a discloseable and connected transaction of the Company and was approved by the independent shareholders of the Company at the Special General Meeting held on 29 June 2004.

Pursuant to the Master Agreement, Kerry Shanghai (Jingan Nanli) Ltd ("KSJN"), a wholly owned subsidiary of the Group disposed 50.5% equity interest out of its 99% holding in Shanghai Ji Xiang Properties Co., Ltd. ("SJXP") to a wholly owned subsidiary of KPL in December 2005. KSJN has also acquired 49% equity interest in each of Shanghai Jin Ci Hou Properties Company Limited ("SJC") and Shanghai Ming Cheng Real Estate Development Co., Ltd. ("SMC") and provided additional proportionate equity and shareholder's loans to SJC and SMC in 2005.

Pursuant to the Master Agreement, the Group acquired 0.5% equity interest in SJXP in 2006 for a total consideration of US\$670,000. After such acquisition, KSJN owned 49% equity interest in SJXP. KSJN contributed additional proportionate equity of US\$11,270,000 to SJXP and paid US\$2,475,000 to acquire its proportionate share of 49% interest in a piece of land assigned to SJXP and for provision of working capital to SJXP. The Group and KPL have completed the joint acquisition of all the parcel of lands pursuant to the Master Agreement.

KSJN also contributed additional proportionate equity of US\$12,250,000 and shareholder's loan of HK\$121,030,000 (equivalent US\$15,617,000) to SJC in 2006. Details of shareholder's loans granted by KSJN are provided under Notes iv, v and vi.

2. Kerry Shanghai (Pudong) Ltd. ("KSPL"), an indirect wholly owned subsidiary of the Company, entered into a joint venture contract on 9 October 2005 with an indirect wholly owned subsidiary of KPL, a wholly owned subsidiary of Allgreen Properties Limited ("Allgreen"), (collectively referred to as the "Parties") and an independent third party; and a funding agreement on 30 November 2005 with the Parties relating to the establishment of a joint venture company to undertake a property development project in Pudong, Shanghai in which the Group has 23.2% interest. KPL is a connected person of the Company. Allgreen's subsidiary is a substantial shareholder of a subsidiary of the Company and therefore, Allgreen is a connected person to the Company at the subsidiaries' level. Such transactions constituted connected transactions of the Company and were approved by the independent shareholders of the Company at the Special General Meeting held on 17 February 2006. The joint venture company was incorporated in May 2006 and KSPL has contributed proportional equity of US\$37,863,000 to the joint venture company.

- On 20 April 2006, Lion Strength Limited ("Lion Strength"), an indirect wholly owned subsidiary of the Company, entered into a loan agreement with Shangri-La Mongolia Limited ("S'La Mongolia"), a company owned as to 60% by Lion Strength and 40% by MCS Tower LLC ("MCS"), whereby Lion Strength agreed to grant a proportionate shareholders' loan of up to US\$10,536,000 in aggregate to S'La Mongolia at an interest rate of six-month LIBOR rate for US\$ plus 1% per annum and such loan will be repayable on 20 April 2009. S'La Mongolia is considered a connected person of the Company by virtue of its being an associate of MCS (a substantial shareholder of S'La Mongolia which is a subsidiary of the Company and hence, MCS is a connected person of the Company). MCS is also an associate of a Director of S'La Mongolia. The entering into of such loan agreement constituted a connected transaction of financial assistance for the Company. In 2006, Lion Strength has granted a proportionate shareholder's loan of US\$3,721,000 to S'La Mongolia pursuant to the loan agreement.
- On 1 June 2006, Kerry (Tianjin) Ltd ("KTL"), an indirect wholly owned subsidiary of the Company entered into a share transfer agreement and a joint venture contract with an indirect wholly owned subsidiary of KPL and a wholly owned subsidiary of Allgreen for the undertaking of a property development project in Hedong District, Tianjin, through Tianjin Kerry Real Estate Development Co., Ltd. ("TKRED"). TKRED is currently an indirect wholly owned subsidiary of the Company and owned a plot of land in Tianjin. Pursuant to the share transfer agreement, KTL will transfer its 49% interest in the registered capital of TKRED to the subsidiary of KPL at a consideration of RMB313,138,000 (equivalent US\$39,142,000) together with proportionate

shareholders' loans at a consideration of US\$6,215,000. KTL will also transfer its 31% interest in the registered capital in TKRED to the subsidiary of Allgreen at a consideration of RMB198,108,000 (equivalent US\$24,763,000) together with proportionate shareholders' loans at a consideration of US\$3,932,000. Such transactions constituted connected transactions of the Company and were approved by the independent shareholders of the Company at the Special General Meeting held on 1 September 2006. The transactions have not been completed as at 31 December 2006 as certain governmental approvals are still pending.

