



Annual Report 2007



SHANGRI-LA HOTELS (MALAYSIA) BERHAD
(10889-U)



**FOR OVER THREE DECADES, THE NAME SHANGRI-LA HAS COME TO BE CHERISHED AS THE
EPITOME OF ASIAN HOSPITALITY...**

**AN ESCAPE FROM THE MUNDANE, THE PREDICTABLE AND THE EVERYDAY.
RASA RIA RESORT IN SABAH, HAS BEEN WINNING THE HEARTS OF ITS
GUESTS SINCE IT FIRST OPENED IN JUNE 1996.**



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GROUP FINANCIAL HIGHLIGHTS

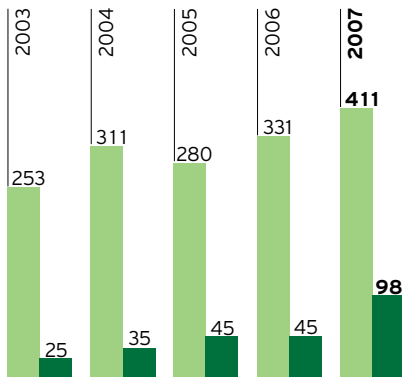
	2007 RM'000	2006 RM'000	2005 RM'000	2004 RM'000	2003 RM'000
RESULTS					
Revenue	410,725	330,520	280,089	311,352	253,219
Exceptional items	-	-	12,191	(16,989)	-
Profit before tax	98,406	45,208	44,673	35,046	24,710
Profit attributable to shareholders	77,242	35,679	37,326	30,941	16,472
Dividend-net	32,428	25,564	25,344	23,760	20,592
KEY BALANCE SHEET DATA					
Issued capital	440,000	440,000	440,000	440,000	440,000
Total assets employed	1,041,826	1,010,791	938,055	1,509,010	1,556,079
Shareholders' equity	722,615	671,069	657,860	1,113,205	1,136,056
PER SHARE DATA					
Net earnings per share (sen)	17.56	8.11	8.48	7.03	3.74
Net assets per share (RM)	1.64	1.53	1.50	2.53	2.58
Dividend-gross (sen)	10.0	8.0	8.0	7.5	6.5
FINANCIAL RATIOS					
Return on shareholders' equity (%)	10.7	5.3	5.7	2.8	1.4
Return on total assets (%)	7.4	3.5	4.0	2.1	1.1
Net borrowings to shareholders' equity (%)	19.4	27.5	21.5	15.6	17.1

Note

Dividends of RM32.428 million for the financial year ended 31 December 2007 consist of (a) the interim dividend of 3% per share less tax at 27% paid on 23 November 2007 amounting to RM9.636 million and (b) the proposed final dividend of 7% less tax at 26% amounting to RM22.792 million. The proposed final dividend of 7% less tax at 26% for the financial year ended 31 December 2007 is subject to shareholders' approval at the Annual General Meeting of the Company to be held on 15 May 2008.

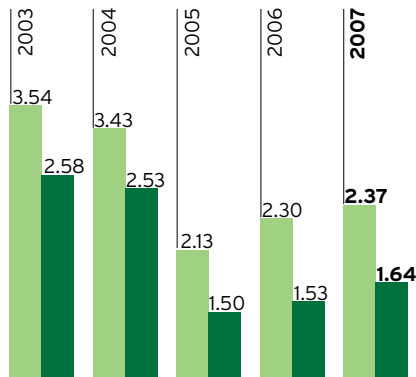
GROUP FINANCIAL HIGHLIGHTS

REVENUE & PROFIT BEFORE TAX



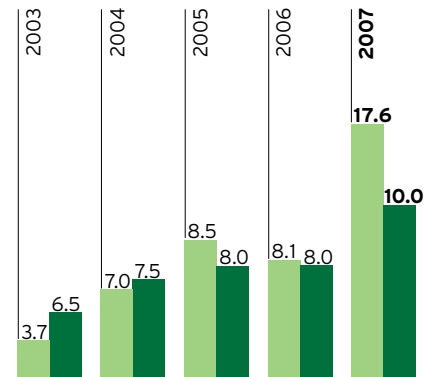
- Revenue (RM'Million)
- Profit before tax (RM'Million)

TOTAL ASSETS EMPLOYED PER SHARE & NET ASSETS PER SHARE



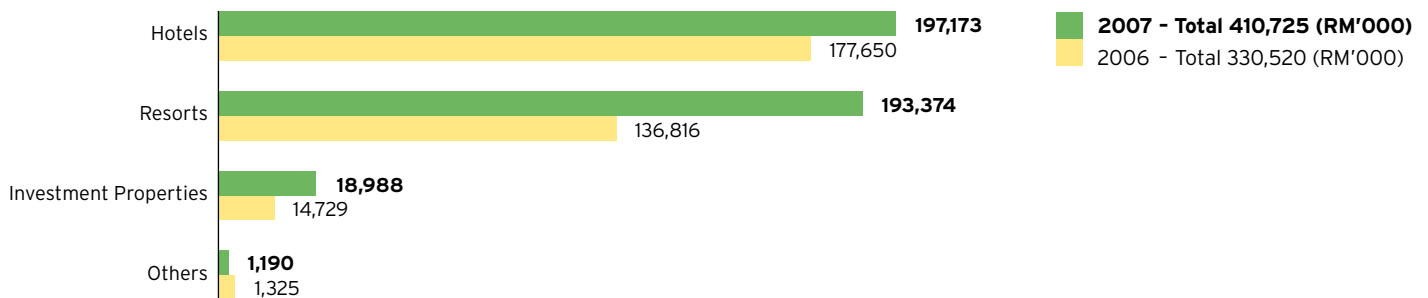
- Total assets employed per share (RM)
- Net assets per share (RM)

EARNINGS PER SHARE & DIVIDEND PER SHARE

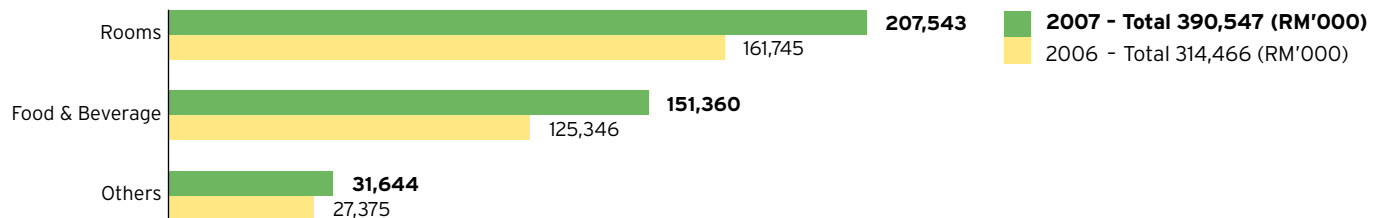


- Earnings per share (sen)
- Dividend per share (sen)

REVENUE BY SEGMENT



REVENUE OF HOTELS & RESORTS BY DEPARTMENTS



CHAIRMAN'S STATEMENT

Dear Shareholders,

I AM PLEASED TO REPORT THAT THE GROUP HAD A HIGHLY SUCCESSFUL YEAR IN 2007, ACHIEVING A SIGNIFICANT GROWTH IN REVENUE AND PROFITABILITY OVER THE PREVIOUS FINANCIAL YEAR.

The results for 2007 mainly reflect the benefits of a buoyant performance by Shangri-La Hotel Kuala Lumpur, and the first full year's contribution from Rasa Sayang Resort, which reopened in late September 2006, following the completion of its major redevelopment and repositioning programme.



Ocean Wing Main Entrance,
Rasa Ria Resort

At the same time, the overall financial results of the Group were favourably impacted by higher contributions from our investment properties, reflecting a more positive trading environment in the prime property rental market in Kuala Lumpur.

GROUP RESULTS

For the twelve months to 31 December 2007, Group revenue increased by 24% to RM410.725 million compared with RM330.520 million recorded in the year ended 31 December 2006.

The Group's profit before tax for 2007 rose by 118% to RM98.406 million from RM45.208 million in 2006. Group profit attributable to shareholders for the year ended 31 December 2007 at RM77.242 million was 116% more than the profit of RM35.679 million achieved in the previous year. Earnings per share for 2007 were 17.56 sen versus 8.11 sen in 2006.

Group shareholders' equity at 31 December 2007 amounted to RM722.615 million, an increase of 8% compared with RM671.069 million at 31 December 2006, attributable to retained earnings for the year. Correspondingly, the net asset value per share of the Group as at 31 December 2007 increased to RM1.64 from RM1.53 at year-end 2006.

During the year, strong improvements in operating cash flow mainly from Shangri-La Hotel Kuala Lumpur enabled the Group to partially repay bank borrowings. This resulted in a reduction in the consolidated net debt of the Group from RM184.348 million at the end of 2006 to RM140.596 million at year-end 2007.

Accordingly, the Group's balance sheet and financial capacity have been significantly strengthened, with the net gearing level dropping to 19% as at the end of 2007 compared with 28% at the previous year-end.

DIVIDENDS

In view of the increased profitability achieved by the Group, your Directors are pleased to recommend a final dividend of 7% less tax. Together with the interim dividend of 3% less tax paid last November, this will bring the total dividend for 2007 to 10% less tax as against 8% less tax for the financial year 2006.

The proposed final dividend, if approved at the Annual General Meeting to be held on 15 May 2008, will be paid to shareholders on 26 June 2008.

CHAIRMAN'S STATEMENT

PERFORMANCE REVIEW

In terms of our business operations, Shangri-La Hotel Kuala Lumpur delivered excellent growth in 2007, driven largely by a 13% increase in the average room rate and higher business levels in the food and beverage operations. For the year, the total revenue of the hotel grew by 14% to RM163.121 million and pre-tax profit improved strongly by 55% from RM28.074 million in 2006 to RM43.574 million. The hotel's occupancy level for 2007 remained at 70%.

In Sabah, Rasa Ria Resort also enjoyed good results in a favourable market. The resort recorded a 14% growth in total revenue to RM71.680 million, with pre-tax profit for the year up by 17% to RM21.300 million compared with RM18.244 million in 2006. Occupancy at the resort rose slightly to 82% from 81% last year, with the average room rate rising by 12%.

In its first full year of operations after re-opening, Rasa Sayang Resort produced an operating profit of RM11.929 million. The overall revenue generated by the resort for 2007 amounted to RM63.485 million, whilst room occupancy averaged 52%.

At Golden Sands Resort, lower leisure demand resulted in a 3% decline in total revenue from RM54.922 million in 2006 to RM53.486 million. However, its pre-tax profit for 2007 at RM18.075 million showed an improvement of 6% over the prior year mainly due to a reduction in operating costs. Room occupancy at the resort was 70%, down from 77% in 2006.

Similarly, Traders Hotel Penang saw occupancy fall from 76% last year to 71% in 2007, owing to reduced corporate business. In consequence, the hotel's total revenue for the year dropped by 2% to RM34.052 million from RM34.909 million in the previous year, with pre-tax profit declining to RM4.390 million against RM4.807 million in 2006.

The Group's investment properties in Kuala Lumpur achieved strong revenue and profit improvements during 2007, helped by higher occupancy levels on the back of healthy economic growth. The combined total rental revenue from UBN Tower and UBN Apartments for 2007 increased by 29% to RM18.988 million, with a 41% rise in pre-tax profit from RM9.222 million in the previous year to RM13.010 million.

In the year to 31 December 2007, the Group's share of losses in Traders Hotel Yangon, its 23.53% associate hotel in Myanmar, decreased to RM2.698 million from RM3.725 million in 2006.

INITIATIVES & DEVELOPMENT

We made good progress over the last year in our initiatives to better position and strengthen our business for further growth, against a background of increasingly challenging market conditions.

During 2007, vigorous sales and marketing programmes were implemented to fully exploit the growth opportunities in key markets and potential emerging markets, as strong global economies drove travel demand. Increased advertising and a higher level of promotional activity were launched in these markets, with the aims of stimulating demand, raising visibility and increasing brand awareness. These initiatives led to healthy gains in market share and enabled our hotels and resorts to maintain their strong competitive positions in their respective marketplaces.

Across the Group's businesses, good improvements in operating margin performance were achieved during the year through disciplined management of costs and continued actions to enhance operational efficiencies. Considerable effort was also focused on increasing working capital efficiency and maximising cash flow throughout the Group, whilst keeping capital expenditure levels under close review.

To create greater competitive advantage, we made further investments in new upgrades to our IT infrastructure systems using leading-edge technology to ensure high reliability, improved effectiveness, and better support for the activities of our operating units.

In addition, significant work was undertaken during the course of 2007 to harness the energies of our employees, and to further strengthen their capabilities and performance standards to contribute to the continuing growth and success of our business.

Equally important, we remain committed to improving the service skills of our employees across all of our business activities, as we strive to deliver the highest quality and service standards to our customers. We endeavour to provide a workplace environment that encourages and assists all employees to achieve both their personal and career goals, and to deliver business targets, through wide-ranging training and development programmes in all areas of operations.

To reinforce our market leadership and reputation for excellence, we focus relentlessly on enhancing and maintaining the high standards and quality of our hotel properties by building on a programme of continual capital investment in the improvement, and innovative development of our products and services.

After a twenty-month construction period, the new extension at Rasa Ria Resort was successfully opened as the *Ocean Wing* in late December 2007, and has been very well received in the market. The *Ocean Wing* celebrated its official opening on 12 February 2008, and features two five-storey blocks of guestrooms comprising a total of 90 premier deluxe rooms with high quality furnishings and amenities, and an elegant lobby, along with its own swimming pool.

We are encouraged by its early performance, with the rooms in the new *Ocean Wing* already achieving significantly higher room rates than the rooms in the Garden Wing of the resort. Strategically, this new extension has considerably strengthened Rasa Ria's leadership position in the local market, and gives the resort an excellent platform for future growth. The new 90-room extension is expected to make a positive impact on the resort's overall results in 2008.

In the meantime, a major programme to extensively upgrade and modernise all the guestrooms at Shangri-La Hotel Kuala Lumpur is underway in order to secure its position firmly at the forefront of a highly competitive hotel market. When fully completed, the new room product will enable the hotel to compete more effectively, and will create substantial opportunities to drive revenue and profit growth. The renovation programme, which started in early April 2008 is scheduled to be fully completed in early 2009.

We believe that this major undertaking should generate strong returns and contribute positively to the Group's earnings and cash flow over the long term. Work on the renovation project will be completed in phases, and we expect the initial benefits from this investment to start flowing through in the fourth quarter of 2008.

At the same time, a number of enhancement and refurbishment works are taking place during 2008 at several of our hotel properties to upgrade and revitalise existing food and beverage outlets, ballroom and meeting facilities, main lobbies and other public areas.

CHAIRMAN'S STATEMENT

CORPORATE SOCIAL RESPONSIBILITY

We are pleased to present in this 2007 Annual Report our first corporate social responsibility (CSR) report, covering our initiatives in environmental management, employee engagement, health and safety, community support, and supply chain management.

CSR has been an integral aspect of our business activities for many years. We are committed to achieving our business and financial goals through responsible and sustainable action. In doing so, we seek to embed high standards of social and environmental business practices into our operations, which are key to the long-term success of our business. We also aim to make continual improvements in the development and implementation of our CSR programmes and activities.

Ocean Wing Lobby,
Rasa Ria Resort



CORPORATE HIGHLIGHTS

In early September 2007, Landmarks Berhad divested its entire equity interest of 26.62% comprising 117.124 million shares in the Company via a private placement. Arising from this divestment, Standard Chartered Private Equity Limited (StandChart), a company incorporated in Hong Kong, has emerged as a substantial shareholder, following its acquisition of a 19.55% stake comprising 86 million shares in the Company from Landmarks Berhad. The balance of Landmarks Berhad's shareholding in the Company of 7.07% or 31.124 million shares was disposed of to other investors.

OUTLOOK

The overall outlook for the hotel and travel industry is expected to remain favourable in 2008, notwithstanding the current uncertainty in the global economy and volatile conditions in the financial markets.

The major renovation programme at Shangri-La Hotel Kuala Lumpur will inevitably have a large negative effect on its financial performance in 2008, due to the reduction in available rooms throughout a significant part of the year.

Nonetheless, our other hotels and resorts should continue to do well as they are in a strong position to benefit from any improvement in the trading environment. Notably, the operating results of Rasa Ria Resort for 2008 will be boosted by a full year's contribution from its new 90-room extension.

Additionally, trading conditions in the property rental market in Kuala Lumpur are likely to hold up well, underpinned by continuing healthy trends in the local economy. This should help our investment properties to show further good progress in 2008.

Although there is no doubt that the year ahead will be challenging, we are intent on driving the future growth of the Group through better market focus and by leveraging more effectively on the strength of our brand and portfolio of assets, our strong operational capabilities, and our resources.



CHAIRMAN'S STATEMENT

THE BOARD

During the year, there have been a number of changes to the composition of the Board.

In early November 2007, we were pleased to welcome the representatives from StandChart to our Board. Mr Richard Anthony Johnson and Mr Ravinder Singh Grewal joined the Board as non-executive directors, whilst Mr Joseph Patrick Stevens was appointed as alternate director to Mr Richard Anthony Johnson.

Dato' Hj Ayoub bin Dato' Hj Ismail and Mr Gabriel Teo resigned on 10 September 2007, and accordingly, Mr Sulip R. Menon ceased to be alternate director to both of them. In addition, Mr Kuok Khoon Ho stood down as a director on 31 December 2007. We want to take this opportunity to record our deepest thanks and appreciation to them for their contributions to the Group.

In March 2008, Dato' Seri Ismail Farouk Abdullah joined as a new member of the nomination and remuneration committee to succeed Mr Kuok Khoon Ho, who ceased as a member, following his resignation from the Board.

SPECIAL THANKS

Our strong financial results for 2007 underscore the talent and determination of our employees at all levels throughout the Group. On behalf of the Board, I would like to thank them all for their tremendous commitment and efforts over the year.

Once again, I wish to express my sincere appreciation to my Board colleagues for their valuable contributions and active support during 2007.

We also thank you, our shareholders for your continued encouragement and support for our endeavours.

TAN SRI A. RAZAK BIN RAMLI

Chairman

8 April 2008



Ocean Wing Lobby Courtyard,
Rasa Ria Resort

OPERATIONS REVIEW

HOTELS



Garden Wing,
Rasa Ria Resort

SHANGRI-LA HOTEL KUALA LUMPUR DELIVERED A RECORD PERFORMANCE IN 2007, DRIVEN BY A SIGNIFICANT GROWTH IN THE AVERAGE ROOM RATE AND ROBUST RESULTS FROM THE FOOD AND BEVERAGE OPERATIONS.

Total revenues for the year rose by 14% to RM163.121 million compared with RM142.741 million in 2006, and pre-tax profit increased by 55% to RM43.574 million from RM28.074 million last year.

While occupancy was level with the previous year at 70%, the average room rate increased by 13%, leading to a 16% growth in total room revenues to RM72.903 million from RM62.992 million in 2006, and a 19% increase in profit to RM59.170 million from RM49.714 million. Overall, market demand held up well in 2007, with continuing healthy corporate arrivals mainly from the key markets of Singapore, Malaysia and Japan, and the leisure group markets of the UK, the Middle East and Australia.

The hotel also enjoyed a considerable growth in room night bookings in the convention business, especially from the medical, pharmaceutical and financial sectors, principally from the Middle East, Malaysia and India.

A higher average room rate was posted in all market segments, particularly the corporate group and individual segments, and the leisure group segment. The rate increase was achieved chiefly by a successful yield management strategy combined with effective upselling efforts as well as a growth in its high yield corporate accounts for the five Horizon Club floors.

The hotel's food and beverage performance exceeded expectations, and accounted for over 50% of the hotel's total revenue for 2007. Revenue from food and beverage operations rose by 15% to RM81.968 million in 2007 from RM71.230 million in the previous year, and profit increased by 18% to RM32.781 million from RM27.765 million. This significant improvement in results was primarily driven by the hotel's banqueting business, which benefited from higher levels of corporate functions, conventions and major events.

At the same time, a combination of effective promotions throughout the year with creative new food and beverage concepts attracted improved patronage to the hotel's outlets both by guests and the local community. Consequently, most of the food and beverage outlets performed well, recording good increases in covers and average checks, particularly at *Lafite*, *Lemon Garden Café* and the hotel's Japanese restaurant, *Zipangu*.

Once again in 2007, the hotel garnered an array of prestigious awards and accolades in recognition of the outstanding quality of its products and service excellence. Condé Nast Traveler (USA) Readers' Choice survey voted the hotel into its exclusive *2007 Gold List (Reserve Properties)*, while the hotel also won the *Best Brand for Business Hotel* award from the Asia Pacific Brands Foundation at the Brand Laureate Awards 2007. Similarly, the readers of Business Traveller Asia-Pacific magazine voted the hotel the *Best Business Hotel in Kuala Lumpur 2007*.

To maintain market leadership, the hotel has started on a major guestroom renovation programme in early April 2008. The programme will entail significant upgrading works to all guestrooms on levels 3 to 28. In addition, the Horizon Club floors will be increased from five to eight, and a new and larger Horizon Lounge will also be created.

The renovation work will be carried out in two phases. Phase one will cover levels 3 to 13, while in the second phase levels 14 to 28 will be renovated. With full completion targeted for early 2009, the new product will significantly strengthen the hotel's position, enabling it to compete effectively in the market and maximise its revenue and profit potential.

Unavoidably, the renovation work will have a negative impact on the financial performance of the hotel in 2008, with the reduced number of available rooms constraining the hotel's prospects for growth. However, the much enhanced room product will enable the hotel to secure higher room rates and grow its market share after the renovations.

At the same time, the hotel is also upgrading the Lobby Lounge, and the swimming pool and deck area on level two. In addition, the ongoing project to re-clad the external wall facade with aluminium composite panels is progressing smoothly and should be completed by the end of the fourth quarter of 2008.

With room renovation in progress for a significant part of 2008, the hotel will focus on expanding its high-rated customer base to maximise yield. It will also launch increased food promotions and innovative new food and beverage concepts. At the same time, active and aggressive promotions of the food and beverage loyalty programme will grow repeat business in the outlets, while sales and marketing efforts will be intensified to secure further high yield banqueting and outside catering business.

OPERATIONS REVIEW

HOTELS

THE PERFORMANCE BY **TRADERS HOTEL PENANG** DECLINED SLIGHTLY IN 2007 DUE MAINLY TO A REDUCTION IN CORPORATE DEMAND.

The hotel registered a 2% fall in total revenues to RM34.052 million from RM34.909 million in 2006, while pre-tax profit decreased by 9% to RM4.390 million from RM4.807 million the year before.

Owing to a lower occupancy level of 71% as against 76% in 2006, total room revenues dropped 2% to RM22.108 million from RM22.627 million in 2006, and profit dipped by 2% to RM16.790 million from RM17.173 million. The decline in occupancy levels was attributable to the slowdown of business arrivals in Penang and increased competition from the new supply of hotel rooms in the market. The main reduction in room night bookings came from the corporate group segment in the USA, China and Japan, combined with fewer leisure arrivals from Indonesia.

Although the hotel was able to increase its average room rate by 4% mainly due to higher contracted rates achieved in its key corporate accounts, this was not able to offset the reduction in occupancy levels.