- On 31 July 2006, Cuscaden Properties Pte Ltd ("CPPL"), Shangri-La Hotel Limited ("SHL"), Hasfield Holdings Pte Ltd ("Hasfield") and Allgreen entered into a deed of subordination with DBS Bank Ltd. ("DBS") relating to the subordination of their proportionate shareholders' loans to all amounts owing or payable from CPPL to DBS or arising out of the loan facility of up to an aggregate principal of S\$100,000,000 (equivalent US\$63,091,000) granted by DBS to CPPL under a facility agreement dated 31 July 2006. CPPL is owned as to 30% by SHL (an indirect wholly owned subsidiary of the Company), 14.6% by Hasfield (which is 73.61% indirectly owned by the Company) and 55.4% by Allgreen. CPPL is a connected person of the Company by virtue of its being a substantial shareholder of a subsidiary of the Company. The execution of the deed of subordination constituted a connected transaction of the Company. Pursuant to the subordination arrangement, an amount of S\$22,300,000 (equivalent US\$14,069,000) of the shareholder's loan owed by CPPL to the Group has been subordinated to the amount owed by CPPL to DBS.

6. On 26 September 2006, Seanoble Assets Limited ("Seanoble"), a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with an indirect wholly owned subsidiary of KPL and Kerry Holdings Limited ("KHL") in respect of the formation of a joint venture for the acquisition through Expert Vision Holdings Limited ("EVHL") of the property located at No. 508 Queen's Road West, Hong Kong to be operated as a hotel at an acquisition cost of HK\$588,380,000 (equivalent US\$75,920,000) in which the Group will have 30% interest. Upon completion of the sale and purchase agreement on 29 September 2006, Seanoble acquired 30% equity interest together with proportionate shareholder's loans at a total consideration of HK\$18,263,000 (equivalent US\$2,356,000) from KPL. Seanoble also entered into a shareholders' agreement with the other shareholders and provided additional proportionate shareholder's loan of HK\$165,842,000 (equivalent US\$21,399,000) pursuant to such agreement. KPL and KHL are connected persons of the Company by virtue of KPL being a subsidiary of KHL and KHL is a substantial shareholder of the Company. Accordingly, the entering into of the agreements constituted connected transactions of the Company.
7. On 9 August 2006, the Company executed a guarantee in favour of Bank of China, Beijing Branch ("BOC") guaranteeing the repayment of 23.75% of the monies (up to US\$10,212,500) owed by Beijing Jia Ao Real Estate Development Co., Ltd. ("Beijing Jia Ao") (in which the Company has an indirect 23.75% interest and which is a 71.25% owned subsidiary of KPL) to BOC under the loan facility of US\$43,000,000 made available by BOC to Beijing Jia Ao (the "Facility"), and the related interests and expenses. The Facility was granted to Beijing Jia Ao for financing the repayment of shareholders' loans advanced to Beijing Jia Ao.

Report of the Directors

8. Unsecured shareholders' loans and guarantees

The Group provided financial assistance to certain companies in prior years. The balances of these financial assistance as at the respective year end date of 2006 and 2005 are listed below:

(A) Unsecured shareholders' loans ⁱ

	Loan balance	
	2006 US\$'000	2005 US\$'000
a. Non-wholly owned subsidiaries		
– Traders Yangon Company Limited		
: interest bearing portion ⁱⁱ	35,090	35,472
: non-interest bearing portion	34,021	34,021
– Shangri-La Yangon Company Limited		
: interest bearing portion ⁱⁱ	1,992	1,992
: non-interest bearing portion	23,732	23,732
– Traders Square Company Limited		
: non-interest bearing	4,406	4,406
– Shangri-La Mongolia Limited		
: interest bearing ⁱⁱⁱ	3,706	–

	Loan balance	
	2006 US\$'000	2005 US\$'000
b. Associates		
– Cuscaden Properties Pte Ltd (“CPPL”)		
: interest bearing at 1.25%	34,547	32,012
– Shanghai Ji Xiang Properties Co., Ltd. (“SJXP”)		
: non-interest bearing ^{iv}	336	336
– Shanghai Ming Cheng Real Estate Development Co., Ltd. (“SMC”)		
: interest bearing at 6-month HIBOR + 2% per annum ^v	4,110	4,110
– Shanghai Jin Ci Hou Properties Company Limited (“SJC”)		
: interest bearing at 6-month HIBOR + 2% per annum ^{vi}	15,617	–
– Expert Vision Holdings Limited (“EVHL”)		
: non-interest bearing ^{vii}	23,755	–
c. Investee company		
– P.T. Saripuri Permai Hotel		
: non-interest bearing	950	1,030

(B) Guarantees executed in favour of banks for securing bank loans/ facilities granted ^{viii}

	Amount of guarantees given	
	2006 US\$'000	2005 US\$'000
Associates		
– CPPL ^{ix}	–	10,886
– Beijing Jia Ao ^x	12,136	5,558
– Beijing Kerry Centre Hotel Co., Ltd. (“BKC”) ^x	1,021	2,874
– Shanghai Xin Ci Hou Properties Co., Ltd. (“SXCHP”) ^{xi}	9,261	12,008

Notes:

- i. Please refer to 2000 annual report for other details of the financial assistance provided. Terms of such financial assistance (except those set out in Note ii below) remain unchanged as at year end of 2006.
- ii. Under a supplemental agreement, the loan interest rate has been changed from 5% per annum to 2.5% per annum commencing 1 April 2002.
- iii. The loan was granted pursuant to a shareholder loan agreement dated 20 April 2006 between Lion Strength, 100% indirectly owned by the Company, and S’La Mongolia. The maximum amount of loan to be granted by Lion Strength under such facility is US\$10,536,000. The loan is unsecured, bearing interest at 6-month LIBOR plus 1% per annum and wholly repayable on 20 April 2009.
- iv. The proportionate shareholder’s loan was granted by KSJN to SJXP.

- v. The loan was granted pursuant to a shareholder loan agreement dated 1 December 2005 between, inter alia, SMC, 49% indirectly owned by the Company, and KSJN. The maximum amount of loan to be granted by KSJN under such facility is HK\$34,153,000. The loan is unsecured, bearing interest at 6-month HIBOR plus 2% per annum and wholly repayable on 31 December 2015.
- vi. The loan was granted pursuant to a shareholder loan agreement dated 8 December 2005 between, inter alia, SJC, 49% indirectly owned by the Company, and KSJN. The maximum amount of loan to be granted by KSJN under such facility is HK\$245,000,000. The loan is unsecured, bearing interest at 6-month HIBOR plus 2% per annum and wholly repayable on 31 December 2015.
- vii. The proportionate shareholder’s loan was granted by Seanoble to EVHL pursuant to the shareholders’ agreement dated 29 September 2006. The loan is unsecured, non-interest bearing and has no fixed terms of repayment.
- viii. The amount of guarantees disclosed is stated with reference to the utilised bank loans/facilities balance.
- ix. The guarantee provided for securing certain banking facilities granted in 2001 and outstanding as at 31 December 2005 was terminated in 2006 following the maturity of the banking facilities.
- x. The guarantees were provided to a bank for securing loan facilities granted to Beijing Jia Ao and BKC in 2004 (the “2004 Guarantees”) and for securing loan facility granted to Beijing Jia Ao during the year of 2006 (the “2006 Guarantee”). Please refer to 2004 annual report for details of the 2004 Guarantees provided. Terms of such financial assistance remain unchanged as at year end of 2006. Details of the 2006 Guarantee are stated in item 7 above.
- xi. Please refer to 2005 annual report for details of the guarantees provided. Terms of such financial assistance remain unchanged as at year end of 2006.