The results achieved by the hotel's food and beverage operations in 2007 were creditable against a highly competitive market. Revenue in 2007, at RM10.330 million, was broadly flat compared with the RM10.381 million generated in 2006. However, there was a 21% rise in profit to RM1.951 million from RM1.613 million in 2006, driven by a healthy growth in banqueting business coupled with effective cost savings measures.



Ocean Wing Premier Room,
Rasa Ria Resort

In the first half of 2008, the hotel will carry out significant upgrading works to its ballroom, function rooms and pre-function areas to further enhance its position in the banqueting business and offer customers a higher quality product. In early January 2008, a decision was taken to close the hotel's loss making Chinese speciality restaurant, *Cha Tea Bistro*, in view of diminished business prospects.

During 2008, the hotel will focus on increasing marketing efforts to strengthen relationships with existing customers, and broadening its corporate customer base, particularly in the banking, pharmaceutical and IT sectors. In addition, the hotel will continue to implement attractive leisure packages to penetrate new leisure markets in China and Middle East, as well as further enhancing service standards and operating efficiency.

OPERATIONS REVIEW

RESORTS

IN 2007, **RASA RIA RESORT** PRODUCED ANOTHER YEAR OF STRONG PERFORMANCE, SUPPORTED BY THE CONTINUED STRENGTH OF THE HOTEL MARKET IN SABAH, WHICH SAW INCREASING LEISURE ARRIVALS AND LIMITED NEW SUPPLY.

Total revenues rose by 14% to RM71.680 million from RM62.924 million in 2006, while pre-tax profit improved 17% to RM21.300 million from RM18.244 million.

Throughout the year, the resort enjoyed healthy demand levels from its key leisure group markets of the UK, Australia and Japan. This was complemented by a 55% growth in overall room night bookings from the corporate meeting markets as well as a 23% growth in room night bookings from the Korean leisure market. For 2007, the resort recorded a high occupancy rate of 82%, slightly up from 81% in 2006.

Robust demand coupled with effective yield management contributed to a 12% rise in average room rates in almost all market segments, particularly in the leisure group and individual markets. Consequently, room revenue increased by 15% to RM35.466 million from RM30.711 million in 2006, while profit grew by 16% to RM30.683 million from RM26.365 million.

The resort's food and beverage operations also performed well in 2007. Revenues were up 15% to RM25.916 million from RM22.627 million in 2006, while profit also advanced 15% to RM10.842 million from RM9.431 million.

The food and beverage results were driven mainly by increased covers and higher average checks from banqueting and the poolside outlet *Tepi Laut*. A significant growth in corporate meetings and private functions led to a considerable improvement in the performance of the banqueting operations, which recorded a 73% improvement in revenue over 2006.

The resort's *Coffee Terrace*, which underwent complete renovation during the year, received a favourable response and achieved a healthy increase in covers and average checks since re-opening in mid July 2007.

In late December 2007, Rasa Ria Resort opened its new extension, the *Ocean Wing*. With 90 premier deluxe rooms in two five-storey blocks, the new extension takes the total room count at the resort from 330 to 420 rooms. Early results have been encouraging, with the new rooms in the *Ocean Wing* attracting good demand and yielding high room rates. This extension has significantly enhanced the resort's leading position in the local market and provides a strong platform for future growth.



Ocean Wing Premier Room,
Rasa Ria Resort

At the Malaysia Tourism Awards 2005/2006 held in July 2007, the resort won the *Excellence in Hotel Services – 5 Star Resort* award, and, for the second consecutive year, its Indian restaurant *Naan* received the award for the *Best Restaurant for Indian Cuisine*.

In 2008, the resort plans to make further improvements to its product offering. The *Naan* restaurant will be renovated together with the main lobby, lobby lounge and certain public areas.

Rasa Ria Resort should continue to do well in 2008 given the positive outlook of the Sabah hotel market. In addition, the resort will benefit from the first full year's contribution by the new extension.

In the coming year, the resort will focus on expanding its customer base in the key leisure markets of the UK, Australia, Japan and Hong Kong, and targeting the new emerging leisure markets of Russia and Scandinavia. It will also seek to expand its share of high-yield corporate meeting business from Singapore and Malaysia.

Aggressive marketing and advertising activities will also be undertaken to create further awareness and enhance the visibility of the new extension. Meanwhile, as well as enhancing service standards, the resort aims to achieve higher room rates and improve cost efficiency so as to maximise profitability in all areas.

OPERATIONS REVIEW

RESORTS

FOR **RASA SAYANG RESORT** IN PENANG, 2007 WAS THE FIRST FULL YEAR OF OPERATION SINCE RE-OPENING IN LATE SEPTEMBER 2006 FOLLOWING THE COMPLETION OF A MAJOR REDEVELOPMENT AND REPOSITIONING PROGRAMME.

During the year, the resort generated total revenues of RM63.485 million and recorded an operating profit of RM11.929 million.

The first half of 2007 proved challenging due to a decline in visitor arrivals from the resort's major long haul markets of the UK, Europe and Australia. However, there was successful growth in revenue and operating profit in the second half of 2007 underpinned by a revamped marketing programme, aggressive sales and promotional activities combined with a refinement to rate strategies.

Garden Wing Pool,
Rasa Ria Resort



These efforts yielded positive results, creating greater demand particularly from the regional leisure and corporate travel markets of Singapore, Japan and Hong Kong as well as Malaysia. Consequently, average occupancy improved from 44% in the first half to 61% in the second half of 2007. For the full year, occupancy averaged 52% while the average room rate was well above RM710. Total room revenues for 2007 amounted to RM40.820 million, while profit stood at RM34.346 million.

Meanwhile, the resort's food and beverage operations posted a revenue of RM17.770 million and a profit of RM6.150 million, coming mainly from the coffee shop, *Spice Market Café* and the *Feringgi Grill*. In 2007, banqueting revenue mainly from corporate functions was RM2.478 million and represented 14% of total food and beverage revenue.

During the year, promotional and marketing activities to enhance market awareness of the food and beverage outlets included joint promotions with credit card companies and an exclusive dining programme offering attractive promotions targeted at the local community.

In just under 13 months since re-opening, the resort won international recognition, being rated as one of the *Top 5 Best Hotels in Asia* by the Condé Nast Traveller 10th Annual Readers' Travel Awards 2007. It was also rated 22nd among the *Top 100 Best Hotels in the World for 2007* by Condé Nast Traveller (UK) magazine. These accolades have significantly enhanced the resort's reputation as well as generating considerable exposure worldwide.

Rasa Sayang Resort has made a promising start in 2008 and the growth momentum is expected to continue throughout the year. Advertising and promotional activities will continue to be intensified to create stronger awareness of the resort. The prime objective will be to grow higher demand from the major leisure markets of the UK, Australia and the Middle East. The resort will also focus on expanding its customer base by targeting high-end corporate and leisure travellers.

At the same time, marketing initiatives will be dedicated to securing more corporate meetings from Malaysia, Singapore and Hong Kong and penetrating the new and emerging markets of Russia, India and China. The resort will also continue to drive room yield through more effective yield management strategies and aggressive up-selling efforts. Meanwhile, additional efforts will be made to enhance customer experience and further improve the quality and standard of service.

DURING 2007, **GOLDEN SANDS RESORT** experienced softer leisure demand, resulting in a 3% decline in total revenues to RM53.486 million from RM54.922 million in 2006. However, the resort was able to post a 6% increase in pre-tax profit to RM18.075 million from RM17.011 million the year before mainly attributable to effective cost management and a lower depreciation charge.

Following a drop in leisure arrivals from the major long haul markets of the UK, Europe and Japan, room occupancy declined to 70% from 77% in 2006. In particular, room night bookings by the UK and Japanese markets fell 19% to 26,934 from 33,248 the previous year.

Despite the reduction in occupancy levels, proactive yield management strategies enabled the resort to grow its average room rate by 8% in most market segments, particularly in the leisure group and individual segments. The resort's overall total room revenues decreased only marginally to RM36.246 million from RM36.468 million in 2006 and profit rose from RM30.651 million to RM30.894 million.

OPERATIONS REVIEW

RESORTS

Lower occupancy levels combined with increased competitive activity from the freestanding restaurants in the Batu Feringgi area had a negative impact on the resort's food and beverage business. Reduced covers were recorded in all outlets, particularly at the coffee shop *Garden Café*. Revenue from the banqueting business, however, increased owing to a healthy rise in corporate events and meetings. Overall, total food and beverage revenues fell 7% from RM15.819 million in 2006 to RM14.777 million in 2007, while profit decreased 8% from RM4.752 million to RM4.374 million.

To strengthen the performance of the food and beverage outlets by repositioning them as exciting dining venues, the resort's beachfront outlet *Sigi's by The Sea* will be renovated in 2008 using a fresh concept incorporating a bar with live entertainment. The *Garden Café* will also be refurbished to give the outlet a fresh look.

The resort's newly constructed recreational facility, the *Adventure Zone* catering to both adults and children was opened in late November 2007. This facility offers amongst others large drop slides, a game zone, themed party rooms, as well as a retail and snack counter. The response from hotel guests and from the local market has been encouraging. Marketing efforts and activities will be stepped up in 2008, along with strategic collaborations with schools and hotels in the vicinity, to provide greater exposure.

Moving forward, the resort will continue to focus on its marketing initiatives so as to drive increased business both from its key long haul leisure markets and from the emerging markets of Russia, India and China. The resort will also seek to further improve productivity, profitability and service levels in all areas.

Coffee Terrace,
Rasa Ria Resort



OPERATIONS REVIEW

INVESTMENT PROPERTIES

IN 2007, TRADING CONDITIONS IN KUALA LUMPUR'S PROPERTY RENTAL MARKET WERE HEALTHY, SUPPORTED BY THE IMPROVED ECONOMIC ENVIRONMENT.

This was reflected in the strong financial results achieved by the Group's investment properties, whose combined total rental revenues increased by 29% to RM18.988 million from RM14.729 million in 2006, with combined pre-tax profit rising 41% to RM13.010 million from RM9.222 million the previous year.

UBN Tower enjoyed good growth in demand, particularly in the second half of the year. Increased levels of economic and business activity coupled with aggressive marketing efforts enabled UBN Tower to grow its occupancy rate from 59% in 2006 to 72% in 2007, while the average rental rate remained generally stable.

The majority of the new tenants came from the oil and gas, financial and business services and information technology sectors. A number of existing tenants also took up additional space for their expansion programmes. Total rental revenues for 2007 increased by 28% to RM16.166 million from RM12.670 million the previous year, and pre-tax profit gained 50% to RM9.323 million from RM6.234 million in 2006.

Meanwhile, leasing activity in the high-end apartment rental market remained healthy, driven by a steady increase in expatriate arrivals. Despite stiff competition and rental rate pressure, the average occupancy rate at UBN Apartments grew from 76% in 2006 to 80%. Growth in demand came mainly from expatriates working in the oil and gas, and financial services sectors. Consequently, total rental revenues improved by 37% to RM2.822 million compared with RM2.059 million in 2006, while pre-tax profit rose 23% to RM3.687 million from RM2.988 million the year before.

Given the positive economic climate, demand levels for office space in Kuala Lumpur should improve further during 2008. However, UBN Apartments will face increasing competition as a large number of high-end apartments will be coming on stream in 2008, adding downward pressure on occupancy and rental rates.

To maintain its high quality image and improve its competitive edge, UBN Tower will carry out significant upgrading works in 2008 to all its washrooms, service lift lobbies and basement carpark lift lobbies. The two properties will also continue to improve operating efficiency, provide higher quality of service to tenants, and enhance building maintenance and security standards. In addition, more focused marketing and rate strategies will be implemented to attract new tenants and boost rental yield. At the same time, relationships with existing tenants will be further strengthened.

CORPORATE STRUCTURE

SHANGRI-LA HOTELS (MALAYSIA) BERHAD

Hotels & Resorts

	Shangri-La Hotel (KL) Sdn Bhd	100%	
	Golden Sands Beach Resort Sdn Bhd	100%	
	Palm Beach Hotel Sdn Bhd	100%	
	Pantai Dalit Beach Resort Sdn Bhd	75%	
	Dalit Bay Golf & Country Club Berhad ¹	75%	
	Komtar Hotel Sdn Bhd	60%	

Investment Properties

	UBN Tower Sdn Bhd	100%	
	UBN Holdings Sdn Bhd	100%	

Investment Holding & Others

	Pantai Emas Sdn Bhd	100%	
	Madarac Corporation ²	100%	
	Traders Yangon Company Ltd ³	23.5%	
	Shangri-La Yangon Company Ltd ³	22.2%	
	Traders Square Company Ltd ³	23.6%	
	Wisegain Sdn Bhd	100%	
	Hasil-Usaha Sdn Bhd	100%	
	Pantai Dalit Development Sdn Bhd ¹	75%	

¹ Held via Pantai Dalit Beach Resort Sdn Bhd

² Incorporated in British Virgin Islands

³ Incorporated in Union of Myanmar

FINANCIAL CALENDAR

YEAR 2007

- 21 MAY**
Announcement of Unaudited Consolidated Results for the 1st Quarter ended 31.3.2007
- 28 AUGUST**
Announcement of Unaudited Consolidated Results for the 2nd Quarter ended 30.6.2007
- 1 NOVEMBER**
2007 Interim Dividend Entitlement Date
- 6 NOVEMBER**
Announcement of Unaudited Consolidated Results for the 3rd Quarter ended 30.9.2007
- 23 NOVEMBER**
2007 Interim Dividend Payment Date
- 31 DECEMBER**
Financial Year End

YEAR 2008

- 26 FEBRUARY**
Announcement of Audited Consolidated Results for the 4th Quarter and Financial year ended 31.12.2007
- 23 APRIL**
Issue of 2007 Annual Report
- 15 MAY**
2008 Annual General Meeting to be held
- 15 MAY**
Announcement of Unaudited Consolidated Results for the 1st Quarter ended 31.3.2008
- 28 MAY**
Entitlement Date for the proposed 2007 Final Dividend
- 26 JUNE**
Payment Date for the proposed 2007 Final Dividend

CORPORATE DATA

BOARD OF DIRECTORS

Tan Sri A. Razak bin Ramli
Chairman

Kuok Oon Kwong
Managing Director

Rozina Mohd Amin
Executive Director

Dato' Haris Onn bin Hussein *

Dato' Seri Ismail Farouk Abdullah *

Tan Sri Dato' Mohd Amin bin Osman

Ravinder Singh Grewal Sarbjit S

Richard Anthony Johnson

Datuk Supperamaniam a/l Manickam *

Dato' Dr Tan Tat Wai *

Tan Yew Jin

Alternate Director
Joseph Patrick Stevens
(Alternate to Richard Anthony Johnson)

* Independent Non-Executive Directors

AUDIT COMMITTEE

Dato' Seri Ismail Farouk Abdullah
Chairman

Datuk Supperamaniam a/l Manickam

Tan Yew Jin

POLICY IMPLEMENTATION COMMITTEE

– *Hotels & Resorts*

Kuok Oon Kwong
Chairman

Rozina Mohd Amin

NOMINATION & REMUNERATION COMMITTEE

Dato' Dr Tan Tat Wai
Chairman

Dato' Seri Ismail Farouk Abdullah

Datuk Supperamaniam a/l Manickam

COMPANY SECRETARY

Rozina Mohd Amin

REGISTERED OFFICE

13th Floor, UBN Tower
10 Jalan P. Ramlee
50250 Kuala Lumpur
Tel : (+60-3) 2026 1018
Fax : (+60-3) 2026 1068
E-Mail : shmb@po.jaring.my

AUDITORS

KPMG
Wisma KPMG, Jalan Dungun
Damansara Heights
50490 Kuala Lumpur

SOLICITORS

Puthuchearry Firoz & Mai
Kadir, Andri & Partners

PRINCIPAL BANKERS

HSBC Bank Malaysia Berhad
Malayan Banking Berhad
RHB Bank Berhad

SHARE REGISTRAR

PPB Corporate Services Sdn Bhd
14th Floor, Wisma Jerneh
38 Jalan Sultan Ismail
50250 Kuala Lumpur
Tel : (+60-3) 2117 0888
Fax : (+60-3) 2117 0999

STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad

PROFILE OF BOARD OF DIRECTORS

TAN SRI A. RAZAK BIN RAMLI

Board Chairman

Malaysian, Non-Independent Non-Executive Director

Tan Sri A. Razak bin Ramli was appointed to the Board of Shangri-La Hotels (Malaysia) Berhad ("SHMB") on 1 November 2004 and became Board Chairman of SHMB on 19 May 2005.

He graduated with a Bachelor of Arts (Honours) in Public Administration from University of Tasmania in 1971 and obtained a *Diplome Gestion Publique Institut International D'Administration Publique*, Paris in 1980. He started his career in the Policy Research Division of the Malaysian Prime Minister's Department and subsequently held the position of Principal Assistant Director in both the Public Services Department and the Technical Cooperation Division of the Economic Planning Unit. From 1985 to October 2004, he held various positions in the Ministry of International Trade & Industry (MITI), his last position was as the Secretary General of MITI. He currently sits on the boards of other public listed companies namely, Ann Joo Resources Berhad, Favelle Favco Berhad, Lafarge Malayan Cement Berhad and Transmile Group Berhad. He is also a board member of Hong Leong Islamic Bank Berhad and Hong Leong Tokio Marine Takaful Berhad.

Tan Sri A. Razak has no family relationship with any Director and/or major shareholder of SHMB, no conflict of interest with SHMB and no convictions for any offences within the past ten years. He attended all five Board meetings held in 2007. Age 59.

KUOK OON KWONG

Managing Director

Singaporean, Non-Independent Executive Director

Madam Kuok Oon Kwong joined the Board on 14 November 1996 and was appointed as Managing Director on 16 November 1998. She is the Chairman of the Policy Implementation Committee and in her capacity as Managing Director, she oversees the Group's business operations.

Madam Kuok joined Shangri-La Hotel Limited, Singapore in 1986 where she gained extensive practical and business experience in hotel operations through her various senior management positions. She is also Executive Chairman of Shangri-La Hotel Limited, Singapore, a non-executive Director of Shangri-La Asia Limited, Hong Kong, Chairman/President of Makati Shangri-La Hotel & Resort, Inc., Edsa Shangri-La Hotel & Resort, Inc. and Mactan Shangri-La Hotel & Resort, Inc. and a non-executive Director of Shangri-La Hotel Public Company Limited, Thailand. In addition, she also sits on the board of Allgreen Properties Limited, Singapore. Madam Kuok is an Advocate and Solicitor (Barrister-at-Law) of Gray's Inn, London.

Madam Kuok has no conflict of interest with SHMB and no convictions for any offences within the past ten years. She attended all five Board meetings held in 2007. Age 61.

PROFILE OF BOARD OF DIRECTORS

ROZINA MOHD AMIN

Executive Director

Malaysian, Non-Independent Executive Director

Puan Rozina Mohd Amin was appointed as an Executive Director of SHMB on 1 June 1998. She sits on the board of a number of companies in the SHMB Group and has also been a member of the Policy Implementation Committee since 1996. She has been with the Group for more than twenty years and has held various senior corporate positions within the Group before her present appointment as Executive Director. Puan Rozina is also Group Company Secretary, a position which she has held since August 1991, and oversees the Group's corporate finance, legal and company secretarial functions. She is an Associate Member of The Malaysian Institute of Chartered Secretaries and Administrators.

Her father, Tan Sri Dato' Mohd Amin bin Osman is also a member of the Board. She does not have any family relationship with any major shareholder of SHMB. She has no conflict of interest with SHMB and no convictions for any offences within the past ten years. She attended all five Board meetings held in 2007. Age 48.

DATO' HARIS ONN BIN HUSSEIN

Malaysian, Independent Non-Executive Director

Dato' Haris Onn bin Hussein was appointed to the Board on 17 October 2006. He graduated from Cambridge University, United Kingdom, with a Bachelor of Arts Degree in Economics. He started his working career with Touche Ross & Co, London, an accounting firm, in 1989. In 1992, he returned to Malaysia to work with DCB Sakura Merchant Bankers Berhad and he subsequently joined Rohas Sdn Bhd as General Manager from 1993 to 1995. He was an executive director of Bell & Order Berhad (now known as Scomi Engineering Berhad) from 1996 to 2003. Currently, he is the Managing Director of Konsortium Lebuhraya Utara-Timur (KL) Sdn Bhd (KESTURI), the concession holder of Lebuhraya Duta-Ulu Kelang and also sits on the board of Scomi Marine Berhad, which is listed on Bursa Malaysia Securities Berhad.

Dato' Haris Onn has no family relationship with any Director and/or major shareholder of SHMB, no conflict of interest with SHMB and no convictions for any offences within the past ten years. He attended four out of five Board meetings held in 2007. Age 41.

DATO' SERI ISMAIL FAROUK ABDULLAH

Malaysian, Independent Non-Executive Director

Dato' Seri Ismail Farouk Abdullah was appointed to the Board on 23 June 1979. He is the Chairman of the Audit Committee and is also a member of the Nomination & Remuneration Committee. He holds a degree in Hotel Management from L'Ecole Hoteliere, Lausanne, Switzerland. His experience in the hospitality industry spans over thirty years both in Europe and Asia. He is actively involved in the development and management of hotels and resorts, travel and leisure, property development and education. He is currently the Executive Chairman of Impiana Group of Companies. He does not sit on the board of any other public listed company.

Dato' Seri Ismail Farouk has no family relationship with any Director and/or major shareholder of SHMB, no conflict of interest with SHMB and no convictions for any offences within the past ten years. He attended all five Board meetings held in 2007. Age 62.

PROFILE OF BOARD OF DIRECTORS

TAN SRI DATO' MOHD AMIN BIN OSMAN

Malaysian, Non-Independent Non-Executive Director

Tan Sri Dato' Mohd Amin bin Osman joined the Board on 3 December 1992. He has had a successful and distinguished career with the Royal Malaysian Police Force spanning over thirty-six years. He joined the Royal Malaysian Police Force in 1949 as an Inspector and held various senior posts including Deputy Commissioner of Police (Sabah), Brigade Commander, Police Field Force (East Malaysia), Chief of City Police (Kuala Lumpur) and Director of Special Branch (Malaysia). He later became the Acting Inspector General of Police (Malaysia) before retiring from the civil service in 1985. He also sits on the boards of Genting Berhad and Asiatic Development Berhad.

His daughter, Puan Rozina Mohd Amin is also a member of the Board. He does not have any family relationship with any major shareholder of SHMB. He has no conflict of interest with SHMB and no convictions for any offences within the past ten years. He attended four out of five Board meetings held in 2007. Age 80.

RAVINDER SINGH GREWAL SARBJIT S

Malaysian, Non-Independent Non-Executive Director

Mr Ravinder Singh Grewal was appointed to the Board on 1 November 2007. He holds a Bachelor of Commerce from the University of New South Wales, Australia and is also a member of the Certified Public Accountants, Australia. He has 15 years of experience in corporate finance and private equity. His corporate finance deals have included IPOs and bond issues in Singapore, merger & acquisition transactions in South-East Asia as well as debt restructuring transactions in Malaysia and Indonesia. His private equity deals have included development capital investments in middle-market companies in Malaysia and Singapore. He previously worked for Standard Chartered Merchant Bank and also DBS Bank in Singapore. Currently, he is an Investment Director of Standard Chartered Private Equity Limited. He does not sit on the board of any other public listed company in Malaysia.