Continuing Connected Transactions

During the financial year ended 31 December 2006, there were continuing connected transactions of the Group in effect as set out below:

1. On 28 January 1995, the Company entered into a discloseable and connected transaction to acquire various hotel interests from certain parties, including connected persons of the Company. Included in these hotel interests are (i) Shangri-La's Edsa Plaza Hotel, Manila (now known as Edsa Shangri-La, Manila) ("Edsa Shangri-La Hotel"), and (ii) Shangri-La's Mactan Resort & Spa, Cebu ("Mactan Resort"). Edsa Shangri-La Hotel is built on land leased from Shangri-La Properties Inc. (now known as EDSA Properties Holdings Inc. ("EPHI")) (an associate of KPL) under a 25 years lease commencing in 1992, with an option to renew the lease for a further term of 25 years. Upon expiration of the further term, EPHI agrees to grant to Edsa Shangri-La Hotel & Resort, Inc. a new lease term of 25 years subject to the prevailing Philippine laws. Mactan Resort is built on land leased from Brown Swallow Development Corporation ("BSDC") and Green Mangrove Realty Inc. ("GMRI") (both of which are associates of KGL and of the spouse of a past director of a wholly owned subsidiary of the Company) under a 25 years lease commencing in 1990, with an option to renew the lease for an additional 25 years. Further information regarding these leases are set out in the Company's circular dated 13 February 1995.

EPHI, BSDC and GMRI are connected persons of the Company by virtue of their being associates of KGL, a substantial shareholder of the Company, and/or a family member of a past director of the Company's subsidiary. Accordingly these leases constitute continuing connected transactions of the Company under the HK Listing Rules.

For the year ended 31 December 2006, an aggregate amount of US\$1,352,000 (2005: US\$1,052,000) was paid to EPHI and an aggregate amount of US\$1,149,000 (2005: US\$1,090,000) was paid to BSDC and GMRI.

2. Shangri-La International Hotel Management Limited ("SLIM") and its fellow subsidiaries provided hotel management, marketing, communication and reservation services ("Hotel Management Services") to five hotels/clubs which are owned by certain connected persons of the Company (as set out in the table below) pursuant to hotel management, marketing and related agreements entered into between various SLIM entities and the relevant connected persons of the Company. SLIM is an indirect wholly owned subsidiary of the Company.

CPPL is the owner of Traders Hotel, Singapore. CPPL is owned as to 55.4% by Allgreen and as to 40.75% by the Group. As CPPL is a substantial shareholder of a subsidiary of the Company, both CPPL and Allgreen (being the holding company of CPPL) are regarded as connected persons of the Company at the subsidiaries' level under the HK Listing Rules.

Traders Yangon Company Limited ("TYCL") is the owner of Traders Hotel, Yangon. TYCL is owned as to 11.76% by Kuok (Singapore) Limited ("KSL"), as to 11.76% by Jenko Properties Limited ("JPL") and as to 59.16% by the Group. KSL is a substantial shareholder of certain subsidiaries of the Company and is regarded as a connected person of the Company at the subsidiaries' level. JPL is an indirect wholly owned subsidiary of KGL, a substantial shareholder of the Company, and is regarded as a connected person of the Company at the issuer's level. By virtue of the interest of JPL in TYCL (a 59.16% indirect owned subsidiary of the Company), TYCL is also regarded as a connected person of the Company.

P.T. Saripuri Permai Hotel ("PTSPH") is the owner of Shangri-La Hotel, Surabaya. PTSPH is indirectly owned as to 30% by KGL and is an associate of the Company's substantial shareholder. Hence, PTSPH is regarded as a connected person of the Company under the HK Listing Rules.

Beijing Kerry Centre Hotel Co., Ltd. ("BKC") is the owner of The Kerry Centre Hotel, Beijing. BKC is a connected person of the Company by virtue of its being a subsidiary of KPL which, in turn, is a subsidiary of KGL, a substantial shareholder of the Company.

Aberdeen Marina Holdings Limited ("AMHL") is the owner of Aberdeen Marina Club, Hong Kong. It is an indirect 79.17% owned subsidiary of KGL and is regarded as a connected person of the Company by virtue of its being a subsidiary of the substantial shareholder of the Company.

Accordingly, the provision of the Hotel Management Services by SLIM and its fellow subsidiaries to those hotels/clubs as described above constitutes continuing connected transactions of the Company under the HK Listing Rules.

Report of the Directors

Details of these transactions are set out below:

Name of property	Date of transaction	Nature of agreement	Counterparty	Aggregate amount received by SLIM and its fellow subsidiaries for the year ended 31 December	
				2006 (US\$)	2005 (US\$)
Traders Hotel, Singapore	Principal agreement signed on 1 March 1994. Various related agreements signed on various dates in 1994.	Management Agreement, Marketing and Reservations Agreement and Licence Agreements	CPPL	1,262,000	939,000
Traders Hotel, Yangon	24 June 1995	Management Agreement, Marketing and Reservations Agreement and Licence Agreements	TYCL	217,000	206,000
Shangri-La Hotel, Surabaya	27 October 1994	Management Agreement, Marketing and Reservations Agreement and Licence Agreement	PTSPH	532,000	468,000
The Kerry Centre Hotel, Beijing	30 June 1998	Management and Marketing Services Agreement	BKC	1,857,000	1,684,000
Aberdeen Marina Club, Hong Kong	20 February 1993	Operators Agreement	AMHL	228,000	190,000

3. Central Laundry Pte Ltd ("CLPL"), a 75% owned subsidiary of the Company in Singapore, operates a commercial laundry. The other 25% of CLPL is owned by CPPL which is, in turn, 55.4% owned by Allgreen and 40.75% owned by the Group.

As CPPL is a substantial shareholder of CLPL, both CPPL and Allgreen are regarded as connected persons of the Company at the subsidiaries' level. Accordingly, the provision of commercial laundry services by CLPL to those properties owned by CPPL and Allgreen pursuant to the Master Agreements signed between CLPL and the relevant entities owning or operating those properties constitutes continuing connected transactions of the Company under the HK Listing Rules.

Details of the transactions are set out below:

Name of property	Date of transaction	Nature of agreement	Counterparty	Aggregate amount received by CLPL for the year ended 31 December	
				2006 (US\$)	2005 (US\$)
Great World Serviced Apartments [#]	(a) 15 October 1997 and (b) 16 October 1997, in each case, as supplemented by the Supplemental Agreement dated 15 April 2005	Master Agreement for laundry services	(a) Great World Serviced Apartments and (b) Worldwide Apartment Services Pte Ltd	276,000	250,000
Traders Hotel, Singapore ^{##}	1 April 1995, as supplemented by the Supplemental Agreement dated 15 April 2005	Master Agreement for laundry services	Traders Hotel, Singapore	728,000	660,000

[#] Owned by a member of the Allgreen group

^{##} Owned by CPPL

Report of the Directors

Taking into account (i) the historical amounts received by CLPL in respect of each of these properties, (ii) the likely and potentially achievable occupancy and utilisation projections in respect of these properties, (iii) adjustments for inflation and buffer for unexpected price hikes, and (iv) the possibility of Asian currencies appreciating against the US Dollar if the Chinese Renminbi were to be revalued, the Company has set the following annual caps for each of the years ending respectively 31 December 2005, 2006 and 2007:

Property	1/1/2005 to 31/12/2005 (US\$)	1/1/2006 to 31/12/2006 (US\$)	1/1/2007 to 31/12/2007 (US\$)
Great World Serviced Apartments	300,000	400,000	510,000
Traders Hotel, Singapore	900,000	1,200,000	1,600,000

- On 27 June 2005, Addu Investments Private Limited ("AIPL"), which is 70% indirectly owned by the Company and 30% owned by the Government of the Republic of Maldives (the "Maldivian Government"), entered into a lease agreement (the "Lease") with the Maldivian Government for the lease of the whole of an island located in Villingili, Addu Atoll, Republic of Maldives (the "Island") for 25 years. The Lease was entered into to enable AIPL to construct, develop, own and operate a luxury tourist resort on the Island (the "Resort"). The Maldivian Government is a connected person of the Company by virtue of its being a substantial shareholder of AIPL. Hence, the execution of the Lease constitutes a non-exempt continuing connected transaction of the Company under the HK Listing Rules.