Mr Ravinder has no family relationship with any Director and/or major shareholder of SHMB, no conflict of interest with SHMB and no convictions for any offences within the past ten years. He attended two Board meetings held since his appointment in November 2007. Age 38.

RICHARD ANTHONY JOHNSON

British, Non-Independent Non-Executive Director

Mr Richard Anthony Johnson was appointed to the Board on 1 November 2007. He holds a Master in Law from Oxford University, a Master of Science in Property Investment from City University, London and is a Chartered Surveyor. He has 20 years of experience in real estate investment, development and financing in many of the world's major markets. Previously, he was an International Director of Jones Lang LaSalle based in China, Singapore and London, as well as a Partner of St Quintin in London. He was the Managing Director of Istithmar, a Dubai based global private equity investor in a wide range of alternative investments and real estate. Istithmar currently has interests in several billion USD of real estate investments and developments globally. He is currently the Chief Executive Officer of Standard Chartered-Istithmar Asia Real Estate Opportunity Fund. He does not sit on the board of any other public listed company in Malaysia.

Mr Richard Johnson has no family relationship with any Director and/or major shareholder of SHMB, no conflict of interest with SHMB and no convictions for any offences within the past ten years. He attended one out of two Board meetings held since his appointment in November 2007. Age 43.

PROFILE OF BOARD OF DIRECTORS

DATUK SUPPERAMANIAM A/L MANICKAM

Malaysian, Independent Non-Executive Director

Datuk Supperamaniam a/l Manickam was appointed to the Board on 3 January 2005 and is a member of the Audit Committee and Nomination & Remuneration Committee. He holds a Bachelor of Arts (Honours) degree in Economics from the University of Malaya. Datuk Supperamaniam joined the Malaysian Administrative and Diplomatic Service in 1970 and was posted to the Ministry of Trade and Industry as Assistant Director. He served in the same Ministry for thirty-three years and was appointed as Deputy Secretary General of the Ministry of International Trade and Industry (MITI) from 1997 up to his official retirement in March 2000. In May 2000, he was appointed by the Government as Ambassador/Permanent Representative of Malaysia to the World Trade Organisation, Geneva, Switzerland and held the position until September 2003. During the tenure of his service, he represented Malaysia at various bilateral, regional and international conferences including Senior Officials Meetings as well as in Summits and Ministerial Conferences of APEC, World Trade Organisation (WTO), UNCTAD and ASEAN. Since his retirement from government service, he has continued to be invited to participate as a resource person and consultant to meetings, workshops and conferences organised by United Nations Agencies, regional and international organisations and foreign governments. He has also been appointed to serve as a member on several committees of the Government on Globalisation issues especially those relating to trade policy and negotiations. Currently, he also serves as an adjunct Professor to the International Islamic University of Malaysia and a Visiting Professor of Macao University of Science and Technology (Faculty of Law). He is also the Advisor to the Federation of Malaysian Manufacturers on Trade Policy, WTO and Free Trade Agreement (FTA) Negotiations. He also sits on the board of Panasonic Manufacturing Malaysia Berhad.

Datuk Supperamaniam has no family relationship with any Director and/or major shareholder of SHMB, no conflict of interest with SHMB and no convictions for any offences within the past ten years. He attended all five Board meetings held in 2007. Age 63.

DATO' DR TAN TAT WAI

Malaysian, Independent Non-Executive Director

Dato' Dr Tan Tat Wai was appointed to the Board on 6 June 1995 and is currently the Chairman of the Nomination & Remuneration Committee. He holds a Bachelor of Science degree in Electrical Engineering and Economics from the Massachusetts Institute of Technology and a PhD in Economics from Harvard University. He started his career with Bank Negara Malaysia in 1978 undertaking research in economic policies. In 1984, he became a consultant to Bank Negara, World Bank and the United Nations University for several years. He served as the Secretary and a member of the Council of Malaysian Invisible Trade set up to formulate policies to reduce Malaysia's deficit in service trade. He was a member of the government appointed Malaysian Business Council, the Penang Industrial Council, the Industrial Co-ordination Council (ICC) and the National Committee on Business Competitiveness (NCBC) set up by the Ministry of International Trade and Industry (MITI). He represents Malaysia as a member of the APEC Business Advisory Council (ABAC). Dato' Dr Tan is currently the Group Managing Director of Southern Steel Berhad and also sits on the boards of Titan Chemicals Corp. Berhad and NatSteel Ltd, Singapore.

Dato' Dr Tan has no family relationship with any Director and/or major shareholder of SHMB, no conflict of interest with SHMB and no convictions for any offences within the past ten years. He attended all five Board meetings held in 2007. Age 61.

PROFILE OF BOARD OF DIRECTORS

TAN YEW JIN

Malaysian, Non-Independent Non-Executive Director

Mr Tan Yew Jin was appointed to the Board of SHMB on 17 October 2006 and is a member of the Audit Committee. He is a member of the Malaysian Institute of Accountants, Malaysian Institute of Certified Public Accountants, CPA Australia and a Fellow of the Institute of Certified Public Accountants, Singapore. He joined FFM Group in 1966 and was the Deputy Managing Director of FFM Berhad (1998-2000), the Executive Chairman of PPB Oil Palms Berhad (2000-2004) and the Deputy Chairman of Jerneh Asia Berhad (2001-2007). He is currently a non-executive Director of PPB Group Berhad. He also sits on the board of Tradewinds (M) Berhad.

Mr Tan has no family relationship with any Director and/or major shareholder of SHMB, no conflict of interest with SHMB and no convictions for any offences within the past ten years. He attended all five Board meetings held in 2007. Age 66.

JOSEPH PATRICK STEVENS

American, Alternate Director

Mr Joseph Patrick Stevens joined the Board on 1 November 2007 as an Alternate Director to Mr Richard Anthony Johnson. He holds a Juris Doctorate from Georgetown University (United States) and a Bachelor of Science in Political Science from Alfred University (United States). He spent 13 years at Goldman Sachs in the Investment Banking Division, where he held various leadership positions throughout Asia (Hong Kong, Singapore, Tokyo, Beijing), including Chief Executive Officer of Goldman Sachs' China joint venture. Prior to joining Goldman, he was with Cravath, Swaine & Moore for 6 years. Currently, he is the Global Head of Principal Finance at Standard Chartered Bank, Singapore. He does not sit on the board of any other public listed company in Malaysia.

Mr Joseph Stevens has no family relationship with any Director and/or major shareholder of SHMB, no conflict of interest with SHMB and no convictions for any offences within the past ten years. Age 46.

STATEMENT ON CORPORATE GOVERNANCE

INTRODUCTION

The Board supports the fundamental principles of good corporate governance and the best practice provisions contained in the Malaysian Code on Corporate Governance (“the Code”). The Board is firmly committed to upholding the highest standards of integrity, accountability and transparency in the governance of the Company in order to protect and enhance the interests of all shareholders.

The Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Malaysia”), requires listed companies to publish each year in the annual report, a disclosure statement describing the manner in which the principles of the Code have been applied and the extent of compliance with its best practices during the financial year. In the opinion of the Directors, this statement reflects the way in which the Company has applied the principles in Part 1 and, save where otherwise identified, its compliance with the best practices set out in Part 2 of the Code for the year ended 31 December 2007.

THE BOARD

Board Structure and Procedures

The Board currently consists of nine non-executive directors and two executive directors namely Madam Kuok Oon Kwong and Puan Rozina Mohd Amin.

All the members of the Board served throughout 2007 save for Mr Richard Anthony Johnson and Mr Ravinder Singh Grewal Sarbjit S.

Mr Richard Anthony Johnson and Mr Ravinder Singh Grewal joined the Board as non-independent non-executive directors on 1 November 2007, while Mr Joseph Patrick Stevens was appointed as alternate director to Mr Richard Anthony Johnson also with effect from 1 November 2007.

Dato’ Hj Ayoub bin Dato’ Hj Ismail and Mr Teo Yee Yen Gabriel stepped down from the Board on 10 September 2007 and accordingly, Mr Sulip R. Menon ceased as their alternate director on 10 September 2007. In addition, Mr Kuok Khoon Ho resigned as a Director of the Company on 31 December 2007.

The brief profiles of the current members of the Board are given on pages 25 to 29 of this annual report.

Of the nine non-executive directors on the Board, four are considered to be fully independent. As such, independent non-executive directors make-up more than one-third of the membership of the Board as prescribed by the Listing Requirements of Bursa Malaysia. The composition of the Board also fairly reflects the investment of the minority shareholders of the Company as only one out of the eleven-member board represent the interests of Shangri-La Asia Limited, the largest shareholder of the Company holding 52.78% equity interest.

The Board is responsible to the shareholders for the good standing of the Company and the strategic direction for its future development. It has adopted a formal schedule of matters specifically reserved to itself for decision and approval to ensure that the overall control of the affairs of the Company is firmly in its hands. These include approval of corporate strategic plans, financial statements, dividend recommendations, annual operating budgets, major capital projects and expenditure, major acquisitions and disposals, risk management policies, appointment of directors and important announcements to be issued.

The responsibility for managing business, for implementing policy and monitoring business performance is delegated to the executive directors. There is an effective working relationship between the executive and non-executive directors. All directors are expected to bring independent, objective judgement to the Board’s deliberations and decision-making process.

Given the present scope and nature of the Group’s business operations, the Board considers that the current size of the Board is adequate and facilitates effective decision-making. The Board is also satisfied that there is a broad spread of knowledge and relevant competencies among its current members for it to operate effectively and expeditiously in the overall interests of the Company.

STATEMENT ON CORPORATE GOVERNANCE

The non-executive directors bring a wide range of business and financial experience, and have proven track records in the private and public service sectors vital to the success of the Company. They fulfil a key role in ensuring that corporate strategic plans and business proposals are fully discussed and critically reviewed. This process ensures that the Board acts in the best long-term interest of the shareholders.

There is a clear separation of the roles of the Board Chairman and the Managing Director, each with clearly defined responsibilities to ensure a balance of power and authority. Tan Sri A. Razak bin Ramli is the Board Chairman with responsibility for ensuring the integrity and effectiveness of the Board. Madam Kuok Oon Kwong who is the Managing Director is responsible to the Board for the operational and financial performance of the Group's businesses.

During the period under review, the Board has not adopted the Code's recommendation pursuant to best practice AA VII whereby a senior independent non-executive director should be identified. Having again considered this appointment, the Board has concluded that the appointment of a senior independent non-executive director is not necessary given the strong independent element on the Board. Furthermore, the roles of the Board Chairman and the Managing Director are separately held with a clear demarcation of responsibilities to ensure there is an appropriate balance of power and to facilitate independent decision-making.

Re-election of directors

All directors are required to seek re-appointment by the shareholders at the first Annual General Meeting ("AGM") after their appointment, and thereafter are subject to retirement by rotation in accordance with the articles of association of the Company. Additionally, all Directors are required to retire from office at least once in every three years, but shall be eligible for re-election. Directors of the Company over the age of seventy years are required to submit themselves for re-appointment annually in accordance with section 129 (6) of the Companies Act, 1965.

The directors of the Company who are seeking election, re-election or re-appointment at the Thirty-Seventh AGM of the Company to be held on 15 May 2008 are contained in the Notice and the Statement Accompanying the Notice of AGM.

Board meetings

The Board meets at least five times a year to deal with business requiring Board approval, but arranges to meet at other times, if the need arises.

The Board met five times during 2007 and the record of attendance of each director at the board meetings is set out in the table below. Several meetings of board committees were also held during 2007 and generally, these meetings correspond with major phases of the financial reporting cycles.

NAME OF DIRECTOR	TOTAL ATTENDANCE
Tan Sri A. Razak bin Ramli	5 / 5
Kuok Oon Kwong	5 / 5
Rozina Mohd Amin	5 / 5
Dato' Haris Onn bin Hussein	4 / 5
Dato' Seri Ismail Farouk Abdullah	5 / 5
Tan Sri Dato' Mohd Amin bin Osman	4 / 5
Datuk Supperamaniam a/I Manickam	5 / 5
Dato' Dr Tan Tat Wai	5 / 5
Tan Yew Jin	5 / 5
Richard Anthony Johnson (Appointed on 1.11.2007)	1 / 2
Ravinder Singh Grewal Sarbjit S (Appointed on 1.11.2007)	2 / 2

STATEMENT ON CORPORATE GOVERNANCE

NAME OF DIRECTOR	TOTAL ATTENDANCE
Dato' Hj Ayoub bin Dato' Hj Ismail (Resigned on 10.9.2007)	3 / 3
Teo Yee Yen Gabriel (Resigned on 10.9.2007)	3 / 3
Kuok Khoon Ho (Resigned on 31.12.2007)	4 / 5

Supply of information and Access to Advice

All directors are briefed by use of comprehensive papers, in advance of Board meetings and by presentations at meetings, to allow proper consideration of the matters on the agenda. From time to time, the Board requests for additional information to regular reporting as it requires. The Board Chairman ensures that the meeting agenda is designed to meet the Board's objectives and that all directors have complete and timely access to all relevant information. The Managing Director keeps the Board informed on a timely basis, of all material matters affecting the Group's performance and major developments within the Group.

The directors have access to the advice and services of the Company Secretary who is responsible for ensuring that the board procedures are followed and that the Company observes all relevant laws and regulations. Additionally, the full Board as well as any member of the Board may in exercising their duties take independent professional advice if necessary, at the Company's expense.

Board Committees

The Board has delegated specific responsibilities to established board committees, as described below, which all operate within defined terms of reference. Decisions and recommendations of the committees of the board are reported to the Board on a formal basis.

a. AUDIT COMMITTEE ("AC")

The AC currently consists of three non-executive directors, two of whom are independent including the Chairman, and meets at least four times a year. Dato' Seri Ismail Farouk Abdullah chairs the AC and the other members are Datuk M. Supperamaniam and Mr Tan Yew Jin. The primary functions of the AC include the review of the effectiveness of the internal control and risk management processes within the Group, overseeing the financial reporting process and the external audit process.

b. POLICY IMPLEMENTATION COMMITTEE ("PIC") – *Hotels & Resorts*

The PIC comprises the two executive directors under the chairmanship of the Managing Director and met on fifteen occasions during the year. The PIC oversees the overall business operations and activities of the Group's hotels and resorts. The respective General Managers together with other senior management attend the meetings to report on operational issues, business performance and project developments. The committee is authorised to approve capital expenditure within the levels agreed by the Board.

c. NOMINATION & REMUNERATION COMMITTEE ("NRC")

The NRC met in December 2007 and comprises three independent non-executive directors. The NRC is chaired by Dato' Dr Tan Tat Wai and the other members are Datuk M. Supperamaniam and Dato' Seri Ismail Farouk Abdullah. Dato' Seri Ismail Farouk was appointed as a member of the NRC on 17 March 2008 to succeed Mr Kuok Khoon Ho who ceased to be a member of the NRC, following his resignation from the Board at the end of December 2007. The key functions of the NRC are to make recommendations on all new appointments to the Board, and to recommend membership of board committees as well as the remuneration framework for executive directors. Its other responsibilities include the review of the structure, size and composition of the Board, including the ongoing effectiveness of the Board as a whole and the committees of the board, and the contributions of each director towards the effective functioning of the Board.

STATEMENT ON CORPORATE GOVERNANCE

Directors' Training

The Board places the responsibility for training of directors on the NRC. To ensure that the Directors are competent in carrying out their expected roles and responsibilities, they are provided with the opportunity for training on an ongoing basis so as to update them on relevant new legislation, regulations and changing commercial risks. Two in-house training seminars were organised for the Directors in August and November 2007. The training seminars were well attended by the Directors and provided updates on the new amendments to the Companies Act, 1965 and changes to the Code of Corporate Governance. The training also covered the main topics of corporate social responsibility and its best practices and standards, as well as audit committee effectiveness.

Mr Richard Johnson and Mr Ravinder Singh who were appointed to the Board during 2007 together with Mr Joseph Stevens, alternate director to Mr Richard Johnson, have all undergone the Mandatory Accreditation Programme in compliance with the Listing Requirements of Bursa Malaysia.

Directors' Remuneration

The Company's general policy on the remuneration of executive directors is to offer competitive remuneration packages, which are designed to attract and retain high calibre executives, and to motivate the highest performance. The NRC advises the Board on the overall remuneration policy for the executive directors and, in doing so, has given full consideration to the best practice provisions of the Code dealing with the level and make-up of directors' remuneration.

In determining the structure and level of individual remuneration packages, the NRC takes into account specific responsibilities, individual performance, the business performance of the Company and the general economic outlook. It aims to provide a balanced remuneration package, which consists of an appropriate level of basic salary and annual bonus that is linked to the achievement of annual targets related to the performance of the Company. The NRC makes comparison with the remuneration practices and salary levels of comparable companies, particularly in the hotel industry, but exercises its own judgement as to whether such other practices are appropriate for the Company.

The non-executive directors of the Company are paid an annual fixed fee for serving on the Board, which is determined by the Board as a whole, subject to shareholders approval at the Annual General Meeting. No director is involved in deciding his or her own remuneration. The aggregate remuneration of the directors of the Company categorised into the appropriate components and analysed into bands of RM50,000 for the financial year ended 31 December 2007 is set out below.

CATEGORY	FEES & ALLOWANCES (RM)	SALARIES & BONUS (RM)	BENEFITS-IN-KIND (RM)
Executive Directors	-	1,307,000	25,000
Non-Executive Directors	245,000	-	-
Total	245,000	1,307,000	25,000

AMOUNT OF REMUNERATION	EXECUTIVE DIRECTORS	NON-EXECUTIVE DIRECTORS
Below RM50,000	-	12
RM50,001 to RM100,000	-	-
RM200,001 to RM250,000	-	-
RM250,001 to RM300,000	-	-
RM300,001 to RM350,000	-	-
RM350,001 to RM400,000	-	-
RM400,001 to RM450,000	-	-
RM450,001 to RM500,000	-	-
RM500,001 to RM550,000	-	-
RM550,001 to RM600,000	-	-
RM600,001 to RM650,000	1	-
RM650,001 to RM700,000	1	-

STATEMENT ON CORPORATE GOVERNANCE

RELATIONSHIP WITH SHAREHOLDERS

Communications with shareholders are given high priority. The Board aims to ensure the timely disclosure of information to all shareholders. The Company keeps the shareholders abreast of the overall financial performance and future developments of the Group through its annual report and accounts, quarterly announcements of results made through Bursa Malaysia, press releases and circulars to shareholders. The Company values its dialogue with institutional investors and analysts, and responds continually to their ad-hoc requests for discussion on the Group's strategy and financial performance.

The Board uses the Annual General Meeting ("AGM") as an important means of communication with shareholders. At that meeting, shareholders are given a balanced report of the results and progress of the Group's performance and its future prospects. Shareholders are also invited to ask questions on items of business put before the meeting and have the opportunity to vote separately on each resolution. The Board encourages shareholders to participate in discussions with the Board and to give their views to directors. After the meeting, the directors are available to answer further questions on the business of the Group.

ACCOUNTABILITY AND AUDIT

Financial reporting

In presenting the annual financial statements and quarterly announcement of results, the Board aims to provide shareholders with a balanced and understandable assessment of the Group's financial position and prospects. The Audit Committee of the Board assists the Board in ensuring the reliability and integrity of the accounting and financial reporting systems of the Company. In addition, it reviews the annual financial statements and quarterly financial reports before they are submitted to the Board for approval. A statement of the directors' responsibilities for preparing the financial statements is set out on page 46 of this annual report.

Internal Control

The Board recognises that it is responsible for the Group's system of internal control and for reviewing its effectiveness. The Statement on Internal Control which provides an overview of the state of the Group's system of internal control is set out on pages 35 to 37 of this annual report.

Relationship with the Auditors

The Audit Committee of the Board provides an independent channel of communication for the external and internal auditors. The Board ensures that an objective and professional relationship is maintained with the external auditors through the Audit Committee which keeps under review the nature, scope and results of the external audit, its cost effectiveness and the independence and objectivity of the auditors. It also reviews the scope of work and extent of the activity of the internal audit function.

This statement is made in accordance with a resolution of the Board of Directors dated 8 April 2008.

STATEMENT ON INTERNAL CONTROL

INTRODUCTION

The Board acknowledges the importance of maintaining a sound system of internal control and effective risk management as part of its ongoing efforts to practice good corporate governance. The Board is committed to practising the highest standards of corporate governance and observing best practices, and will continue to improve on current practices.

BOARD RESPONSIBILITY

The Board has ultimate responsibility for the system of internal control operating throughout the Group and for reviewing its effectiveness, adequacy and integrity, including financial and operational controls, compliance with relevant laws and regulations, and risk management in order to safeguard shareholders' investments and the Group's assets.

The Board recognises that the Group's system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and that it can only provide reasonable and not absolute assurance against misstatement or loss.

The Group has established the necessary procedures, which accord with the guidance on internal controls provided in the Statement on Internal Control: Guidance for Directors of Public Listed Companies, and that these procedures have been in place throughout the financial year and up to the date of approval of this report.

These procedures ensure that the Board is aware of the key risks facing the Group and that the system of internal control is regularly reviewed for effectiveness and adequacy. The Board has delegated the primary responsibility for the operation of the system of internal control to the executive directors and management within an established framework that applies throughout the Group.

RISK MANAGEMENT FRAMEWORK

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group in the context of its business objectives. Each major operating unit of the Group has produced a risk register, which identifies the key risks, their potential impact and likelihood of occurrence as well as the control strategies in place to manage those risks. Action plans have been developed and monitored continuously to ensure compliance, and these plans are regularly reviewed by the Board through the Audit Committee. The Group's risk profile is updated periodically to reflect the changing business environment and to enable the implementation of control strategies to manage new risks on a timely basis.

The process is supported by the Internal Audit Department of the Company's ultimate holding company, which monitors the continuing effectiveness of the risk management activities of the group and reports to the Audit Committee of the Board on any control failings and corrective action.

STATEMENT ON INTERNAL CONTROL

OTHER KEY ELEMENTS OF INTERNAL CONTROL

The other key elements of the Group's internal control system are described below.

- **Organisation structure with clearly defined lines of responsibility and delegated authority**

The Group has in place an organisation structure with key responsibilities clearly defined for the Board, committees of the board and the executive management of the Group's major operating units.

- **Independence of Audit Committee**

The Audit Committee of the Board currently comprises three non-executive directors, the majority of whom are independent, and has full access to both the internal and external auditors.

- **Documented internal policies and procedures**

Key policies and control procedures regulating financial and operating activities are clearly documented in manuals for the hotel operating units. Compliance with the controls set out in the manuals is monitored by monthly self assessment reports from the finance heads of each operating unit and a rolling programme of internal audit reviews. These manuals are subject to regular reviews and updates to reflect the changing business risks and to resolve operational deficiencies, if any.

- **Detailed budgeting process**

Detailed annual budgets are prepared by individual operating units containing business strategies, financial and operating targets, performance indicators and capital expenditure proposals, which are reviewed by the Policy Implementation Committee of the Board. The Board approves the consolidated Group budget with objectives for each operating unit.

- **Comprehensive system of financial reporting**

A comprehensive system of reporting financial information to the executive management of major operating units, the executive directors and the Board is in place. Detailed management accounts are prepared by each operating unit based on an annual budget with monthly reports compared against budget, analysis of significant variances and key performance indicators and regular re-forecasting.