During the first ten years of the term of the Lease, starting from the date of commencement of the operation of the Resort or 18 months from the date of approval by all the relevant Maldivian Government departments of all detailed drawings, designs and work plan with respect to the Resort, whichever is the earlier, annual rent shall be paid as agreed between the parties with reference to the number of beds available in the Resort. The annual rent payable on a per bed basis has been agreed between the parties. In accordance with the method of calculation as set out in the Lease and with reference to the anticipated number of beds to be built in the Resort, the amount of annual rent payable during the first ten years of the Lease is expected to be less than US\$4,050,000. The annual rent for the second ten years and the annual rent for the last five years of the Lease shall be determined by the Maldivian Government, in consultation with AIPL, six months prior to the commencement of the respective periods. In determining the annual rent for the subsequent periods, the Maldivian Government shall take into account the factors as mentioned in the Lease. The annual rent shall be paid upon commencement of operation of the Resort by quarterly installments in advance before the commencement of the quarter for which such payment is due. Accordingly, no lease rental was paid for the years ended 31 December 2005 and 2006.

The continuing connected transactions mentioned in (1) to (4) above have been reviewed by the Independent Non-Executive Directors of the Company. The Independent Non-Executive Directors of the Company have confirmed that the transactions have been entered into:

- a. in the ordinary and usual course of business of the Company;
- b. either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties;
- c. in accordance with the relevant agreements governing such transactions; and
- d. on terms which are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Based on the work performed, the auditor has confirmed that:

- A. In relation to the transactions set out in (1) to (4) above, the transactions:
 - a. have received the approval of the Company's Board of Directors;
 - b. involving the provision of goods and services by the Group, are in accordance with the pricing policies of the Group; and
 - c. have been entered into in accordance with the relevant agreements governing the transactions.
- B. In relation to the transactions set out in (3) and (4) above, the transactions have not exceeded the relevant annual caps.

Substantial Interests in the Share Capital of the Company

As at 31 December 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 by the Company under Section 336 of the SFO were as follows:

Long positions in shares and underlying 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 31 December 2006
Substantial Shareholders			
Kerry Group Limited ("KGL")	Interest of controlled corporations	1,263,073,372	49.32%
Kerry Holdings Limited ("KHL") (Notes 1 and 2)	Beneficial owner	63,414,628	49.32%
	Interest of controlled corporations	1,199,658,744	
Caninco Investments Limited (Notes 2 and 3)	Beneficial owner	479,424,818	22.48%
	Interest of a controlled corporation	96,330,633	
Paruni Limited (Notes 2 and 3)	Beneficial owner	270,596,554	10.58%
	Interest of a controlled corporation	420,665	
Persons other than Substantial Shareholders			
Darmex Holdings Limited (Notes 2 and 3)	Beneficial owner	239,302,975	9.35%
JP Morgan Chase & Co. (Note 4)	Beneficial owner	92,000	5.08%
	Investment manager	42,460,575	
	Lending pool	87,457,925	

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.
4. The total interests in 130,010,500 shares held by JP Morgan Chase & Co. include the derivative interests in 15,022,650 underlying shares.

Save as mentioned above, as at 31 December 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 by the Company under Section 336 of the SFO.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year and up to the date of this report, the Company has not redeemed any of its shares, and neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Bye-Laws or the laws in Bermuda.

Service Contracts

There is no service contract, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation), in respect of any Director proposed for re-election at the forthcoming AGM.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Major Customers and Suppliers

The percentages of the five largest customers combined and the five largest suppliers combined are less than 10% of the Group's total turnover and purchases respectively.

Public Float

As at the date of this report, the Company has maintained the prescribed public float under the HK Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company.

Remuneration Committee

A Remuneration Committee of the Board 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 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 audited financial statements before they were tabled for the Board's review and approval.

Auditor

The financial statements have been audited by PricewaterhouseCoopers who retires and, being eligible, offers itself for re-appointment.

On behalf of the Board



KUOK Khoon Loong, Edward
Director



LUI Man Shing
Director

Hong Kong, 27 March 2007