The Board also reviews the treasury reports on a quarterly basis, which analyse the Group's funding requirements and monitor the Group's borrowings and exposure to interest rate risk. Other important areas such as legal and regulatory compliance and insurance risk management are monitored and reviewed by the Policy Implementation Committee of the Board on a continuous basis.

The Policy Implementation Committee and senior management keep the Board updated periodically on the Group's operation and on any significant changes in the business and external environment that may have an impact on the financial position of the Group.

- **Established capital expenditure approval process**

The Group has formal procedures for the appraisal of major capital expenditure, which must be approved by the Board, and detailed procedures and authority levels relating to all other capital expenditure. There are also clear procedures for obtaining approval for assets disposal and major business transactions.

STATEMENT ON INTERNAL CONTROL

- **Employee competency**

Continuous staff training and development are emphasised to enhance and improve employee competencies and proficiencies via on-the-job and classroom training. The Group also places high emphasis on communicating information relating to business plans and performance to employees so as to encourage participation and to create awareness of the financial and economic factors affecting the Group. This is achieved through established communication channels between executive management and employees, ad-hoc briefings and periodic in-house publications.

The Group's hotel operating units have in place a Code of Conduct, to which all employees are signatories, governing the standards of ethical behaviour in dealing with customers, suppliers and fellow employees. The Shangri-La's Strategic Plan, *One Team – One Way Towards Excellence* sets out the guiding principles for all employees towards achieving market leadership, the goals and financial objectives for the Group's hotels.

INTERNAL AUDIT FUNCTION

Internal audit plays a critical role in the objective assessment of the Group's business processes by providing the Audit Committee of the Board with reasonable independent assurance on the effectiveness and integrity of the Group's system of internal control.

The Audit Committee of the Board is assisted by the Internal Audit Department ("IAD") of the Company's ultimate holding company. The role of the IAD is to perform independent reviews, and monitor and ensure compliance with the Group's policies, procedures and systems of internal control. The IAD reports to the Audit Committee of the Board regarding the effectiveness of the risk and control management, and also recommends improvements in controls. The audits performed by the IAD are based on risk based audit plans approved by the Audit Committee.

The Audit Committee of the Board considers significant control matters and receives regular reports from the IAD and reports its findings and conclusions to the full Board on a quarterly basis.

There were no material losses incurred arising from weaknesses in internal control identified during the financial year that would require mention in the Annual Report.

This statement is made in accordance with a resolution of the Board of Directors dated 8 April 2008.

AUDIT COMMITTEE REPORT

FOR THE YEAR ENDED 31 DECEMBER 2007

The Audit Committee ("committee") of Shangri-La Hotels (Malaysia) Berhad was established on 6 July 1994. The committee assists the Board in fulfilling its responsibility for maintaining a sound system of internal control in order to safeguard the assets of the Group and shareholders investments. It also assists the Board in ensuring the reliability of financial information for publication, the maintenance of proper accounting records, the efficiency of operations and compliance with relevant laws and regulations. In carrying out its duties, the committee maintains effective working relationships with the Board, management, and the external and internal auditors.

COMPOSITION AND ATTENDANCE AT MEETINGS

The committee currently consists of three non-executive directors, two of whom are independent including the Chairman. The committee is chaired by Dato' Seri Ismail Farouk Abdullah and the other members are Datuk M. Supperamaniam and Mr Tan Yew Jin.

The committee met four times in 2007. Detailed written agendas are prepared and distributed to committee members in advance of each meeting to allow proper consideration of enclosed reports. While the executive directors and senior management are normally invited to attend the meetings, the external and internal auditors may have private discussions with the members of the committee. The committee reports its conclusions and recommendations to the Board on a quarterly basis and the minutes of the committee meetings are made available to the full Board. The record of attendance of each member at the committee meetings is set out in the table below.

NAME OF MEMBER	TOTAL ATTENDANCE
Dato' Seri Ismail Farouk Abdullah, Chairman (Independent Non-Executive Director)	4 / 4
Datuk Supperamaniam a/I Manickam (Independent Non-Executive Director)	4 / 4
Tan Yew Jin (Non-Independent Non-Executive Director)	4 / 4

SUMMARY OF ACTIVITIES OF THE COMMITTEE

A summary of the activities performed by the committee during the year under review is given below.

- reviewed with the external auditors their scope of work, the audit plan for the year, the audit findings and management's follow-up actions.
- reviewed with the external auditors the annual financial statements, the auditors' report and the impact of changes in accounting policies and regulatory requirements on the financial statements before submission to the Board.
- reviewed the quarterly announcements of results prior to their submission to the Board for approval.
- reviewed reports from the internal audit on the effectiveness of the Group's internal control system and monitored the progress of actions taken in relation to significant internal control issues.

AUDIT COMMITTEE REPORT

FOR THE YEAR ENDED 31 DECEMBER 2007

TERMS OF REFERENCE OF THE COMMITTEE

1. Membership

- 1.1 The members of the Audit Committee shall be appointed by the Board and shall consist of not less than three members, the majority of whom shall be independent non-executive directors in accordance with the definition provided under Paragraph 1.01 of the Listing Requirements of Bursa Malaysia. If membership for any reason falls below three members, the Board of Directors shall, within one month of that event, appoint such number of new members as may be required to fulfil the minimum requirement.
- 1.2 No alternate directors shall be appointed to the Audit Committee.
- 1.3 At least one member of the Audit Committee must be a member of the Malaysian Institute of Accountants or a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.
- 1.4 The Chairman of the Committee shall be an independent non-executive Director appointed by the Board.
- 1.5 The term of office and performance of the Committee and each of its members shall be reviewed by the Board at least once every three (3) years.

2. Meetings

- 2.1 Meetings of the Audit Committee shall be held at least four times a year.
- 2.2 The quorum for a meeting of the Audit Committee shall be two members, a majority of whom must be independent non-executive directors. In the absence of the Chairman, the members present shall elect a chairman for the meeting from amongst the members present.
- 2.3 The meetings of the Audit Committee shall normally be attended by the executive director and the Head of Internal Audit. The Audit Committee may also request other directors, members of senior management, counsels, internal and external auditors to participate in the Audit Committee meetings, as necessary.
- 2.4 The Audit Committee shall meet the external auditors at least once a year without members of senior management and executive directors present.
- 2.5 Minutes of the Audit Committee meetings shall be tabled at the meeting of the Board of Directors. The Audit Committee, through its Chairman, shall report on each meeting to the Board of Directors.

AUDIT COMMITTEE REPORT

FOR THE YEAR ENDED 31 DECEMBER 2007

3. Authority

In the performance of its duties and responsibilities, the Audit Committee shall at the cost of the Company:

- a. have authority to investigate any activity within its Terms of Reference;
- b. have access to resources required to perform its duties within its Terms of Reference;
- c. have full and unrestricted access to any employee and information pertaining to the Group;
- d. have direct communication channels with the external auditors and members of the internal audit department who carry out the internal audit function of the Group;
- e. be able to engage independent professional advisers or to secure attendance of outsiders with relevant experience and expertise, when the Audit Committee considers this necessary.

4. Functions & Duties

The Audit Committee shall carry out the following functions and duties:

- a. review external audit plans and scope of work before audit commences.
- b. review the adequacy of the internal audit plan and its scope of audit and ensure that the internal audit function has the necessary authority and resources to carry out its work.
- c. review the quarterly results and annual financial statements of the Company and Group before submission to the Board.

The review should focus primarily on:

- any changes in or implementation of major accounting policies and practices;
 - significant and unusual events;
 - significant adjustments arising from the audit;
 - the going concern assumptions;
 - compliance with accounting standards and regulatory requirements.
- d. review and assess the adequacy and effectiveness of the systems of internal control and the efficiency of the Group's operations in particular those relating to areas of significant risks. Additionally, to assess the internal process for determining and managing the principal risks throughout the Group.
 - e. review the scope of internal and external auditors' evaluation of the systems of internal control of the Group.
 - f. review audit reports prepared by the internal and external auditors, the major findings and management's responses thereto and ensure that appropriate action is taken in respect of these reports.

AUDIT COMMITTEE REPORT

FOR THE YEAR ENDED 31 DECEMBER 2007

- g. review appraisals or assessment of the performance of the staff members of the internal audit function.
- h. approve the appointments or termination of the Head of Internal Audit and senior executives in the internal audit function.
- i. be informed of resignations of internal audit staff members and provide the resigning staff member with an opportunity to submit his/her reasons for resigning.
- j. direct any special investigations to be carried out by internal audit.
- k. discuss problems arising from external audit including the assistance given by employees of the Group to the external auditors and any matters the external auditors may wish to discuss.
- l. nominate the external auditors and recommend for approval of the Board of Directors the external audit fee; and consider any questions of resignation or dismissal, resources and capability.
- m. review the effectiveness of the system for monitoring compliance with applicable laws and regulatory requirements.
- n. review any related party transaction and conflict of interest situation that may arise within the Company or the Group including any transaction, procedure or course of conduct that raises questions of management integrity.
- o. where the Audit Committee is of the view that the matter reported by it to the Board of Directors has not been satisfactorily resolved, resulting in a breach of the Listing Requirements of Bursa Malaysia, the Audit Committee shall promptly report such matters to Bursa Malaysia.
- p. perform other duties as directed by the Board of Directors.

INTERNAL AUDIT FUNCTION

Internal audit plays a critical role in the objective assessment of the Group's business processes and the provision of assurance. The Audit Committee of the Board is assisted by the Internal Audit Department ("IAD") of the Company's ultimate holding company. The role of the IAD is to perform independent reviews, monitor, and ensure compliance with the Group's policies, procedures and systems of internal control. The IAD reports to the Audit Committee of the Board regarding the effectiveness of risk and control management, and also recommends improvements in controls.

CORPORATE SOCIAL RESPONSIBILITY

As a responsible corporate citizen, we are fully committed to sound principles of Corporate Social Responsibility (CSR). CSR is integral to the way we conduct our business and underpins our long-term growth strategy. We strive to build on our CSR programme and initiatives, which aim for high standards of social and environmental business practices across our operations.

We place a strong focus on engagement with our stakeholders at all levels including employees, customers, shareholders, and the local communities. We also continue to work closely and participate in extensive dialogue with local authorities and government bodies at both national and local levels on environment-related issues to deliver common goals and objectives.

During 2007, we formalised CSR committees at each of our hotel properties, comprising members of senior management. The role of each committee is to oversee the ongoing development and implementation of the Group's CSR policies and practices, as well as to monitor progress in the key areas of environmental management, employment, health and safety, community support, and supply chain management.

THE ENVIRONMENT

We acknowledge our responsibilities for managing and reducing the impact that our business has on the environment, and are committed to making continuous improvements in environmental performance.

ISO 14001 Environmental Management System

Our hotels have made considerable strides over the past years in the continued development of their environmental management systems for the protection of the environment. This has resulted in all of our hotels having attained ISO 14001 accreditation, an international standard of environmental management intended to assist organisations to achieve environmental goals. Rasa Sayang Resort in Penang is planning to be re-certified by the end of 2008, following the completion of its major redevelopment exercise.

Energy and Water Efficiency

Significant investment has been made in initiatives to improve efficiency in the use of resources including energy and water throughout the Group.

Most of our hotels have completed their programmes to replace low efficiency chillers with new environmentally friendly CFC-free high efficiency chillers. Shangri-La Hotel Kuala Lumpur has converted the use of LPG to natural gas for all boilers and in all kitchen areas aimed at achieving improved air quality. In addition, Rasa Sayang Resort has switched from using diesel burning boilers to heat pumps to reduce both diesel fuel consumption and emissions. To further enhance energy efficiencies, a number of our hotels have installed guestroom electronic control systems, as well as high efficiency lighting in guestrooms and certain public areas.

Several measures have been introduced to reduce water usage such as the installation of constant flow constant pressure water saving devices at selected hotel areas. Sub-meters have been installed throughout the hotels to monitor and measure energy and water consumption, and to enable the setting of targets for improvement.

Our hotels continue to explore opportunities to improve their waste management programmes through the recycling of waste such as glass bottles, paper, plastics, metals and used cooking oil. Increased efforts are also being made to ensure that the majority of cleaning materials used by our hotels are biodegradable.

CORPORATE SOCIAL RESPONSIBILITY

Conservation and Biodiversity

To protect and enhance conservation of the natural environment, Rasa Ria Resort in Sabah has dedicated 64 acres of its forested hills to a nature reserve. This nature reserve is home to various species of birds and small animals and an abundance of indigenous flora.

In collaboration with the Sabah Wildlife Department, abandoned baby orangutans are rehabilitated in the nature reserve under the care of the resort's trained forest rangers. Since 1996, nineteen orangutans have been successfully rehabilitated to enable them to move on to the next stage of their rehabilitation programme for eventual release into the wild.

The Nature Interpretation Centre at the resort, which opened in 2005, features facilities such as a veterinary clinic, an animal food preparation kitchen, a nocturnal watch area, a reference library and a number of nature trails. Rasa Ria Resort's nature reserve and its supporting facilities aim to raise greater environmental awareness and at the same time provide an enriching educational experience for visitors, the local communities and students from all around Sabah. Since the nature reserve opened, it has welcomed well over 178,000 visitors.

EMPLOYEES

Our employees are central to the continued success of our business and our reputation for service excellence.

As a preferred employer, the Group operates a non-discriminatory employment policy, providing equal opportunities in all aspects of employment. We aim to recruit and retain employees through appropriate and competitive salary and benefits.

The Group has a comprehensive set of policies that embody its approach to employees and establish a framework for high standards of ethical behaviour and values. The Group's human resource policies and procedures covering various areas are regularly reviewed to keep abreast of industry benchmarks and best practices.

The Workplace and People Development

The Group endeavours to provide a working environment that fosters the continuous development and motivation of employees at all levels to enable them to maximise their full potential and capabilities within the organisation. The Group supports and encourages internal promotion.

The Group hotels operate a wide range of service and functional skills training activities for all levels of employees, including training programmes to develop and improve the management and leadership skills of top talent and high potential employees. Every hotel employee is required to undergo the Group's service culture training through the Shangri-La Care Programme to ensure the delivery of consistent high levels of customer service in all areas of operations.

Each of the Group hotels has dedicated training facilities to conduct internal training courses for its employees and, employees also participate in a range of external training and development programmes. The Group has in place three core development programmes for managerial employees with high potential, namely the corporate management trainee programme, the corporate executive trainee programme and the corporate trainee program.

The Group also provides opportunities for select employees to attend training at the Shangri-La Academy in Beijing through its certificate, diploma and management development programmes. In 2007, a total of 26 employees from the Group's hotels attended the Academy.

Employee feedback and suggestions are encouraged through our staff opinion surveys, speak up programmes, team meetings and two-way dialogue sessions. Employees are kept fully informed of business developments through a variety of communication channels.

CORPORATE SOCIAL RESPONSIBILITY

HEALTH AND SAFETY

The Group places paramount importance on the health and safety of all its employees, customers and the general public.

We are committed to delivering high standards in health and safety matters across all aspects of our operations to ensure a safe and secure environment. All employees receive full training on a regular basis on health and safety awareness covering fire, security, food safety, hygiene and sanitation.

Our health and safety policies and procedures promote a strong safety culture and encourage good practice, as well as compliance with all applicable laws and regulations. Annual internal audits are conducted throughout the Group hotels to ensure that the health and safety management systems are properly implemented and maintained.

Food Safety

Our hotels place a strong emphasis on ensuring the highest level of food safety and managing food safety risks under the stringent Shangri-La Food Safety Management System (SFSMS).

The SFSMS is a fully comprehensive system covering the receiving, preparing, cooking and serving of food items and safeguards against the cross contamination of products. This system is regularly reviewed to ensure that it remains effective and complies with all regulatory requirements. Each hotel has a qualified hygienist responsible for monitoring the implementation of food safety.

More significantly, Shangri-La Hotel Kuala Lumpur has attained HACCP (Hazard Analysis and Critical Control Point System) certification, a global food safety standard system that is one of the most sought-after accreditations in the hospitality industry. Currently, Rasa Sayang Resort and Rasa Ria Resort are working towards obtaining HACCP certification by the end of 2008.

OHSAS 18001 Occupational Health and Safety Management System

In addition, Shangri-La Hotel Kuala Lumpur achieved OHSAS 18001 certification in 2006, demonstrating its commitment to maintaining and improving a healthy and safe work environment. OHSAS 18001 is an international occupational health and safety management system specification, which helps organisations to control and manage high potential occupational health and safety hazards and risks associated with their business activities.

THE COMMUNITY

We are conscious of our responsibility to act as a good corporate citizen and encourage our hotels to engage with the local communities in their areas of operation.

Our hotels bring positive economic benefits through employment opportunities and provide significant training support for developing the capabilities of many locals so as to groom them for senior roles.

All the Group hotels provide practical training on various aspects of hotel operations for students from local Institutes of Higher Learning. In Sabah, Rasa Ria Resort works closely with the human resources department of the State Ministry of Human Resources to provide a hotel attachment training programme for both graduates and school leavers. At the same time, Traders Hotel Penang has been supporting the *Young Enterprise Programme* since 2002, a joint initiative with the American Chamber of Commerce to assist students from local government schools to gain a knowledge of business planning and operations.

Our hotels are involved in a wide range of initiatives for the benefit of the local communities through the active involvement of our employees in beach cleaning, visits to hospitals, orphanages, homes for old folks and the blind, and through annual blood donation campaigns. They also support local communities through fundraising and sponsorship activities for charities and make donations in kind such as blankets, towels, linen, used uniforms and furniture.

CORPORATE SOCIAL RESPONSIBILITY

For many years, Shangri-La Hotel Kuala Lumpur's annual fund raising initiative, the *Save-A-Life-Charity Project* has benefited many less fortunate children who are in urgent need of critical life saving medical treatments and artificial limbs.

In addition to these initiatives, the Group makes corporate donations to national fundraising campaigns for emergency relief for the victims of natural disasters such as the Tsunami Humanitarian Fund in 2004 and the Natural Disaster Aid Fund Trust for the Johor flood victims in 2006.

SUPPLY CHAIN

We acknowledge that many social and environmental impacts are derived from activities in our supply chain. We therefore continually seek ways and identify opportunities to enhance environmental standards in the supply chain.

Our hotels provide CSR guidelines to their major suppliers and procedures are in place to monitor implementation. Compliance with CSR guidelines and performance is monitored through scheduled and unannounced site visits to suppliers' premises. Where supplier audits show shortcomings, a programme of improvement is encouraged for implementation leading to compliance.

To demonstrate our commitment to a sustainable supply chain, Rasa Ria Resort in Sabah is currently working with its major suppliers to reduce the quantity and improve the environmental quality of packaging materials used in delivery. Meanwhile, our hotels in Penang assist their local poultry and seafood suppliers in the effective implementation of HACCP to attain certification.

External Recognition

SHANGRI-LA HOTEL KUALA LUMPUR

- ASEAN Green Hotel Award 2008
- Human Resource Development (Service Sector) 2004 Ministry of Human Resources Award
- Hospitality Asia Platinum Awards 2003/2004 (Malaysia Series) for the Best Human Resources Department
- National HR Excellence Awards 2003 (Main Award Category)
- Prime Minister's Quality Award 1997 for Management Excellence

RASA SAYANG RESORT

- ASEAN Green Hotel Award 2008
- Prime Minister's Hibiscus Award 2000/2001 for Exceptional Achievement in Environmental Performance

GOLDEN SANDS RESORT

- Prime Minister's Hibiscus Award 2002/2003 for Notable Achievement in Environmental Performance

RASA RIA RESORT

- Prime Minister's Hibiscus Award 2000/2001 for Notable Achievement in Environmental Performance

ADDITIONAL COMPLIANCE INFORMATION

1. NON-AUDIT FEES

Non-audit fees paid by the Company and its subsidiaries to the external Auditors, Messrs KPMG and its affiliated companies for the financial year ended 31 December 2007 amounted to RM125,004. This payment was in respect of advisory services for the Group's taxation matters and filing of tax returns, and the review of the Statement on Internal Control.

	RM
KPMG	9,594
KPMG Tax Services Sdn Bhd	115,410
Total	125,004

2. MATERIAL CONTRACTS INVOLVING DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

Other than those disclosed in the financial statements of the Group and of the Company for the financial year ended 31 December 2007, there were no material contracts entered into by the Company or its subsidiaries, involving the interests of Directors and substantial shareholders.

STATEMENT ON DIRECTORS' RESPONSIBILITY

IN RELATION TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

The Directors are required by the Companies Act, 1965 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for that period.

The Directors consider that in preparing the financial statements for the year ended 31 December 2007 on pages 56 to 99, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable approved Financial Reporting Standards issued by the Malaysian Accounting Standards Board have been followed, subject to any explanations and any material departures disclosed in the notes to the financial statements.

The Directors have responsibility for ensuring that the Company and the Group keep accounting records which disclose, with reasonable accuracy, the financial position of the Company and the Group and which enable them to ensure that the financial statements comply with the Companies Act, 1965. The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to seek to prevent and detect fraud and other irregularities.

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DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2007

The Directors have pleasure in submitting their Report together with the audited financial statements of the Group and of the Company for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Group is engaged in the operation of hotels and beach resorts, a golf course and clubhouse, property management and investment and commercial laundry.

The principal activities of the Company are investment holding and the operation of a beach resort, namely Rasa Sayang Resort. There has been no significant change in the nature of these activities during the financial year.

RESULTS FOR THE FINANCIAL YEAR

	GROUP RM'000	COMPANY RM'000
Profit attributable to:		
Shareholders of the Company	77,242	73,941
Minority interests	5,951	-
	83,193	73,941

RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year except as disclosed in the financial statements.

ISSUE OF SHARES

The Company did not issue any shares during the financial year.

DIVIDENDS

Since the end of the previous financial year, the Company paid:

- i. a final dividend of 5% less tax at 27% totalling RM16,060,000 in respect of the year ended 31 December 2006 on 25 June 2007; and
- ii. an interim dividend of 3% less tax at 27% totalling RM9,636,000 in respect of the year ended 31 December 2007 on 23 November 2007.

The Board has proposed a final dividend of 7% less tax at 26% totalling RM22,792,000 for the financial year ended 31 December 2007. The proposed final dividend has not been accounted for as it is pending shareholders' approval at the forthcoming Annual General Meeting, which is scheduled to be held on 15 May 2008. The final dividend, if approved by the shareholders shall be accounted for as an appropriation of retained earnings in the financial year ending 31 December 2008.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2007

DIRECTORS OF THE COMPANY

The Directors of the Company in office since the date of the last Directors' Report are:

Directors

Tan Sri A. Razak bin Ramli Chairman

Kuok Oon Kwong Managing Director

Rozina Mohd Amin Executive Director

Dato' Seri Ismail Farouk Abdullah

Tan Sri Dato' Mohd Amin bin Osman

Datuk Supperamaniam a/l Manickam

Dato' Dr Tan Tat Wai

Dato' Haris Onn bin Hussein

Tan Yew Jin

Richard Anthony Johnson (Appointed on 1.11.2007)

Ravinder Singh Grewal Sarbjit S (Appointed on 1.11.2007)

Dato' Hj Ayoub bin Dato' Hj Ismail (Resigned on 10.9.2007)

Teo Yee Yen Gabriel (Resigned on 10.9.2007)

Kuok Khoon Ho (Resigned on 31.12.2007)

Alternate Director

Sulip R. Menon (Resigned as Alternate Director to Dato' Hj Ayoub bin Dato' Hj Ismail and Teo Yee Yen Gabriel on 10.9.2007)

Joseph Patrick Stevens (Appointed as Alternate Director to Richard Anthony Johnson on 1.11.2007)

In accordance with Article 76 of the Company's Articles of Association, Mr Richard Anthony Johnson and Mr Ravinder Singh Grewal Sarbjit S retire from the Board at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

In accordance with Article 95 of the Company's Articles of Association, Madam Kuok Oon Kwong, Puan Rozina Mohd Amin and Datuk Supperamaniam a/l Manickam retire by rotation from the Board at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

Tan Sri Dato' Mohd Amin bin Osman, who has attained the age of seventy (70) years, retires in accordance with Section 129(2) of the Companies Act, 1965 and offers himself for re-appointment in accordance with Section 129(6) of the said Act to hold office until the next Annual General Meeting of the Company.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2007

DIRECTORS' INTERESTS IN SHARES

According to the Register of Directors' Shareholdings, the particulars of interests of Directors who held office at the end of the financial year (including the interests of the spouse or children of the Directors who themselves are not Directors of the Company) in shares and share options in the Company and a related corporation are as follows:

	As at 1.1.2007/ Date of Appointment	Acquired	(Disposed)	As at 31.12.2007
The Company	Number of Ordinary Shares of RM1.00 each			
DIRECT INTERESTS				
Tan Sri A. Razak bin Ramli	-	-	-	-
Kuok Oon Kwong	-	-	-	-
Rozina Mohd Amin	-	-	-	-
Dato' Haris Onn bin Hussein	-	-	-	-
Dato' Seri Ismail Farouk Abdullah	200,000	-	-	200,000
Kuok Khoon Ho	-	-	-	-
Tan Sri Dato' Mohd Amin bin Osman	23,000 ⁽¹⁾	-	-	23,000 ⁽¹⁾
Datuk Supperamaniam a/l Manickam	-	-	-	-
Dato' Dr Tan Tat Wai	-	-	-	-
Tan Yew Jin	5,000	-	-	5,000
Richard Anthony Johnson	-	-	-	-
Ravinder Singh Grewal Sarbjit S	-	-	-	-
Joseph Patrick Stevens	-	-	-	-
DEEMED INTERESTS				
Kuok Oon Kwong	10,000	-	-	10,000
Kuok Khoon Ho	10,000	-	-	10,000
Tan Yew Jin	20,000	-	-	20,000

Related Corporation

Shangri-La Asia Limited ("SAL") - Ultimate Holding Company	Number of Ordinary Shares of HKD1.00 each			
DIRECT INTERESTS IN SAL				
Tan Sri A. Razak bin Ramli	-	-	-	-
Kuok Oon Kwong - own	151,379	16,818	-	168,197
- others	192,011 ⁽¹⁾	21,334 ⁽¹⁾	-	213,345 ⁽¹⁾
Rozina Mohd Amin	-	-	-	-
Dato' Haris Onn bin Hussein	-	-	-	-
Dato' Seri Ismail Farouk Abdullah	-	-	-	-
Kuok Khoon Ho - own	636,768	70,752	-	707,520
- others	400,000 ⁽¹⁾	44,444 ⁽¹⁾	-	444,444 ⁽¹⁾
Tan Sri Dato' Mohd Amin bin Osman	15,900	-	-	15,900
Datuk Supperamaniam a/l Manickam	-	-	-	-
Dato' Dr Tan Tat Wai	-	-	-	-
Tan Yew Jin	111,560	-	-	111,560
Richard Anthony Johnson	-	-	-	-
Ravinder Singh Grewal Sarbjit S	-	-	-	-
Joseph Patrick Stevens	-	-	-	-
DEEMED INTERESTS IN SAL				
Kuok Oon Kwong	162,610	20,023	-	182,633
Kuok Khoon Ho	162,610	122,023	(102,000)	182,633

⁽¹⁾ shares held directly by spouse/child. In accordance with Section 134(12)(c) of the Companies Act, 1965, the interests and deemed interests of the spouse/child in the shares of the Company and its related corporations (other than wholly-owned subsidiaries) shall be treated as the interests of the Director.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2007

Share Options in SAL

	Option period	Exercise price per share option	Number of Ordinary Shares of HKD1.00 each granted under the option			
			As at 1.1.2007	Granted	Exercised	As at 31.12.2007
Kuok Oon Kwong	28.4.2006 - 27.4.2015	HKD 11.60	150,000	-	-	150,000
	28.4.2007 - 27.4.2015	HKD 11.60	150,000	-	-	150,000
	16.6.2007 - 15.6.2016	HKD 14.60	60,000	-	-	60,000
	16.6.2008 - 15.6.2016	HKD 14.60	60,000	-	-	60,000
Rozina Mohd Amin	28.4.2006 - 27.4.2015	HKD 11.60	25,000	-	-	25,000
	28.4.2007 - 27.4.2015	HKD 11.60	25,000	-	-	25,000
	16.6.2007 - 15.6.2016	HKD 14.60	10,000	-	-	10,000
	16.6.2008 - 15.6.2016	HKD 14.60	10,000	-	-	10,000

Other than as disclosed above, none of the Directors held any shares as at 31 December 2007, nor has any Director acquired or disposed any shares during the course of the year, in any other related corporations of the Company.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements) by reason of a contract made by the Company or a related corporation with a Director or with a firm of which a Director is a member, or with a company in which a Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate other than the share options granted by the ultimate holding company to certain Directors of the Company.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2007

OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

- i. all known bad debts have been written off and adequate provision made for doubtful debts, and
- ii. all current assets have been stated at the lower of cost and net realisable value.

At the date of this report, the Directors are not aware of any circumstances:

- i. which would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and in the Company inadequate to any substantial extent, or
- ii. which would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or
- iii. which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or
- iv. not otherwise dealt with in this report or in the financial statements that would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

- i. any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- ii. any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, other than the change in accounting policy as disclosed in Note 29 to the financial statements, the results of the operations of the Group and of the Company for the financial year ended 31 December 2007 have not been substantially affected by any item, transaction or event of a material and unusual nature.

In the opinion of the Directors, no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report, which would affect substantially the results of the operation of the Group or of the Company for the financial year in which this report is made.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2007

ULTIMATE HOLDING COMPANY

The Directors regard Shangri-La Asia Limited, a company incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited and the Singapore Exchange Securities Trading Limited as the ultimate holding company.

AUDITORS

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed in accordance with a resolution of the Directors:

TAN SRI A. RAZAK BIN RAMLI

Chairman

KUOK OON KWONG

Managing Director

Kuala Lumpur,
26 February 2008

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, TAN SRI A. RAZAK BIN RAMLI and KUOK OON KWONG, being two of the Directors of SHANGRI-LA HOTELS (MALAYSIA) BERHAD state that, in the opinion of the Directors, the financial statements set out on pages 56 to 99 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved Financial Reporting Standards issued by the Malaysian Accounting Standards Board so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 December 2007 and of the results of their operations and cash flows for the year ended on that date.

Signed in accordance with a resolution of the Directors:

TAN SRI A. RAZAK BIN RAMLI

Chairman

KUOK OON KWONG

Managing Director

Kuala Lumpur,
26 February 2008

STATUTORY DECLARATION

PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, TAY KENG HOCK, the Officer primarily responsible for the financial management of SHANGRI-LA HOTELS (MALAYSIA) BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 56 to 99 are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed
TAY KENG HOCK at Kuala Lumpur in
Wilayah Persekutuan on 26 February 2008

Before me:

SOH AH KAU, A.M.N.

Commissioner for Oaths

Kuala Lumpur

REPORT OF THE AUDITORS

TO THE MEMBERS OF SHANGRI-LA HOTELS (MALAYSIA) BERHAD

We have audited the financial statements set out on pages 56 to 99. The preparation of the financial statements is the responsibility of the Company's Directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statements presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion:

- a. the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved Financial Reporting Standards issued by the Malaysian Accounting Standards Board so as to give a true and fair view of:
 - i. the state of affairs of the Group and of the Company at 31 December 2007 and the results of their operations and cash flows for the year ended on that date; and
 - ii. the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company; and
- b. the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The audit reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsection (3) of Section 174 of the Act.

KPMG
Firm Number: AF 0758
Chartered Accountants

PETER HO KOK WAI
Partner
Approval Number: 1745/12/09(J)

Kuala Lumpur,
26 February 2008

BALANCE SHEETS

AS AT 31 DECEMBER 2007

		GROUP		COMPANY	
	Note	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	3	657,585	625,943	130,969	119,921
Prepaid lease payments	4	19,862	20,188	3,520	3,641
Investment properties	5	262,500	262,500	-	-
Investments in subsidiaries	6	-	-	459,188	459,188
Interests in associates	7	13,357	17,072	-	-
Property development expenditure	8	11,973	11,605	-	-
Deferred tax assets	9	4,768	-	4,768	-
		970,045	937,308	598,445	582,750
Current assets					
Inventories	10	10,960	9,756	1,825	1,517
Trade and other receivables, prepayments and deposits	11	30,409	32,756	218,808	239,861
Tax recoverable	11	7,329	18,830	6,747	14,171
Cash and cash equivalents	12	23,083	12,141	13,149	2,469
		71,781	73,483	240,529	258,018
Total assets		1,041,826	1,010,791	838,974	840,768
EQUITY					
Share capital	13	440,000	440,000	440,000	440,000
Reserves	13	282,615	231,069	265,302	217,057
Total equity attributable to shareholders of the Company		722,615	671,069	705,302	657,057
Minority interests		53,601	48,450	-	-
Total equity		776,216	719,519	705,302	657,057
LIABILITIES					
Non-current liabilities					
Long-term borrowings	14	75,867	94,401	66,900	86,700
Retirement benefits	15	10,936	10,453	110	25
Deferred tax liabilities	9	12,350	13,579	-	-
		99,153	118,433	67,010	86,725
Current liabilities					
Trade and other payables and accruals	16	74,313	69,931	28,912	38,085
Short-term borrowings	14	87,812	102,088	37,750	58,901
Current tax liabilities		4,332	820	-	-
		166,457	172,839	66,662	96,986
Total liabilities		265,610	291,272	133,672	183,711
Total equity and liabilities		1,041,826	1,010,791	838,974	840,768

The notes on pages 62 to 99 are an integral part of these financial statements.

INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	GROUP		COMPANY	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Revenue	17	410,725	330,520	150,485	71,095
Operating profit	17	108,192	54,373	97,014	34,818
Interest income	18	227	120	148	126
Interest expense	19	(7,315)	(5,560)	(6,191)	(2,878)
Share of results of an associated company		(2,698)	(3,725)	-	-
Profit before tax		98,406	45,208	90,971	32,066
Tax expense	21	(15,213)	(4,026)	(17,030)	(3,134)
Profit for the year		83,193	41,182	73,941	28,932
Attributable to:					
Shareholders of the Company		77,242	35,679	73,941	28,932
Minority interests		5,951	5,503	-	-
Profit for the year		83,193	41,182	73,941	28,932
Basic earnings per ordinary share (sen):	22	17.6	8.1		

The notes on pages 62 to 99 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2007

		Attributable to shareholders of the Company	
		Non-distributable	
	Note	Share capital RM'000	Share premium RM'000
GROUP			
At 1 January 2006		440,000	104,501
Transfer of reserves		-	-
Profit for the year		-	-
Dividends to shareholders	23	-	-
Dividend to minority shareholder of a subsidiary		-	-
At 31 December 2006/1 January 2007		440,000	104,501
Profit for the year		-	-
Dividends to shareholders	23	-	-
Dividend to minority shareholder of a subsidiary		-	-
At 31 December 2007		440,000	104,501

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2007

		Attributable to shareholders of the Company			
		Non-distributable		Distributable	
	Note	Share capital RM'000	Share premium RM'000	Capital reserve RM'000	Retained earnings RM'000
COMPANY					
At 1 January 2006		440,000	104,501	32,122	76,846
Transfer of reserves		-	-	(32,122)	32,122
Profit for the year		-	-	-	28,932
Dividends to shareholders	23	-	-	-	(25,344)
At 31 December 2006/1 January 2007		440,000	104,501	-	112,556
Profit for the year		-	-	-	73,941
Dividends to shareholders	23	-	-	-	(25,696)
At 31 December 2007		440,000	104,501	-	160,801

The notes on pages 62 to 99 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2007

Attributable to shareholders of the Company				Total equity attributable to shareholders of the Company RM'000	Minority interests RM'000	Total equity RM'000
Distributable			Retained earnings/ (Accumulated losses) RM'000			
Merger reserve RM'000	Capital reserve RM'000	Other reserves RM'000				
(65,859)	205,869	7,512	(31,289)	660,734	43,747	704,481
65,859	(205,869)	(7,512)	147,522	-	-	-
-	-	-	35,679	35,679	5,503	41,182
-	-	-	(25,344)	(25,344)	-	(25,344)
-	-	-	-	-	(800)	(800)
-	-	-	126,568	671,069	48,450	719,519
-	-	-	77,242	77,242	5,951	83,193
-	-	-	(25,696)	(25,696)	-	(25,696)
-	-	-	-	-	(800)	(800)
-	-	-	178,114	722,615	53,601	776,216

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

	GROUP		COMPANY	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Cash flows from operating activities				
Profit before tax	98,406	45,208	90,971	32,066
Adjustments for:				
Allowance for doubtful debts of subsidiary written back	-	-	(5,851)	(6,602)
Amortisation of prepaid lease payments	326	336	121	122
Depreciation on property, plant and equipment	39,287	33,401	9,639	3,774
Gain on disposal of investment in an associate	(1,286)	(1,286)	(1,286)	(1,286)
Interest expense	7,315	5,560	6,191	2,878
Interest income	(227)	(120)	(148)	(126)
Loss/(Gain) on disposal of property, plant and equipment	579	4	(74)	(23)
Property, plant and equipment written off	1,066	1,850	-	-
Retirement benefits charged	1,547	1,388	85	25
Share of losses of associates	2,698	3,725	-	-
Unrealised (gain)/loss on foreign exchange	(1,166)	(1,248)	5,886	6,602
Operating profit before changes in working capital	148,545	88,818	105,534	37,430
Changes in working capital:				
Change in inventories	(1,204)	(1,140)	(308)	(1,517)
Change in trade and other payables and accruals	4,382	18,402	(1,935)	11,664
Change in trade and other receivables, prepayments and deposits	2,313	(8,423)	46,491	(14,907)
Cash generated from operations	154,036	97,657	149,782	32,670
Tax paid	(6,197)	(10,025)	(14,374)	(11,482)
Retirement benefits paid	(1,064)	(589)	-	-
Net cash generated from operating activities	146,775	87,043	135,408	21,188

The notes on pages 62 to 99 are an integral part of these financial statements.

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

		GROUP		COMPANY	
	Note	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Cash flows from investing activities					
Acquisition of property, plant and equipment		(71,996)	(100,176)	(20,695)	(76,195)
Additions to property development expenditure		(368)	(27)	-	-
Interest received		227	120	148	126
Proceeds from disposal of property, plant and equipment		235	591	82	229
Proceeds from disposal of investment in an associate		1,286	1,286	1,286	1,286
Net cash used in investing activities		(70,616)	(98,206)	(19,179)	(74,554)
Cash flows from financing activities					
Advances and payments made on behalf of subsidiaries		-	-	(32,711)	2,347
Dividend paid to minority shareholder of a subsidiary		(800)	(800)	-	-
Dividend paid to shareholders of the company		(25,696)	(25,344)	(25,696)	(25,344)
Interest paid		(8,128)	(7,294)	(6,191)	(4,612)
Refund of excess call from associates		1,017	435	-	-
(Repayments)/Drawdown of revolving credits		(27,175)	6,150	(35,250)	15,000
(Repayments)/Drawdown of term loans		(4,034)	35,406	(5,300)	64,880
Net cash (used in)/generated from financing activities		(64,816)	8,553	(105,148)	52,271
Net increase/(decrease) in cash and cash equivalents		11,343	(2,610)	11,081	(1,095)
Cash and cash equivalents at 1 January		11,740	14,350	2,068	3,163
Cash and cash equivalents at 31 December		23,083	11,740	13,149	2,068
Cash and cash equivalents					
Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:					
Cash and bank balances	12	11,380	9,721	2,546	2,069
Deposits with licensed banks	12	11,703	2,420	10,603	400
Bank overdrafts	14	-	(401)	-	(401)
		23,083	11,740	13,149	2,068

The notes on pages 62 to 99 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

Shangri-La Hotels (Malaysia) Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Board of Bursa Malaysia Securities Berhad. The addresses of its registered office and principal place of business are as follows:

Registered office

13th Floor, UBN Tower
10 Jalan P. Ramlee
50250 Kuala Lumpur

Principal place of business

Shangri-La's Rasa Sayang Resort & Spa
10th Mile, Batu Feringgi Beach
11100 Penang

The consolidated financial statements as at and for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates.

The Company is principally engaged in investment holding and the operation of a beach resort while the other Group entities are primarily involved in the operation of hotels and beach resorts, a golf course and clubhouse, property management and investment and commercial laundry.

The ultimate holding company is Shangri-La Asia Limited, a company incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited and the Singapore Exchange Securities Trading Limited. The immediate holding company is Hoopersville Limited, a company incorporated in the British Virgin Islands.

The financial statements were approved by the Board of Directors on 26 February 2008.

1. BASIS OF PREPARATION

a. Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with applicable approved Financial Reporting Standards (FRSs) issued by the Malaysian Accounting Standards Board (MASB), accounting principles generally accepted in Malaysia and the provisions of the Companies Act, 1965. These financial statements also comply with the applicable disclosure provisions of the Listing Requirements of Bursa Malaysia Securities Berhad.

The MASB has issued a number of revised FRSs that are effective for accounting periods beginning on or after 1 January 2007 or available for early adoption. The change in the Group's accounting policy and the effect of adopting the revised FRSs are set out in Note 29 to the financial statements.

b. Basis of measurement

The financial statements have been prepared on the historical cost basis except for investment properties as explained in Note 2(e).

c. Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency. All financial information presented in RM has been rounded to the nearest thousand, unless otherwise stated.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

d. Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about the significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 5 - Valuation of Investment Properties.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and have been applied consistently by Group entities, unless otherwise stated.

Certain comparative amounts have been reclassified to conform to the current year's presentation (see Note 30).

a. Basis of consolidation

i. SUBSIDIARIES

Subsidiaries are entities, including unincorporated entities, if any, controlled by the Group. Control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Subsidiaries are consolidated using the purchase method of accounting except for UBN Holdings Sdn Bhd, which was acquired prior to 1 January 2006, is consolidated using the merger method of accounting.

Under the purchase method of accounting, the results of subsidiaries acquired or disposed during the year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the consolidated financial statements. The difference between the acquisition cost and the fair values of the subsidiaries' net assets is reflected as goodwill or negative goodwill as appropriate. Negative goodwill is recognised immediately in the income statement.

Under the merger method of accounting, the results of subsidiaries acquired are accounted for on a full year basis irrespective of the date of merger. The difference between the cost of acquisition and the nominal value of the share capital and reserves of the subsidiaries is taken to merger reserve (or adjusted against any suitable reserve in the case of debit differences).

Investments in subsidiaries are stated in the Company's balance sheet at cost less impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

a. Basis of consolidation (cont'd)

ii. ASSOCIATES

Associates are entities, including unincorporated entities, in which the Group has significant influence, but not control, over the financial and operating policies.

Associates are accounted for in the consolidated financial statements using the equity method. The consolidated financial statements include the Group's share of the income and expenses of the equity accounted associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity accounted associate, the carrying amount of that interest (including any long-term investment and receivables) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Interests in associates are stated in the Company's balance sheet at cost less impairment losses.

iii. MINORITY INTEREST

Minority interest at the balance sheet date, being the portion of the net identifiable assets (excluding goodwill) of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interest in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interest and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated with all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

iv. TRANSACTIONS ELIMINATED ON CONSOLIDATION

Intra-group balances, transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

b. Foreign currency

i. FOREIGN CURRENCY TRANSACTIONS AND BALANCES

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates ruling at the dates of the transactions. The functional currency is the currency of the primary economic environment in which the entity operates.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate ruling at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in the income statement.

ii. OPERATIONS DENOMINATED IN FUNCTIONAL CURRENCIES OTHER THAN RINGGIT MALAYSIA

The assets and liabilities of operations in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the balance sheet date. The income and expenses of foreign operations are translated to RM at exchange rates ruling at the dates of the transactions.

Foreign currency differences are recognised in translation reserve. On disposal, accumulated translation differences are recognised in the consolidated income statement as part of the gain or loss on sale.

iii. NET INVESTMENT IN FOREIGN OPERATIONS

Exchange differences arising from monetary items that in substance form part of the Company's net investment in foreign operations, are recognised in the Company's income statement. Such exchange differences are reclassified to equity in the consolidated financial statements. Deferred exchange differences are recognised in the consolidated income statement upon disposal of the investment.

c. Property, plant and equipment

i. RECOGNITION AND MEASUREMENT

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour and, for qualifying assets, borrowing costs are capitalised in accordance with the Group's accounting policy. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other operating income" or "other operating expense" respectively in the income statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

c. Property, plant and equipment (cont'd)

ii. SUBSEQUENT COSTS

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

iii. DEPRECIATION

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Freehold land is not depreciated. Renovation and contract in-progress are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current and comparative periods are as follows:

• Hotel buildings and other buildings	Lower of underlying land lease period or 50 years
• Integral plant and machinery	6.67% (15 years)
• Golf course and its related buildings	1.67% (60 years)
• Furniture, fixtures and equipment	5% to 25% (4 to 20 years)
• Motor vehicles	20% (5 years)

The initial cost of operating equipment is capitalised and amortised between five (5) to twenty (20) years, and subsequent replacements are written off to the income statement as and when incurred.

The depreciable amount of property, plant and equipment is determined after deducting the residual value. Depreciation method, useful lives and residual values are reassessed at the reporting date.

d. Leased assets

OPERATING LEASE

Operating leases are not recognised on the Group's balance sheet.

Leasehold land that normally has an indefinite economic life and title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted for as prepaid lease payments.

Payments made under operating leases are recognised in the income statements on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS

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e. Investment properties

i. INVESTMENT PROPERTIES

Investment properties are properties which are owned to earn rental income or for capital appreciation or for both. These include land held for a currently underdetermined future use. Properties that are occupied by the companies in the Group are accounted for as owner-occupied rather than as investment properties.

Investment properties are measured initially at cost and subsequently at fair value with changes therein recognised in the income statement.

ii. RECLASSIFICATION TO / FROM INVESTMENT PROPERTY

When an item of property, plant and equipment is transferred to investment property following a change in its use, any difference arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity as a revaluation of property, plant and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statements. Upon disposal of an investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through the income statements.

iii. DETERMINATION OF FAIR VALUE

An external independent firm of professional valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment properties portfolio every year. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

f. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

g. Trade and other receivables, prepayments and deposits

Receivables are initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established.

Subsequent to initial recognition, receivables are stated at cost less allowance for doubtful debts.

Receivables are not held for the purpose of trading.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

h. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts.

i. Impairment of assets

The carrying amounts of assets except for financial assets, inventories, deferred tax assets and investment properties that are measured at fair value are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill that have indefinite useful lives, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statements. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statements in the year in which the reversals are recognised.

j. Borrowings

Borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings using the effective interest method.

k. Employee benefits

i. SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefit obligations in respect of salaries, annual bonuses and paid annual leave are measured on an undiscounted basis and are expensed as the related service is provided.

The Group's contribution to the statutory pension funds are charged to the income statements in the year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

ii. DEFINED BENEFIT PLANS

Certain companies in the Group provide retirement benefits for its unionised employees in accordance with Collective Union Agreement, which is operated on an unfunded defined benefit.

The Group's net obligation in respect of defined benefit retirement plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and that benefit is discounted to determine the present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. In calculating the Group's obligation in respect of a scheme, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the scheme. Otherwise, the actuarial gain or loss is not recognised. The calculation is performed by an independent qualified actuary using the projected unit credit method at least once in every three (3) years. The latest actuarial valuation was carried out as at 31 December 2006.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

I. Provisions and contingent liabilities

i. PROVISIONS

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

ii. CONTINGENT LIABILITIES

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where the Company provides corporate guarantee to guarantee the indebtedness of other companies within its group, the Company disclose the corporate guarantee as a contingent liability until such time it becomes probable that the Company will be required to make a payment under the guarantee.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

m. Trade and other payables and accruals

Payables are measured initially and subsequently at cost. Payables are recognised when there is a contractual obligation to deliver cash or other financial asset to another entity.

n. Revenue recognition

i. HOTEL AND GOLF OPERATIONS

Revenue from the provision of rooms, food and beverage, other departments sales, laundry service fees and golf related income are recognised when services are rendered.

ii. LAUNDRY SERVICES

Revenue from the provision of laundry services by non-hotel operations is recognised when services are rendered.

iii. RENTAL INCOME

Rental income from investment properties is recognised in the income statement on a straight-line basis over the term of the lease.

iv. DIVIDEND INCOME

Dividend income from subsidiaries is recognised when the right to receive payment is established.

o. Interest income and borrowing costs

Interest income is recognised as it accrues, using the effective interest method.

All borrowing costs are recognised in the income statement using the effective interest method, in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to be prepared for its intended use.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

p. Tax expense

Tax expense comprises current and deferred tax. Tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill and the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit (tax loss). Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

q. Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

r. Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

3. PROPERTY, PLANT AND EQUIPMENT

	Note	Freehold land RM'000	Leasehold land RM'000	Hotel buildings and other buildings RM'000	Integral plant and machinery RM'000	Golf course and its related buildings RM'000	Furniture, fixtures, equipment and motor vehicles RM'000	Renovation and contract in-progress RM'000	Total RM'000
GROUP									
COST									
At 1 January 2006									
As previously reported		39,026	23,577	527,075	96,050	48,779	195,958	8,030	938,495
Effect of adopting FRS 117	29	-	(23,577)	-	-	-	-	-	(23,577)
At 1 January 2006, restated		39,026	-	527,075	96,050	48,779	195,958	8,030	914,918
Additions		-	-	2,016	545	38	13,256	86,055	101,910
Disposals		-	-	(262)	(280)	-	(2,937)	-	(3,479)
Write off		-	-	(1,064)	(385)	-	(3,910)	(200)	(5,559)
Transfer		-	-	27,472	7,965	-	48,699	(84,136)	-
Reclassifications		-	-	(2,324)	2,324	-	-	-	-
At 31 December 2006/ 1 January 2007, restated		39,026	-	552,913	106,219	48,817	251,066	9,749	1,007,790
Additions		-	-	1,114	975	39	9,184	61,497	72,809
Disposals		-	-	(601)	(250)	-	(2,751)	-	(3,602)
Write off		-	-	(633)	(1,659)	-	(3,476)	-	(5,768)
Transfer		-	-	48,898	5,421	-	13,563	(67,882)	-
At 31 December 2007		39,026	-	601,691	110,706	48,856	267,586	3,364	1,071,229
DEPRECIATION AND IMPAIRMENT LOSS									
At 1 January 2006									
Accumulated depreciation		-	3,037	145,336	74,679	6,949	122,209	-	352,210
Accumulated impairment loss		-	-	-	-	5,882	-	-	5,882
As previously reported		-	3,037	145,336	74,679	12,831	122,209	-	358,092
Effect of adopting FRS 117	29	-	(3,037)	-	-	-	-	-	(3,037)
At 1 January 2006, restated		-	-	145,336	74,679	12,831	122,209	-	355,055
Depreciation for the year		-	-	12,003	2,087	849	18,462	-	33,401
Disposals		-	-	(62)	(279)	-	(2,543)	-	(2,884)
Write off		-	-	(279)	(384)	-	(3,046)	-	(3,709)
Reclassifications		-	-	(1,048)	1,057	-	(9)	-	-
Transfer to prepaid lease payments	4	-	-	-	-	-	(16)	-	(16)
At 31 December 2006/ 1 January 2007, restated		-	-	155,950	77,160	7,798	135,057	-	375,965
Accumulated impairment loss		-	-	-	-	5,882	-	-	5,882
At 1 January 2007, restated		-	-	155,950	77,160	13,680	135,057	-	381,847

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

Note	Freehold land RM'000	Leasehold land RM'000	Hotel buildings and other buildings RM'000	Integral plant and machinery RM'000	Golf course and its related buildings RM'000	Furniture, fixtures, equipment and motor vehicles RM'000	Renovation and contract in-progress RM'000	Total RM'000
GROUP								
At 1 January 2007, restated								
Accumulated depreciation	-	-	155,950	77,160	7,798	135,057	-	375,965
Accumulated impairment loss	-	-	-	-	5,882	-	-	5,882
	-	-	155,950	77,160	13,680	135,057	-	381,847
Depreciation for the year	-	-	12,198	2,365	718	24,006	-	39,287
Disposals	-	-	(121)	(246)	-	(2,421)	-	(2,788)
Write off	-	-	(142)	(1,646)	-	(2,914)	-	(4,702)
At 31 December 2007								
Accumulated depreciation	-	-	167,885	77,633	8,516	153,728	-	407,762
Accumulated impairment loss	-	-	-	-	5,882	-	-	5,882
	-	-	167,885	77,633	14,398	153,728	-	413,644
CARRYING AMOUNTS								
At 1 January 2006, restated	39,026	-	381,739	21,371	35,948	73,749	8,030	559,863
At 31 December 2006/ 1 January 2007, restated	39,026	-	396,963	29,059	35,137	116,009	9,749	625,943
At 31 December 2007	39,026	-	433,806	33,073	34,458	113,858	3,364	657,585

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

3. PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Note	Freehold land RM'000	Leasehold land RM'000	Hotel buildings RM'000	Integral plant and machinery RM'000	Furniture, fixtures, equipment and motor vehicles RM'000	Renovation and contract in-progress RM'000	Total RM'000
COMPANY								
COST								
At 1 January 2006								
As previously reported		1,012	3,938	43,545	8,895	8,293	6,073	71,756
Effect of adopting FRS 117	29	-	(3,938)	-	-	-	-	(3,938)
At 1 January 2006, restated		1,012	-	43,545	8,895	8,293	6,073	67,818
Additions		-	-	374	328	1,221	76,006	77,929
Disposals		-	-	(120)	-	(599)	-	(719)
Transfer		-	-	27,241	6,845	47,993	(82,079)	-
At 31 December 2006/ 1 January 2007, restated		1,012	-	71,040	16,068	56,908	-	145,028
Additions		-	-	6	88	1,074	19,527	20,695
Disposals		-	-	-	-	(371)	-	(371)
Write off		-	-	-	-	(11)	-	(11)
Transfer		-	-	27,838	(4,537)	(3,774)	(19,527)	-
At 31 December 2007		1,012	-	98,884	11,619	53,826	-	165,341
DEPRECIATION								
At 1 January 2006								
As previously reported		-	175	13,047	3,400	5,399	-	22,021
Effect of adopting FRS 117	29	-	(175)	-	-	-	-	(175)
At 1 January 2006, restated		-	-	13,047	3,400	5,399	-	21,846
Depreciation for the year		-	-	1,122	157	2,495	-	3,774
Disposals		-	-	(30)	-	(483)	-	(513)
At 31 December 2006/ 1 January 2007, restated		-	-	14,139	3,557	7,411	-	25,107
Depreciation for the year		-	-	2,310	136	7,193	-	9,639
Disposals		-	-	-	-	(363)	-	(363)
Write off		-	-	-	-	(11)	-	(11)
At 31 December 2007		-	-	16,449	3,693	14,230	-	34,372
CARRYING AMOUNTS								
At 1 January 2006, restated		1,012	-	30,498	5,495	2,894	6,073	45,972
At 31 December 2006/ 1 January 2007, restated		1,012	-	56,901	12,511	49,497	-	119,921
At 31 December 2007		1,012	-	82,435	7,926	39,596	-	130,969

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

BORROWING COSTS

Group and Company

Included in renovation and contract in-progress of the Group is interest capitalised at rates ranging from 4.19% to 4.30% per annum (2006 - 3.8% to 4.5% per annum) of RM813,000 (2006 - RM1,734,000).

Hotel properties at 31 December 2007 are all located in Malaysia and comprised the following:

Property	Location	Usage	Title
Rasa Sayang Resort & Spa	Batu Feringgi Beach, Penang	304 room resort	Freehold
Shangri-La Hotel Kuala Lumpur	Jalan Sultan Ismail, Kuala Lumpur	701 room hotel	Freehold
Traders Hotel Penang	Magazine Road, Penang	444 room hotel	Leasehold *
Golden Sands Resort	Batu Feringgi Beach, Penang	395 room resort	Freehold
Palm Beach Resort	Batu Feringgi Beach, Penang	Vacant land	Freehold
Rasa Ria Resort	Tuaran, Sabah	420 room resort	Leasehold

* The title deed to the long term leasehold land has yet to be issued by the relevant authority.

4. PREPAID LEASE PAYMENTS

	Note	Unexpired period less than 50 years RM'000	Unexpired period more than 50 years RM'000	Total RM'000
GROUP				
COST				
At 1 January 2006		-	-	-
As previously reported		-	-	-
Effect of adopting FRS 117	29	4,123	19,454	23,577
At 1 January 2006/31 December 2006, restated/ 31 December 2007		4,123	19,454	23,577
AMORTISATION				
At 1 January 2006		-	-	-
As previously reported		-	-	-
Effect of adopting FRS 117	29	227	2,810	3,037
At 1 January 2006, restated		227	2,810	3,037
Amortisation for the year		125	211	336
Transfer from property, plant and equipment	3	-	16	16
At 31 December 2006/1 January 2007, restated		352	3,037	3,389
Amortisation for the year		123	203	326
At 31 December 2007		475	3,240	3,715
CARRYING AMOUNTS				
At 1 January 2006, restated		3,896	16,644	20,540
At 31 December 2006/1 January 2007, restated		3,771	16,417	20,188
At 31 December 2007		3,648	16,214	19,862

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

4. PREPAID LEASE PAYMENTS (cont'd)

	Note	Unexpired period less than 50 years RM'000
COMPANY		
COST		
At 1 January 2006		-
As previously reported		-
Effect of adopting FRS 117	29	3,938
At 1 January 2006/31 December 2006, restated/ 31 December 2007		3,938
AMORTISATION		
At 1 January 2006		-
As previously reported		-
Effect of adopting FRS 117	29	175
At 1 January 2006, restated		175
Amortisation for the year		122
At 31 December 2006/1 January 2007, restated		297
Amortisation for the year		121
At 31 December 2007		418
CARRYING AMOUNTS		
At 1 January 2006, restated		3,763
At 31 December 2006/1 January 2007, restated		3,641
At 31 December 2007		3,520

5. INVESTMENT PROPERTIES

	GROUP	
	2007 RM'000	2006 RM'000
At 1 January/31 December	262,500	262,500
Included in the above are:		
Freehold land	35,000	35,000
Buildings	227,500	227,500
	262,500	262,500

On 31 December 2007, the Group's investment properties were revalued by W.M. Malik & Kamaruzaman, an independent firm of professional valuers, based on open market value on an existing use basis. The market values of the investment properties approximate to their carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

The following are recognised in the income statement in respect of investment properties:

	GROUP	
	2007	2006
	RM'000	RM'000
Rental income	18,988	14,729
Direct operating expenses:		
- income generating investment properties	7,768	7,211

6. INVESTMENTS IN SUBSIDIARIES

	COMPANY	
	2007	2006
	RM'000	RM'000
Unquoted shares, at cost	459,188	459,188

Details of the subsidiaries are as follows:

Name of subsidiary	Principal activities	Effective ownership interest	
		2007	2006
		%	%
Shangri-La Hotel (KL) Sdn Bhd	Operation of a city hotel	100	100
Komtar Hotel Sdn Bhd	Operation of a city hotel	60	60
Golden Sands Beach Resort Sdn Bhd	Operation of a beach resort	100	100
UBN Holdings Sdn Bhd	Investment holding and property investment	100	100
UBN Tower Sdn Bhd	Property investment and office management	100	100
Pantai Emas Sdn Bhd	Operation of a commercial laundry	100	100
Madarac Corporation	Investment holding	100	100
Palm Beach Hotel Sdn Bhd (Note a)	Operation of a beach resort	100	100
Wisegain Sdn Bhd	Investment holding	100	100
Hasil-Usaha Sdn Bhd	Dormant	100	100
Pantai Dalit Beach Resort Sdn Bhd	Operation of a beach resort	75	75
Dalit Bay Golf & Country Club Berhad	Operation of a golf course together with club house and related facilities	75	75
Pantai Dalit Development Sdn Bhd	Property development	75	75

All the subsidiaries are incorporated in Malaysia except for Madarac Corporation, which is incorporated in the British Virgin Islands.

Note

a. The Company ceased its operation of a beach resort on 29 February 1996.

NOTES TO THE FINANCIAL STATEMENTS

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7. INTERESTS IN ASSOCIATES

	GROUP	
	2007	2006
	RM'000	RM'000
Unquoted shares, at cost	3,557	3,557
Loans to associates	100,131	107,820
	103,688	111,377
Share of post-acquisition results of an associated company	(52,706)	(50,008)
Impairment losses on unquoted shares	(3,557)	(3,557)
Allowance for doubtful debts on loans to associates	(34,068)	(40,740)
	13,357	17,072

Summary financial information on associates:

	Country of incorporation	Effective ownership interest %	Revenue (100%) RM'000	Loss (100%) RM'000	Total assets (100%) RM'000	Total liabilities (100%) RM'000
GROUP						
2007						
Traders Yangon Company Ltd ("TYCL")*	Union of Myanmar	23.53	20,847	(11,468)	168,171	356,748
Shangri-La Yangon Company Ltd ("SYCL")*	Union of Myanmar	22.22	-	-	130,589	124,098
Traders Square Company Ltd ("TSCL")*	Union of Myanmar	23.56	-	-	19,372	19,076
			20,847	(11,468)	318,132	499,922
2006						
Traders Yangon Company Ltd ("TYCL")*	Union of Myanmar	23.53	22,468	(15,832)	186,975	376,269
Shangri-La Yangon Company Ltd ("SYCL")*	Union of Myanmar	22.22	-	-	138,666	131,744
Traders Square Company Ltd ("TSCL")*	Union of Myanmar	23.56	-	-	20,659	20,343
			22,468	(15,832)	346,300	528,356

* The results of these companies are based on unaudited financial statements for the years ended 31 December 2007 and 31 December 2006.

The Group's interest in TYCL, SYCL and TSCL are held via its wholly-owned subsidiary, Madarac Corporation.

The loans to associates, namely TYCL, SYCL and TSCL are unsecured and repayable on demand, provided that such demand is made by shareholders holding not less than 51% interest in the respective associates. At 31 December 2007, balances of RM63,319,000 (2006 - RM67,526,000) of the loans to associates are interest free and the remaining balances bear interest ranging between 2.5% to 5.43% (2006 - 2.5%) per annum. The loan interest income has not been recognised in the financial statements as the recoverability of the loan interest income is remote and it is prudent to recognise the loan interest income on a cash basis.

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On 1 May 2005, the Company completed the disposal of its entire 30% equity interest in Johdaya Karya Sdn Bhd ("Johdaya Karya") to Reco City Square JB Sdn Bhd for a total cash consideration of RM39,366,000. The said disposal resulted in a gain of RM18,621,000 for the Group and RM23,166,000 for the Company. The Group and the Company have recognised a gain of RM12,191,000 and RM16,736,000 respectively in the income statements for the year ended 31 December 2005. The remaining balance of the gain of RM6,430,000 for the Group and the Company will be recognised as operating income over the next three (3) consecutive years commencing from the date of completion, subject to Johdaya Karya achieving certain minimum levels of EBITDA for each of the respective years in accordance with the terms of the Sale & Purchase Agreement. In the current financial year ended 31 December 2007, the Company has recognised the second year gain of RM1,286,000 (2006 - RM1,286,000).

8. PROPERTY DEVELOPMENT EXPENDITURE

The property development expenditure represents development expenditure incurred by certain subsidiaries. Included in property development expenditure is interest capitalised amounting to RM4,142,000 (2006 - RM4,142,000).

9. DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

The amounts, determined after appropriate offsetting, are as follows:

	GROUP		COMPANY	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Deferred tax assets	4,768	-	4,768	-
Deferred tax liabilities	12,350	13,579	-	-

Deferred tax assets and liabilities are offset where there is legally enforceable right to set off current tax assets against current tax liabilities and where the deferred taxes relate to the same taxation authority.

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2007	2006	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
GROUP						
Property, plant and equipment	(7,481)	-	(16,279)	(18,380)	(23,760)	(18,380)
Investment properties	-	-	-	(2,373)	-	(2,373)
Provisions	160	-	3,929	-	4,089	-
Unabsorbed capital allowances	9,825	-	-	3,277	9,825	3,277
Unutilised tax losses	2,264	-	-	3,897	2,264	3,897
Net tax liabilities	4,768	-	(12,350)	(13,579)	(7,582)	(13,579)

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9. DEFERRED TAX ASSETS AND LIABILITIES (cont'd)

	Assets		Liabilities		Net	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
COMPANY						
Property, plant and equipment	(7,481)	-	-	-	(7,481)	-
Provisions	160	-	-	-	160	-
Unabsorbed capital allowances	9,825	-	-	-	9,825	-
Unutilised tax losses	2,264	-	-	-	2,264	-
Net tax assets	4,768	-	-	-	4,768	-

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	GROUP		COMPANY	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Deductible/(Taxable) temporary differences	257	(27,660)	-	(26,894)
Unabsorbed capital allowances	5,290	50,364	-	44,940
Unutilised tax losses	11,832	20,555	-	8,708
	17,379	43,259	-	26,754
Deferred tax assets at 26% (2006-27%)	4,519	11,680	-	7,224

The previously unrecognised tax losses and capital allowances of the Company were recognised in the current financial year ended 31 December 2007, as it is probable that future taxable profits will be available against which they can be utilised.

The deductible/taxable temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it may not be probable that future taxable profit will be available against which the Group can utilise the benefits there from.

Subject to agreement by the Inland Revenue Board, the Group has unutilised investment tax allowances of approximately RM102,790,000 (2006 - RM73,140,000), which are available to be offset against future taxable income. The unutilised investment tax allowances have not been recognised as deferred tax assets in the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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10. INVENTORIES

	GROUP		COMPANY	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Food, beverage and tobacco	5,596	4,837	1,195	1,175
Room supplies	441	373	83	45
Other supplies	4,923	4,546	547	297
	10,960	9,756	1,825	1,517

11. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

		GROUP		COMPANY	
		2007	2006	2007	2006
	Note	RM'000	RM'000	RM'000	RM'000
Trade					
Trade receivables	a	24,137	25,566	4,965	5,494
Non-trade					
Amount due from subsidiaries	b	-	-	279,128	259,541
Less: Allowance for doubtful debts		-	-	(68,307)	(74,158)
		-	-	210,821	185,383
Other receivables		1,675	693	1,115	535
Deposits		3,561	4,001	502	2,126
Prepayments		1,036	2,496	205	1,480
Dividend receivables		-	-	1,200	44,843
		30,409	32,756	218,808	239,861
Tax recoverable	c	7,329	18,830	6,747	14,171

Notes

- Trade receivables denominated in currencies other than the functional currency comprise RM3,395,000 (2006 - RM1,623,000) denominated in U.S. Dollar.
- Amounts due from subsidiaries represents payments made on behalf, which are unsecured, interest-free and repayable on demand. An amount of RM600,000 in the previous year bore interest at 4.33% per annum.
- Tax recoverable is in respect of excess taxes paid, which are refundable and are subject to the agreement by the Inland Revenue Board.

NOTES TO THE FINANCIAL STATEMENTS

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12. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Deposits are placed with licensed banks	11,703	2,420	10,603	400
Cash and bank balances	11,380	9,721	2,546	2,069
	23,083	12,141	13,149	2,469

13. CAPITAL AND RESERVES

Share capital	GROUP AND COMPANY	
	2007 RM'000	2006 RM'000
Authorised:		
Ordinary shares of RM1 each	500,000	500,000
Issued and fully paid:		
Ordinary shares of RM1 each		
At 1 January/31 December	440,000	440,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Section 108 tax credit

Subject to agreement by the Inland Revenue Board, the Company has sufficient Section 108 tax credit and tax exempt income to frank all of its distributable reserves at 31 December 2007, if paid out as dividends.

The Malaysian Budget 2008 introduced a single tier company income tax system with effect from year of assessment 2008. As such, the Section 108 tax credit as at 31 December 2007 will be available to the Company until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013, whichever is earlier.

NOTES TO THE FINANCIAL STATEMENTS

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14. BORROWINGS

	GROUP		COMPANY	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Non-current				
Unsecured term loans	75,867	94,401	66,900	86,700
Current				
Unsecured term loans	33,134	18,634	28,000	13,500
Unsecured bank overdrafts	-	401	-	401
Unsecured revolving credits	54,678	83,053	9,750	45,000
	87,812	102,088	37,750	58,901
	163,679	196,489	104,650	145,601

Significant covenants

The revolving credits and term loan facilities of a subsidiary are subject to the following significant covenants:

- the substantial shareholder (at least 51% equity) of the subsidiary shall remain with the existing shareholder during the tenure of a revolving credit facility; and
- dividends declared by the subsidiary shall not exceed 100% of the profit after tax for the year in respect of a revolving credit and term loan facilities.

Terms and debt repayment schedule

	Year of maturity	Carrying amount RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000	Over 5 years RM'000
GROUP						
2007						
Unsecured term loans	2008-2010	109,001	33,134	50,967	24,900	-
Unsecured revolving credits	2008	54,678	54,678	-	-	-
		163,679	87,812	50,967	24,900	-
2006						
Unsecured term loans	2007-2010	113,035	18,634	33,134	61,267	-
Unsecured bank overdrafts	2007	401	401	-	-	-
Unsecured revolving credits	2007	83,053	83,053	-	-	-
		196,489	102,088	33,134	61,267	-
COMPANY						
2007						
Unsecured term loans	2008-2010	94,900	28,000	42,000	24,900	-
Unsecured revolving credits	2008	9,750	9,750	-	-	-
		104,650	37,750	42,000	24,900	-
2006						
Unsecured term loans	2007-2010	100,200	13,500	28,000	58,700	-
Unsecured bank overdrafts	2007	401	401	-	-	-
Unsecured revolving credits	2007	45,000	45,000	-	-	-
		145,601	58,901	28,000	58,700	-

NOTES TO THE FINANCIAL STATEMENTS

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15. RETIREMENT BENEFITS

	GROUP		COMPANY	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Present value of unfunded obligations	10,936	10,453	110	25
Recognised liability for defined benefit obligations	10,936	10,453	110	25

Certain companies in the Group make contributions to an unfunded defined benefit scheme in accordance with the Collective Union Agreement that provide pension benefits to employees upon retirement. Under the scheme, eligible employees are entitled to retirement benefits based on length of services and last drawn salary of the employees concerned.

Movements in the present value of the defined benefit obligations

	GROUP		COMPANY	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Defined benefit obligations at 1 January	10,453	9,654	25	-
Benefits paid	(1,064)	(589)	-	-
Expense recognised in the income statement	1,547	1,388	85	25
Defined benefit obligations at 31 December	10,936	10,453	110	25

Expense recognised in the income statement

	GROUP		COMPANY	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Current service costs	849	746	84	24
Interest on obligation	679	618	1	1
Amortisation of actuarial loss	19	24	-	-
	1,547	1,388	85	25

The expense is recognised in the following line items in the income statement:

	GROUP		COMPANY	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Cost of sales	1,253	1,063	68	21
Administrative expenses	95	176	7	2
Other operating expenses	199	149	10	2
	1,547	1,388	85	25

NOTES TO THE FINANCIAL STATEMENTS

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Actuarial assumptions

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	GROUP		COMPANY	
	2007 %	2006 %	2007 %	2006 %
Discount rate at 31 December	6.00	6.00	6.00	6.00
Future salary increases	6.38	6.38	7.00	7.00

Historical information

	2007 RM'000	2006 RM'000	2005 RM'000	2004 RM'000	2003 RM'000
GROUP					
Present value of the defined benefit obligations	10,936	10,453	9,654	8,889	15,759
Experience adjustments arising on plan liabilities	1,169	1,188	-	536	2,274
COMPANY					
Present value of the defined benefit obligations	110	25	-	-	8,297
Experience adjustments arising on plan liabilities	-	-	-	-	1,404

16. TRADE AND OTHER PAYABLES AND ACCRUALS

		GROUP		COMPANY	
	Note	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Trade					
Trade payables		27,442	26,541	3,732	5,857
Non-trade					
Loan from a minority shareholder	a	4,800	4,800	-	-
Amount due to subsidiaries	b	-	-	13,656	20,894
Other payables		24,912	30,775	7,579	5,837
Accrued expenses		17,159	7,815	3,945	5,497
		74,313	69,931	28,912	38,085

Notes

- The loan is from Petaling Garden Berhad, a minority shareholder of a subsidiary. The loan is unsecured, interest free and repayable on demand.
- The amounts due to subsidiaries represent advances received from subsidiaries which are unsecured, interest free and repayable on demand, except for an amount of RM7,028,750 (2006 - RM14,263,000) which bears interest at 3.70% (2006 - 3.70%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

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17. OPERATING PROFIT

	Note	GROUP		COMPANY	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Revenue					
Hotel and golf operations		390,547	314,466	63,485	14,770
Rental		18,988	14,729	-	-
Dividend income		-	-	87,000	56,325
Laundry services		1,190	1,325	-	-
		410,725	330,520	150,485	71,095
Cost of sales		(158,244)	(140,085)	(20,763)	(9,635)
Cost of services		(7,768)	(7,211)	-	-
		244,713	183,224	129,722	61,460
Administrative expenses		(56,171)	(56,388)	(11,004)	(11,931)
Other operating expenses		(82,893)	(75,111)	(22,990)	(15,997)
Other operating income		2,543	2,648	1,286	1,286
Operating profit		108,192	54,373	97,014	34,818
Operating profit is arrived at after charging:					
Allowance for doubtful debts		102	69	66	-
Auditors' remuneration					
- statutory audit		175	167	43	35
Amortisation of prepaid lease payments	4	326	336	121	122
Bad debts written off		-	5	-	-
Depreciation on property, plant and equipment	3	39,287	33,401	9,639	3,774
Hire of motor vehicles		240	237	-	-
Hire of equipment		114	118	-	-
Inventories written off		126	-	-	-
Loss on disposal of property, plant and equipment		677	88	-	-
Personnel expenses (including key management personnel):					
- contributions to Employee's Provident Fund		6,790	5,940	1,091	527
- retirement benefits charged	15	1,547	1,388	85	25
- wages, salaries and others		83,959	78,103	12,928	6,053
Property, plant and equipment written off		1,066	1,850	-	-
Rental of apartments		571	720	-	-
Unrealised loss on foreign exchange		-	-	5,886	6,602
and after crediting:					
Allowance for doubtful debts written back					
- subsidiary		-	-	5,851	6,602
- others		65	104	-	-
Gain on disposal of investment in an associate	7	1,286	1,286	1,286	1,286
Gain on disposal of property, plant and equipment		98	84	74	23
Gross dividends from subsidiaries		-	-	87,000	56,325
Realised gain on foreign exchange		375	446	-	-
Unrealised gain on foreign exchange		1,166	1,248	-	-
Rental receivable from:					
- subsidiary		-	-	120	120
- others		408	424	-	-

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18. INTEREST INCOME

	GROUP		COMPANY	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Interest income on:				
Deposits placed with licensed banks	227	120	134	29
Subsidiaries	-	-	14	97
	227	120	148	126

19. INTEREST EXPENSE

	GROUP		COMPANY	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Interest expense on:				
Revolving credits	2,857	3,670	1,339	1,585
Term loans	4,458	1,890	4,458	792
Subsidiaries	-	-	394	501
	7,315	5,560	6,191	2,878

20. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensations are as follows:

	GROUP		COMPANY	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Directors				
- Fees	217	196	217	196
- Remuneration and meeting allowances	1,335	1,127	1,335	1,127
Other short term employee benefits (including estimated monetary value of benefits-in-kind)	25	14	25	14
Total short-term employee benefits	1,577	1,337	1,577	1,337

Key management personnel comprises all the Directors of the Group having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly.

NOTES TO THE FINANCIAL STATEMENTS

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21. TAX EXPENSE

Major components of tax expense include:

	GROUP		COMPANY	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Current tax expense				
Malaysian - Current year	21,075	5,699	22,186	5,820
- Prior years	135	(546)	(388)	-
	21,210	5,153	21,798	5,820
Deferred tax expense				
Origination and reversal of temporary differences	(5,404)	1,532	(4,768)	-
Over provision in prior years	(593)	(2,659)	-	(2,686)
	(5,997)	(1,127)	(4,768)	(2,686)
Total tax expense	15,213	4,026	17,030	3,134
RECONCILIATION OF EFFECTIVE TAX EXPENSE				
Profit before tax	98,406	45,208	90,971	32,066
Tax at Malaysian tax rate of 27% (2006:28%)	26,570	12,658	24,562	8,978
Effect of lower tax rates for certain subsidiaries*	(35)	(40)	-	-
Effect of change in tax rate**	(245)	(157)	183	268
Non-deductible expenses	4,281	5,030	645	257
Non-taxable income	(347)	(360)	(671)	(4,448)
Tax incentives	(4,833)	(10,464)	-	-
Deferred tax assets not recognised	60	805	-	765
Recognition of previously unrecognised deferred tax assets	(7,301)	-	(7,301)	-
Reversal of deferred tax liabilities on investment properties	(2,373)	-	-	-
Under/(Over) provision in prior years				
- current tax expense	135	(546)	(388)	-
- deferred tax expense	(593)	(2,659)	-	(2,686)
Other items	(106)	(241)	-	-
	15,213	4,026	17,030	3,134

* With effect from year of assessment 2004, companies with paid-up capital of RM2.5 million and below at the beginning of the basis period for a year of assessment are subject to corporate tax at 20% on chargeable income up to RM500,000.

** With effect from year of assessment 2007, corporate tax rate is at 27%. The Malaysian Budget 2008 also announced the reduction of corporate tax rate to 26% with effect from year of assessment 2008. Consequently deferred tax assets and liabilities as at 31 December 2007 are measured using 26%.

NOTES TO THE FINANCIAL STATEMENTS

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22. EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share

The calculation of basic earnings per share at 31 December 2007 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

	GROUP	
	2007	2006
Profit attributable to shareholders of the Company (RM'000)	77,242	35,679
Weighted average number of ordinary shares outstanding during the year ('000)	440,000	440,000
Basic earnings per share (sen)	17.6	8.1

23. DIVIDENDS

Dividends recognised in the current year by the Company are:

	Total Amount RM'000	Date Of Payment
2007		
Ordinary		
Interim 2007 - 3% less tax at 27%	9,636	23 November 2007
Final 2006 - 5% less tax at 27%	16,060	25 June 2007
Total amount	25,696	
2006		
Ordinary		
Interim 2006 - 3% less tax at 28%	9,504	17 November 2006
Final 2005 - 5% less tax at 28%	15,840	19 June 2006
Total amount	25,344	

The Board has proposed a final dividend of 7% less tax at 26% totalling RM22,792,000 for the financial year ended 31 December 2007. The proposed final dividend has not been accounted for as it is pending shareholders' approval at the forthcoming Annual General Meeting, which is scheduled to be held on 15 May 2008. The final dividend, if approved by the shareholders shall be accounted for as an appropriation of retained earnings in the financial year ending 31 December 2008.

24. SEGMENT REPORTING

Segment information is presented in respect of the Group's business segments. The Group's business activities are predominantly located in Malaysia.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments (other than investment properties) and related revenue, loans, borrowings and related expenses, corporate assets (primarily the Company's corporate office) and corporate office expenses, and tax assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS

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24. SEGMENT REPORTING (cont'd)

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment.

Inter-segment pricing is determined on negotiated terms.

Business segments

The Group comprises the following main business segments:

Hotels, resorts and golf course	Hotel, beach resort and golf course business.
Investment properties	Rental from offices, shoplots and apartment and rental of car parks.
Others	Commercial laundry services and investment holding.

	Hotels, resorts and golf course		Investment properties		Others		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
BUSINESS SEGMENTS										
Total external revenue	390,547	314,466	18,988	14,729	1,190	1,325	-	-	410,725	330,520
Inter segment revenue	87,000	56,325	1,925	1,995	3,293	2,613	(92,218)	(60,933)	-	-
Total segment revenue	477,547	370,791	20,913	16,724	4,483	3,938	(92,218)	(60,933)	410,725	330,520
Operating profit	183,602	103,118	12,619	8,843	7,865	8,452	(95,894)	(66,040)	108,192	54,373
Interest income	596	201	391	379	100	82	(860)	(542)	227	120
Interest expense	(7,008)	(4,833)	-	-	(1,167)	(1,269)	860	542	(7,315)	(5,560)
Share of results of an associated company	(2,698)	(3,725)	-	-	-	-	-	-	(2,698)	(3,725)
Profit before tax									98,406	45,208
Tax expense									(15,213)	(4,026)
Profit for the year									83,193	41,182
Segment assets	848,507	823,140	245,644	252,872	11,833	11,123	(89,612)	(112,246)	1,016,372	974,889
Interests in associates	-	-	-	-	29,596	30,613	(16,239)	(13,541)	13,357	17,072
Unallocated assets	-	-	-	-	-	-	-	-	12,097	18,830
Total assets									1,041,826	1,010,791
Segment liabilities	368,620	427,673	69,904	64,804	105,922	113,071	(295,518)	(328,675)	248,928	276,873
Unallocated liabilities	-	-	-	-	-	-	-	-	16,682	14,399
Total liabilities									265,610	291,272
Capital expenditure	72,131	101,338	237	54	441	518	-	-	72,809	101,910
Depreciation	36,045	30,094	88	115	190	157	2,964	3,035	39,287	33,401
Non-cash expenses other than depreciation	3,196	3,243	(4)	(1)	-	-	-	-	3,192	3,242

NOTES TO THE FINANCIAL STATEMENTS

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25. FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and currency risks arises in the normal course of the Group's business.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit facilities. The credit evaluation includes reviewing financial statements and information regarding the directors and bankers of these companies. Past histories with the companies will be considered and if necessary, reference checks are made. New companies requiring credit facilities are required to place adequate interest free deposits or provide a bank guarantee. The Group and the Company also require each and every reservation by a corporate customer to be supported by a letter of authorisation signed by an authorised signatory.

At balance sheet date, there were significant concentrations of credit risk in respect of loans granted to associates in the Union of Myanmar (Note 7). The maximum exposure to credit risk for the Group and for the Company is represented by the carrying amount of each financial asset.

Interest rate risk

The borrowings of the Group and of the Company as at balance sheet date comprise short-term borrowings, which are rolled over at short intervals of one (1) to three (3) months and term loans, which are repayable over various periods not exceeding five (5) years.

The Group and the Company monitor the interest rates of borrowings offered by the financial institutions on a monthly basis. The interest expense incurred are compared against the approved budget and reported to the Board of Directors ("the Board") and ultimate holding company.

Interest-bearing and interest-earning advances to or from subsidiaries are at fixed interest rates as determined by the management to be favourable to either party as compared to the prevailing commercial interest rate.

Excess funds are placed with licensed banks for certain periods during which the interest rates are fixed. The management reviews the rates at regular intervals.

Foreign currency risk

The Group and the Company incur minimal foreign currency sales, purchases and borrowings that are denominated in a currency other than Ringgit Malaysia. Hence, the Board considers this risk to be insignificant. As at balance sheet date, the Group and the Company have minimal foreign currency transactions.

EFFECTIVE INTEREST RATES AND REPRICING ANALYSIS

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their average effective interest rates at the balance sheet date and the periods in which they mature, or if earlier, reprice.

NOTES TO THE FINANCIAL STATEMENTS

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25. FINANCIAL INSTRUMENTS (cont'd)

	Note	Average effective interest rate %	Total RM'000	Less than 1 year RM'000	1-2 years RM'000	2-3 years RM'000	3-4 years RM'000	4-5 years RM'000	More than 5 years RM'000
GROUP									
2007									
FLOATING RATE INSTRUMENTS									
Deposits placed with									
licensed banks	12	3.2	11,703	11,703	-	-	-	-	-
Unsecured revolving credits	14	4.9	(54,678)	(54,678)	-	-	-	-	-
Unsecured term loans	14	4.2	(109,001)	(109,001)	-	-	-	-	-
			(151,976)	(151,976)	-	-	-	-	-
2006									
FLOATING RATE INSTRUMENTS									
Deposits placed with									
licensed banks	12	3.0	2,420	2,420	-	-	-	-	-
Unsecured bank overdrafts	14	6.8	(401)	(401)	-	-	-	-	-
Unsecured revolving credits	14	4.5	(83,053)	(83,053)	-	-	-	-	-
Unsecured term loans	14	4.3	(113,035)	(113,035)	-	-	-	-	-
			(194,069)	(194,069)	-	-	-	-	-
COMPANY									
2007									
FIXED RATE INSTRUMENTS									
Advances from subsidiaries	16	3.7	(7,029)	(7,029)	-	-	-	-	-
FLOATING RATE INSTRUMENTS									
Deposits placed with									
licensed banks	12	3.3	10,603	10,603	-	-	-	-	-
Unsecured revolving credits	14	4.2	(9,750)	(9,750)	-	-	-	-	-
Unsecured term loans	14	4.2	(94,900)	(94,900)	-	-	-	-	-
			(94,047)	(94,047)	-	-	-	-	-
2006									
FIXED RATE INSTRUMENTS									
Advances to subsidiaries	11	4.3	600	600	-	-	-	-	-
Advances from subsidiaries	16	3.7	(14,263)	(14,263)	-	-	-	-	-
			(13,663)	(13,663)	-	-	-	-	-
FLOATING RATE INSTRUMENTS									
Deposits placed with									
licensed banks	12	3.2	400	400	-	-	-	-	-
Unsecured bank overdrafts	14	6.8	(401)	(401)	-	-	-	-	-
Unsecured revolving credits	14	4.3	(45,000)	(45,000)	-	-	-	-	-
Unsecured term loans	14	4.3	(100,200)	(100,200)	-	-	-	-	-
			(145,201)	(145,201)	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

Fair values

The carrying amounts of cash and cash equivalents, trade and other receivables, prepayments and deposits, trade and other payables and accruals and short-term borrowings, approximate fair values due to the relatively short term nature of these financial instruments.

The Company provides corporate guarantee to a bank for credit facility extended to a subsidiary. The fair value of such corporate guarantee is not expected to be material as the probability of the subsidiary defaulting on the credit payment is remote.

It was not practicable to estimate the fair value of the Group's investment in unquoted shares due to the lack of comparable quoted market prices and the inability to estimate fair value without incurring excessive costs.

The fair values of other financial assets and liabilities, together with the carrying amounts shown in the balance sheets, are as follows:

		2007		2006	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Note	RM'000	RM'000	RM'000	RM'000
GROUP					
Loans to associates (net of allowance for doubtful debts)	7	66,063	66,063	67,080	67,080
Unsecured term loans	14	75,867	75,867	94,401	94,401
COMPANY					
Unsecured term loans	14	66,900	66,900	86,700	86,700

Estimation of fair values

Fair value is determined using estimated future cash flows discounted using market related rate for a similar instrument at the balance sheet date.

The interest rate used to discount estimated cash flows are as follows:

	GROUP		COMPANY	
	2007	2006	2007	2006
Long-term borrowings	4.2%	4.3%	4.2%	4.3%

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

26. CAPITAL COMMITMENTS

	GROUP		COMPANY	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Capital expenditure commitments				
Property, plant and equipment and investment properties				
Contracted but not provided for and payable:				
- within one year	24,076	6,755	99	5,599
Authorised but not contracted for:				
- within one year	149,358	150,211	2,050	10,220
	173,434	156,966	2,149	15,819

27. CONTINGENT LIABILITIES (UNSECURED)

COMPANY

The Company had issued a Corporate Guarantee for an amount up to HKD50.6 million (2006 - HKD50.6 million) to The Bank of Tokyo-Mitsubishi UFJ, Ltd, Labuan ("UFJ Bank") for the revolving credit facility of HKD50.6 million (2006 - HKD50.6 million) granted to a subsidiary, Madarac Corporation.

28. RELATED PARTIES

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel comprises all the Directors of the Group.

The Group has a related party relationship with its associates (Note 7), its holding company, subsidiaries of its holding company (Notes 11 and 16) and corporations in which certain Directors have indirect financial interests.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

The significant related party transactions of the Group and the Company, other than key management personnel compensation, are as follows:

	Transactions amount for the year ended 31 December RM'000	Gross balance outstanding at 31 December RM'000	Net balance outstanding at 31 December RM'000	Allowance for doubtful receivables at 31 December RM'000	Bad or doubtful receivables recognised/ (write back) for the year ended 31 December RM'000
GROUP					
2007					
Associated companies					
Loan amounts due from					
- Traders Yangon Company Ltd	-	69,444	63,726	5,718	(4,635)
- Shangri-La Yangon Company Ltd	-	26,198	2,337	23,861	(1,739)
- Traders Square Company Ltd	-	4,489	-	4,489	(298)
Subsidiaries of Shangri-La Asia Limited					
Shangri-La International Hotel Management Ltd					
- Management, marketing and reservation fees paid or payable	10,506	1,398	-	-	-
Shangri-La International Hotel Management Pte Ltd					
- Management fees paid or payable	2,032	307	-	-	-
Corporations in which Kuok Oon Kwong and Kuok Khoon Ho, Directors of the Company, have direct or indirect financial interests					
Jerneh Insurance Bhd					
- Insurance premium paid or payable	2,042	9	-	-	-
PPB Hartabina Sdn Bhd					
- Project management fees paid or payable	389	-	-	-	-
2006					
Associated companies					
Loan amounts due from					
- Traders Yangon Company Ltd	-	75,096	64,743	10,353	(5,294)
- Shangri-La Yangon Company Ltd	-	27,937	2,337	25,600	(1,966)
- Traders Square Company Ltd	-	4,787	-	4,787	(337)
Subsidiaries of Shangri-La Asia Limited					
Shangri-La International Hotel Management Ltd					
- Management, marketing and reservation fees paid or payable	8,695	1,237	-	-	-
Shangri-La International Hotel Management Pte Ltd					
- Management fees paid or payable	1,572	255	-	-	-
Corporations in which Kuok Oon Kwong and Kuok Khoon Ho, Directors of the Company, have direct or indirect financial interests					
Jerneh Insurance Bhd					
- Insurance premium paid or payable	2,278	4	-	-	-
PPB Hartabina Sdn Bhd					
- Project management fees paid or payable	597	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

28. RELATED PARTIES (cont'd)

	Transactions amount for the year ended 31 December RM'000	Gross balance outstanding at 31 December RM'000	Net balance outstanding at 31 December RM'000	Allowance for doubtful receivables at 31 December RM'000	Bad or doubtful receivables recognised/ (write back) for the year ended 31 December RM'000
COMPANY					
2007					
Subsidiaries					
Interest income received or receivable	14	-	-	-	-
Rental income received or receivable	120	-	-	-	-
Interest expense paid or payable	394	42	42	-	-
Laundry service fees paid or payable	1,288	111	111	-	-
Subsidiaries of Shangri-La Asia Limited					
Shangri-La International Hotel Management Ltd					
- Management, marketing and reservation fees paid or payable	1,651	232	232	-	-
Shangri-La International Hotel Management Pte Ltd					
- Management fees paid or payable	292	37	37	-	-
Corporations in which Kuok Oon Kwong and Kuok Khoon Ho, Directors of the Company, have direct or indirect financial interests					
Jerneh Insurance Bhd					
- Insurance premium paid or payable	410	-	-	-	-
PPB Hartabina Sdn Bhd					
- Project management fees paid or payable	340	-	-	-	-
2006					
Subsidiaries					
Interest income received or receivable	97	2	2	-	-
Rental income received or receivable	120	-	-	-	-
Interest expense paid or payable	501	52	52	-	-
Laundry service fees paid or payable	415	113	113	-	-
Subsidiaries of Shangri-La Asia Limited					
Shangri-La International Hotel Management Ltd					
- Management, marketing and reservation fees paid or payable	395	171	171	-	-
Shangri-La International Hotel Management Pte Ltd					
- Management fees paid or payable	68	31	31	-	-
Corporations in which Kuok Oon Kwong and Kuok Khoon Ho, Directors of the Company, have direct or indirect financial interests					
Jerneh Insurance Bhd					
- Insurance premium paid or payable	152	-	-	-	-
PPB Hartabina Sdn Bhd					
- Project management fees paid or payable	434	-	-	-	-

The terms and conditions for the above transactions are based on negotiated terms and all the amounts outstanding are unsecured.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

29. CHANGE IN ACCOUNTING POLICY

For the financial year ended 31 December 2007, the Group has adopted the following revised FRSs issued by MASB, which are relevant to its operations.

FRS 117 Leases

FRS 119 Employee Benefits

FRS 124 Related Party Disclosures

There have been no changes to the accounting policies of the Group as a result of adopting FRS 124 and FRS 119 mentioned above.

The change in accounting policy of the Group arising from the adoption of FRS 117, Leases are summarised below:

FRS 117 - Leases

In line with revised FRS 117, the Group changed its accounting policy with respect to the classification of its leasehold lands. This change in accounting policy was applied retrospectively in accordance with the transitional provisions and the comparatives have been restated. The change in accounting policy has no financial impact on the consolidated financial statements.

FRS 117 requires a leasehold land to be accounted for as an operating lease. The upfront payment for leasehold land represents a prepaid lease payment and is amortised on a straight-line basis over the remaining lease period. Prior to 1 January 2007, the Group's leasehold lands were classified as part of property, plant and equipment and were stated at cost less accumulated depreciation and impairment losses.

With the adoption of FRS 117, the carrying amounts of the Group's and Company's leasehold lands as at 31 December 2006 of RM20,188,000 and RM3,641,000 respectively were reclassified as prepaid lease payments on the face of the balance sheet. Consequently, the Group's property, plant and equipment was restated from RM646,131,000 as at 31 December 2006 to RM625,943,000, a reduction of RM20,188,000, while the Company's property, plant and equipment was restated from RM123,562,000 as at 31 December 2006 to RM119,921,000.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

29. CHANGE IN ACCOUNTING POLICY (cont'd)

The MASB has also issued the following FRSs and Interpretations that are effective for annual periods beginning on or after 1 July 2007 and that have not been applied in preparing these financial statements:

FRS/Interpretation	Effective date
FRS 107, Cash Flow Statements	1 July 2007
FRS 111, Construction Contracts	1 July 2007
FRS 112, Income Taxes	1 July 2007
FRS 118, Revenue	1 July 2007
FRS 120, Accounting for Government Grants and Disclosure of Government Assistance	1 July 2007
FRS 121, The Effects of Changes in Foreign Exchange Rates	1 July 2007
FRS 126, Accounting and Reporting by Retirement Benefit Plans	1 July 2007
FRS 129, Financial Reporting in Hyperinflationary Economies	1 July 2007
FRS 134, Interim Financial Reporting	1 July 2007
FRS 137, Provisions, Contingent Liabilities and Contingent Assets	1 July 2007
IC Interpretation 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities	1 July 2007
IC Interpretation 2, Members' Shares in Co-operative Entities and Similar Instruments	1 July 2007
IC Interpretation 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 July 2007
IC Interpretation 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	1 July 2007
IC Interpretation 7, Applying the Restatement Approach under FRS 129 ₂₀₀₄ Financial Reporting in Hyperinflationary Economies	1 July 2007
IC Interpretation 8, Scope of FRS 2	1 July 2007

The Group will adopt FRS 107, FRS 112, FRS 118, FRS 121, FRS 134 and FRS 137 which are relevant to the Group's operation for the financial period beginning 1 January 2008. The initial application of the above FRSs are not expected to have any material impact on the financial statements of the Group.

FRS 111, FRS 120, FRS 126, FRS 129 and IC Interpretations are not applicable to the Group. Hence, no further disclosure is warranted.

In 2006, MASB has issued FRS 139, Financial Instruments: Recognition and Measurement for which MASB has yet to announce the effective date. The impact of applying FRS 139 on the financial statements upon first adoption as required by paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed by virtue of the exemption given in FRS 139.103AB.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

30. COMPARATIVE FIGURES

Certain comparative figures have been reclassified/restated as a result of the change in accounting policy as stated in Note 29.

	GROUP		COMPANY	
	As restated RM'000	As previously stated RM'000	As restated RM'000	As previously stated RM'000
Balance sheets				
Property, plant and equipment	625,943	646,131	119,921	123,562
Prepaid lease payments	20,188	-	3,641	-

GROUP PROPERTIES

AS AT 31 DECEMBER 2007

Registered Owner	Description/Location	Tenure	Age of buildings (years)	Land area (sq. metres)	Net book value at 31.12.2007 (RM'000)
Shangri-La Hotel (KL) Sdn Bhd	Shangri-La Hotel Kuala Lumpur 29-storey, 701 room hotel located at 11 Jalan Sultan Ismail 50250 Kuala Lumpur	Freehold	22	16,229	145,989
Komtar Hotel Sdn Bhd	Traders Hotel Penang 17-storey, 444 room hotel located at Magazine Road 10300 Penang	Leasehold (Expires 2082)	21	4,800	33,263
Shangri-La Hotels (Malaysia) Berhad	Shangri-La's Rasa Sayang Resort & Spa 304 room resort comprising 11 inter-connected blocks not exceeding 8-storey located at 10th Mile Batu Feringgi, 11100 Penang	Freehold	34	58,798	94,197
	Land Lot 402, Section 2 Town of Batu Feringgi North East District, Penang	Leasehold (Expires 2037)	-	2,989	
	Industrial land on which the central laundry owned by Pantai Emas Sdn Bhd is situated on at No.6 (Plot 68) Pesara Kampung Jawa Bayan Lepas, 11900 Penang	Leasehold (Expires 2047)	-	3,737	696
Palm Beach Hotel Sdn Bhd	Land Lots 9, 10, 13, 15, 93, 316, 420, 591 & 592, Section 2 Town of Batu Feringgi North East District, Penang	Freehold	-	33,097	9,658

GROUP PROPERTIES

AS AT 31 DECEMBER 2007

Registered Owner	Description/Location	Tenure	Age of buildings (years)	Land area (sq. metres)	Net book value at 31.12.2007 (RM'000)
Golden Sands Beach Resort Sdn Bhd	Golden Sands Resort 8-storey, 395 room resort located at 10th Mile Batu Feringgi, 11100 Penang	Freehold	29	19,359	30,680
	Land Lot 389, Section 2 Town of Batu Feringgi North East District, Penang	Leasehold (Expires 2050)	-	424	
Pantai Emas Sdn Bhd	Penang Laundry Services A central laundry located at No.6 (Plot 68) Pesara Kampung Jawa Bayan Lepas, 11900 Penang	Leasehold (Expires 2047)	17	3,737	429
UBN Tower Sdn Bhd	UBN Tower* 36-storey commercial/office complex located at 10 Jalan P. Ramlee 50250 Kuala Lumpur	Freehold	22	3,696	185,000
UBN Holdings Sdn Bhd	UBN Apartments* 24-storey apartment block comprising 126 units of apartments located at 1 Lorong P. Ramlee 50250 Kuala Lumpur (# based on 58 units of unsold apartments)	Freehold	22	3,120	42,500[#]
	Commercial land on which Shangri-La Hotel Kuala Lumpur is situated on at 11 Jalan Sultan Ismail 50250 Kuala Lumpur and UBN Tower at 10 Jalan P. Ramlee 50250 Kuala Lumpur	Freehold	-	19,925	11,718

Note

* The last revaluation for the Group's investment properties was carried out by a firm of independent professional valuers as at 31.12.2007 on an open market basis for existing use. Please refer to Note 5 of the Financial Statements set out on page 76 for further details.

GROUP PROPERTIES

AS AT 31 DECEMBER 2007

Registered Owner	Description/Location	Tenure	Age of buildings (years)	Land area (sq. metres)	Net book value at 31.12.2007 (RM'000)
Pantai Dalit Beach Resort Sdn Bhd	Shangri-La's Rasa Ria Resort 420 room resort located at Pantai Dalit 89208 Tuaran, Sabah comprising:				
	Two 4-storey blocks of guestrooms plus six 6-storey blocks of guestrooms with a total of 330 rooms	Leasehold (Expires 2090)	11	67,999	92,628
	Two 5-storey blocks of guestrooms with a total of 90 rooms (New extension opened in late December 2007)	Leasehold (Expires 2090)	-	24,483	
	Land Undeveloped land for future development located at Pantai Dalit 89208 Tuaran, Sabah	Leasehold (Expires 2090)	-	856,498	3,851
	Land on which Shangri-La's Rasa Ria Resort and Dalit Bay Golf & Country Club is situated on at Pantai Dalit 89208 Tuaran, Sabah	Leasehold (Expires 2090)	-	761,467	
Dalit Bay Golf & Country Club Berhad	Dalit Bay Golf & Country Club An 18-hole golf course and clubhouse located at Pantai Dalit 89208 Tuaran, Sabah	Leasehold (Expires 2090)	10	668,985	34,458

SHAREHOLDING STATISTICS

AS AT 31 MARCH 2008

Class of shares - Ordinary Shares of RM1.00 each fully paid

Voting rights - One vote per share

DISTRIBUTION OF SHAREHOLDINGS

Size of Holdings	No. of Holders	%	No. of Shares	% of Issued Capital
Less than 100	103	1.39	2,692	0.00
100 - 1,000	3,024	40.77	2,922,108	0.66
1,001 - 10,000	3,596	48.49	14,401,891	3.27
10,001 - 100,000	577	7.78	16,264,368	3.70
100,001 to less than 5% of issued shares	114	1.54	88,171,100	20.04
5% and above of issued shares	2	0.03	318,237,841	72.33
	7,416	100.00	440,000,000	100.00

SUBSTANTIAL SHAREHOLDERS

Name of Substantial Shareholders	Direct Interest	Deemed Interest	% of Issued Capital
	No. of Shares	No. of Shares	
Hoopersville Limited	232,237,841	-	52.78
Shangri-La Asia Limited	-	232,237,841	52.78
Kerry Holdings Limited	-	232,237,841	52.78
Kerry Group Limited	-	232,237,841	52.78
Standard Chartered Private Equity Limited	86,000,000	-	19.55
Standard Chartered Asia Limited	-	86,000,000	19.55
Standard Chartered MB Holdings B.V.	-	86,000,000	19.55
Standard Chartered Holdings (International) B.V.	-	86,000,000	19.55
Standard Chartered PLC	-	86,000,000	19.55
Standard Chartered Bank	-	86,000,000	19.55
Standard Chartered Holdings Limited	-	86,000,000	19.55
SCMB Overseas Limited	-	86,000,000	19.55

SHAREHOLDING STATISTICS

AS AT 31 MARCH 2008

DIRECTORS' INTERESTS IN SHARES

The direct and deemed interests of the Directors in the shares of the Company and in its related corporations as at 31 March 2008 are as follows:

	Direct Interest	Deemed Interest	
(Ordinary Shares of RM1.00 each)			
The Company			
Shangri-La Hotels (Malaysia) Berhad	No. of Shares	No. of Shares	% of Issued Capital
Tan Sri A. Razak bin Ramli	-	-	-
Kuok Oon Kwong	-	10,000	negligible
Rozina Mohd Amin	-	-	-
Dato' Haris Onn bin Hussein	-	-	-
Dato' Seri Ismail Farouk Abdullah	200,000	-	0.05
Tan Sri Dato' Mohd Amin bin Osman	23,000 ⁽¹⁾	-	0.01
Ravinder Singh Grewal Sarbjit S	-	-	-
Richard Anthony Johnson	-	-	-
Datuk Supperamaniam a/l Manickam	-	-	-
Dato' Dr Tan Tat Wai	-	-	-
Tan Yew Jin	5,000	20,000	0.01
Alternate Director			
Joseph Patrick Stevens	-	-	-

(Ordinary Shares of HKD1.00 each)

Related Corporation			
Shangri-La Asia Limited (Ultimate Holding Company)	No. of Shares	No. of Shares	% of Issued Capital
Tan Sri A. Razak bin Ramli	-	-	-
Kuok Oon Kwong - own	168,197	182,633	0.01
- others	213,345 ⁽¹⁾	-	0.01
Rozina Mohd Amin	-	-	-
Dato' Haris Onn bin Hussein	-	-	-
Dato' Seri Ismail Farouk Abdullah	-	-	-
Tan Sri Dato' Mohd Amin bin Osman	-	-	-
Ravinder Singh Grewal Sarbjit S	-	-	-
Richard Anthony Johnson	-	-	-
Datuk Supperamaniam a/l Manickam	-	-	-
Dato' Dr Tan Tat Wai	-	-	-
Tan Yew Jin	111,560	-	negligible
Alternate Director			
Joseph Patrick Stevens	-	-	-

⁽¹⁾ shares held directly by spouse/child. In accordance with Section 134(12)(c) of the Companies Act, 1965, the interests and deemed interests of the spouse/child in the shares of the Company and its related corporations (other than wholly-owned subsidiaries) shall be treated as the interests of the Director.

Shares Options in Shangri-La Asia Limited	No. of shares granted under the option
Kuok Oon Kwong	420,000
Rozina Mohd Amin	70,000

SHAREHOLDING STATISTICS

AS AT 31 MARCH 2008

THE THIRTY LARGEST SHAREHOLDERS (As per Record of Depositors)

Name of Shareholders		No. of Shares Held	% of Issued Capital
1.	Hoopersville Limited	232,237,841	52.78
2.	Cartaban Nominees (Asing) Sdn Bhd Exempt AN for Standard Chartered Private Equity Limited	86,000,000	19.55
3.	Citigroup Nominees (Asing) Sdn Bhd Exempt AN for Merrill Lynch International (Prime Broker)	11,011,500	2.50
4.	HSBC Nominees (Asing) Sdn Bhd BBH and Co. Boston for GMO Emerging Markets Fund	8,783,700	2.00
5.	HSBC Nominees (Asing) Sdn Bhd Exempt AN for The Hongkong and Shanghai Banking Corporation Limited	3,757,000	0.85
6.	HSBC Nominees (Asing) Sdn Bhd BBH and Co. Boston for GMO Emerging Illiquid Fund, L.P.	3,708,900	0.84
7.	Ophir Holdings Berhad	3,298,400	0.75
8.	Malaysia Nominees (Tempatan) Sdn Bhd for Great Eastern Life Assurance (Malaysia) Berhad (Par 2)	3,000,000	0.68
9.	HSBC Nominees (Asing) Sdn Bhd HSBC-FS for Aberdeen Malaysia Equity Fund	2,798,000	0.64
10.	Alliancegroup Nominees (Tempatan) Sdn Bhd PHEIM Asset Management Sdn Bhd for Employees Provident Fund Board	2,538,600	0.58
11.	Cartaban Nominees (Asing) Sdn Bhd State Street London Fund XCB9 for Aberdeen Asian Smaller Companies Investment Trust PLC	2,505,800	0.57
12.	Mayban Nominees (Tempatan) Sdn Bhd Aberdeen Asset Management Sdn Bhd for Employees Provident Fund Board	2,157,000	0.49
13.	Amsec Nominees (Tempatan) Sdn Bhd Aberdeen Asset Management Sdn Bhd for Tenaga Nasional Berhad Retirement Benefit Trust Fund (FM-Aberdeen)	1,701,000	0.39
14.	Citigroup Nominees (Asing) Sdn Bhd Citibank Singapore Global Window for Savers Malaysia Fund	1,650,000	0.37
15.	HSBC Nominees (Asing) Sdn Bhd BNY Brussels for Greatlink Asean Growth Fund	1,561,500	0.35
16.	HSBC Nominees (Asing) Sdn Bhd Exempt AN for Morgan Stanley & Co. International PLC	1,373,400	0.31
17.	UOBM Nominees (Asing) Sdn Bhd Exempt AN for Natixis Bleichroeder Inc.	1,292,000	0.29
18.	Citigroup Nominees (Asing) Sdn Bhd UBS AG for Jabcap Multi Strategy Master Fund Limited	1,200,000	0.27
19.	Citigroup Nominees (Asing) Sdn Bhd Exempt AN for Mellon Bank (Mellon)	1,176,400	0.27
20.	Malaysia Nominees (Asing) Sdn Bhd British and Malayan Trustees Limited for Lion Capital Singapore/Malaysia Fund	1,174,100	0.27
21.	Key Development Sdn Bhd	1,140,000	0.26
22.	Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Kon Cze Yan @ Koon Cze Yan	1,087,000	0.25
23.	HSBC Nominees (Asing) Sdn Bhd TNTC for Teachers Retirement System of Illinois	1,001,000	0.23
24.	Ying Holding Sdn Bhd	972,000	0.22
25.	M & A Nominee (Asing) Sdn Bhd UOB Kay Hian Private Limited for Como Holdings Inc.	965,600	0.22
26.	Migan Sdn Bhd	964,000	0.22
27.	Mayban Nominees (Tempatan) Sdn Bhd Aberdeen Asset Management Sdn Bhd for Malaysian Timber Council (Endowment Fund)	898,000	0.20
28.	HSBC Nominees (Asing) Sdn Bhd Exempt AN for JPMorgan Chase Bank, National Association (Netherlands)	814,100	0.18
29.	Mayban Nominees (Asing) Sdn Bhd for Alpha Securities Pte Ltd	740,000	0.17
30.	Mayban Nominees (Asing) Sdn Bhd for G.K. Goh Strategic Holdings Pte Ltd	740,000	0.17
		382,246,841	86.87

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Thirty-Seventh Annual General Meeting of the Company will be held at Sabah Room, B2 Level, Shangri-La Hotel Kuala Lumpur, 11 Jalan Sultan Ismail, 50250 Kuala Lumpur on Thursday, 15 May 2008 at 10.00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and Audited Financial Statements for the year ended 31 December 2007 and the Auditors' Report thereon. **Ordinary Resolution 1**
2. To approve the payment of a Final dividend of 7% less tax of 26% for the year ended 31 December 2007 as recommended by the Directors. **Ordinary Resolution 2**
3. To approve the payment of Directors' fees for the year ended 31 December 2007. **Ordinary Resolution 3**
4. To elect the following Directors, each of whom are retiring pursuant to Article 76 of the Company's Articles of Association.
 - i. Richard Anthony Johnson **Ordinary Resolution 4**
 - ii. Ravinder Singh Grewal Sarbjit S **Ordinary Resolution 5**
5. To re-elect the following Directors, each of whom are retiring by rotation pursuant to Article 95 of the Company's Articles of Association.
 - i. Kuok Oon Kwong **Ordinary Resolution 6**
 - ii. Rozina Mohd Amin **Ordinary Resolution 7**
 - iii. Datuk Supperamaniam a/l Manickam **Ordinary Resolution 8**
6. To re-appoint Tan Sri Dato' Mohd Amin bin Osman as a Director of the Company pursuant to Section 129(6) of the Companies Act, 1965 to hold office until the next Annual General Meeting of the Company. **Ordinary Resolution 9**
7. To re-appoint Messrs KPMG as Auditors of the Company to hold office until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration. **Ordinary Resolution 10**

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following Special Resolution:

8. **Proposed Amendments to the Articles of Association of the Company**
"THAT the Articles of Association of the Company be and are hereby amended in the manner as set out in Appendix 1 despatched together with the Company's 2007 Annual Report." **Special Resolution**

By Order of the Board

ROZINA MOHD AMIN
Company Secretary

Kuala Lumpur
23 April 2008

NOTICE OF ANNUAL GENERAL MEETING

Notes

1. A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member of the Company.
2. The Form of Proxy must be deposited at the Registered Office of the Company, not less than 48 hours before the time set for the meeting or any adjournment thereof.
3. The proposed Final dividend, if approved, will be paid on Thursday, 26 June 2008 to shareholders whose names appear in the Record of Depositors on Wednesday, 28 May 2008.

Explanatory Note on Special Business

1. The proposed Special Resolution, if passed, will bring the Articles of Association of the Company in line with the recent amendments of the Listing Requirements of Bursa Malaysia Securities Berhad.

Detailed information on the proposed amendments to the Articles of Association of the Company is set out in Appendix 1 despatched together with the Company's 2007 Annual Report.

STATEMENT ACCOMPANYING THE NOTICE OF ANNUAL GENERAL MEETING

Directors who are seeking election at the Thirty-Seventh Annual General Meeting of the Company

Directors appointed since the date of the last Annual General Meeting and seeking election pursuant to Article 76 of the Company's Articles of Association.

- Richard Anthony Johnson
- Ravinder Singh Grewal Sarbjit S

The profiles of the above Directors are set out on pages 25 to 29 of this annual report. Their shareholdings in the Company and its subsidiaries are shown on page 104.

NOTES



SHANGRI-LA HOTELS (MALAYSIA) BERHAD
(10889-U)

FORM OF PROXY

No. of shares held: _____

I/We _____
of _____
being a member of **SHANGRI-LA HOTELS (MALAYSIA) BERHAD** hereby,
appoint _____
of _____
or failing him _____
of _____

as my/our proxy, to vote for me/us on my/our behalf at the Thirty-Seventh Annual General Meeting of the Company to be held at Sabah Room, B2 Level, Shangri-La Hotel Kuala Lumpur on Thursday, 15 May 2008 at 10.00 a.m. and at any adjournment thereof in the following manner:

NO.	ORDINARY RESOLUTIONS	For	Against
1	Adoption of Reports and Financial Statements		
2	Approval of Final Dividend		
3	Approval of Directors' Fees		
4	Election of Richard Anthony Johnson retiring pursuant to Article 76		
5	Election of Ravinder Singh Grewal Sarbjit S retiring pursuant to Article 76		
6	Re-election of Kuok Oon Kwong retiring pursuant to Article 95		
7	Re-election of Rozina Mohd Amin retiring pursuant to Article 95		
8	Re-election of Datuk Supperamaniam a/l Manickam retiring pursuant to Article 95		
9	Re-appointment of Tan Sri Dato' Mohd Amin bin Osman as a Director pursuant to Section 129(6) of the Companies Act, 1965		
10	Re-appointment of Messrs KPMG as Auditors		
	SPECIAL RESOLUTION		
	Proposed Amendments to the Articles of Association of the Company		

Please indicate with an "X" where appropriate against each resolution how you wish your proxy to vote. If no specific direction to voting is given, the proxy will vote or abstain at his discretion.

Dated this _____ day of _____, 2008 Signature _____

Notes

1. A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member of the Company.
2. The Form of Proxy must be signed by the appointer or his attorney duly authorised in writing or, if the member is a corporation, must be executed under its common seal or by its attorney or officer duly authorised in writing.
3. The Form of Proxy must be deposited at the Registered Office of the Company at 13th Floor, UBN Tower, 10 Jalan P. Ramlee, 50250 Kuala Lumpur, not less than 48 hours before the time set for the meeting or any adjournment thereof.

Fold here

STAMP

SHANGRI-LA HOTELS (MALAYSIA) BERHAD (10889-U)
13th Floor, UBN Tower
10 Jalan P. Ramlee
50250 Kuala Lumpur

Fold here

DIRECTORY OF GROUP HOTELS & RESORTS

Kuala Lumpur

Shangri-La Hotel Kuala Lumpur

11 Jalan Sultan Ismail
50250 Kuala Lumpur
Tel : (+60-3) 2032 2388
Fax : (+60-3) 2070 1514
E-Mail : slkl@shangri-la.com

Penang

Traders Hotel Penang

Magazine Road
10300 Penang
Tel : (+60-4) 262 2622
Fax : (+60-4) 262 6526
E-Mail : slp@shangri-la.com

Shangri-La's Rasa Sayang Resort & Spa

10th Mile Batu Feringgi Beach
11100 Penang
Tel : (+60-4) 888 8888
Fax : (+60-4) 881 1800
E-Mail : rsr@shangri-la.com

Golden Sands Resort

10th Mile Batu Feringgi Beach
11100 Penang
Tel : (+60-4) 886 1911
Fax : (+60-4) 881 1880
E-Mail : gsh@shangri-la.com

Sabah

Shangri-La's Rasa Ria Resort

Pantai Dalit, P.O. Box 600
89208 Tuaran, Sabah
Tel : (+60-88) 792 888
Fax : (+60-88) 792 777
E-Mail : rrr@shangri-la.com

Dalit Bay Golf & Country Club

Pantai Dalit, P.O. Box 600
89208 Tuaran, Sabah
Tel : (+60-88) 791188
Fax : (+60-88) 792 128
E-Mail : dalitbay@tm.net.my

