Paradise
REBORN

Annual Report 2006

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

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SHANGRI-LA HOTELS (MALAYSIA) BERHAD Annual Report 2006

ANNUAL REPORT 2006

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(10889-U)

The *rebirth*

of Shangri-La's

Rasa Sayang Resort & Spa, Penang

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.

The Rasa Sayang Resort has been winning the hearts of its guests since it first opened in September 1973. As part of its commitment to its illustrious name and global reputation, as well as to remain ahead of the changing market trends, this iconic resort recently underwent a major redevelopment programme. The grand lady of Penang now emerges more exquisite than ever before, to set the defining standard in luxury resorts yet again.

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GROUP FINANCIAL HIGHLIGHTS

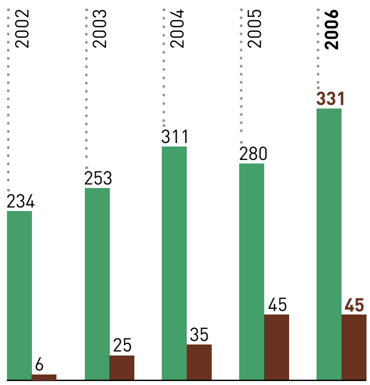
		2006 RM'000	2005 RM'000 restated	2004 RM'000	2003 RM'000	2002 RM'000
RESULTS						
Revenue		**330,520**	280,089	311,352	253,219	233,547
Exceptional items		**-**	12,191	(16,989)	-	(3,292)
Profit before tax		**45,208**	44,673	35,046	24,710	5,769
Profit attributable to shareholders		**35,679**	37,326	30,941	16,472	3,269
Dividend-net		**25,564**	25,344	23,760	20,592	19,008
KEY BALANCE SHEET DATA						
Issued capital		**440,000**	440,000	440,000	440,000	440,000
Total assets employed		**1,010,791**	938,055	1,509,010	1,556,079	1,521,610
Shareholders' equity		**671,069**	657,860	1,113,205	1,136,056	1,138,592
PER SHARE DATA						
Net earnings per share	(sen)	**8.11**	8.48	7.03	3.74	0.74
Net assets per share	(RM)	**1.53**	1.50	2.53	2.58	2.59
Dividend-gross	(sen)	**8.0**	8.0	7.5	6.5	6.0
FINANCIAL RATIOS						
Return on shareholders' equity	(%)	**5.3**	5.7	2.8	1.4	0.3
Return on total assets	(%)	**3.5**	4.0	2.1	1.1	0.2
Net borrowings to shareholders' equity	(%)	**27.5**	21.5	15.6	17.1	15.0

Notes

1. With effect from 1 January 2006, the Group has adopted a number of new and revised Financial Reporting Standards ("FRSs") issued by the Malaysian Accounting Standards Board ("MASB"), which became effective for financial periods beginning on or after 1 January 2006. In addition, the Group has also adopted the new interpretation to FRS 112 – Income Taxes issued by MASB on 30 October 2006. Consequently, certain comparative figures for the year 2005 have been restated for comparison purposes. Figures for the years 2004 to 2002 have not been restated.
2. The exceptional item in 2005 of RM12.191 million relates to the gain arising from the divestment of the Group's entire 30% equity interest in Johdaya Karya Sdn Bhd.
3. Dividends of RM25.564 million for the financial year ended 31 December 2006 consist of (a) the interim dividend of 3% per share less tax at 28% paid on 17 November 2006 amounting to RM9.504 million and (b) the proposed final dividend of 5% less tax at 27% amounting to RM16.060 million. The proposed final dividend of 5% less tax at 27% for the financial year ended 31 December 2006 is subject to shareholders' approval at the Annual General Meeting of the Company to be held on 21 May 2007.

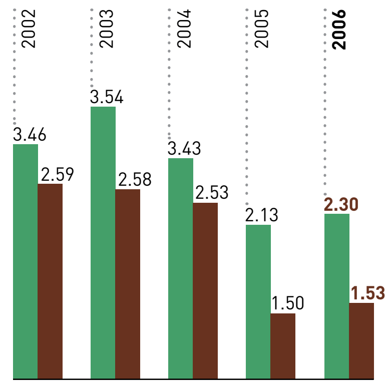
GROUP FINANCIAL HIGHLIGHTS

REVENUE & PROFIT BEFORE TAX



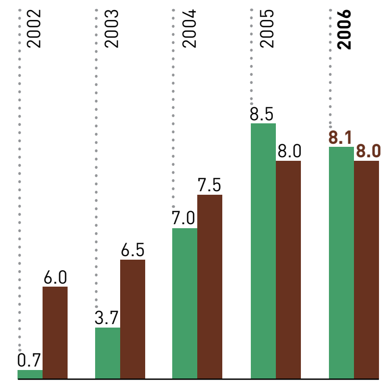
Revenue (RM'Million)
Profit before tax (RM'Million)*

TOTAL ASSETS EMPLOYED PER SHARE & NET ASSETS PER SHARE



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

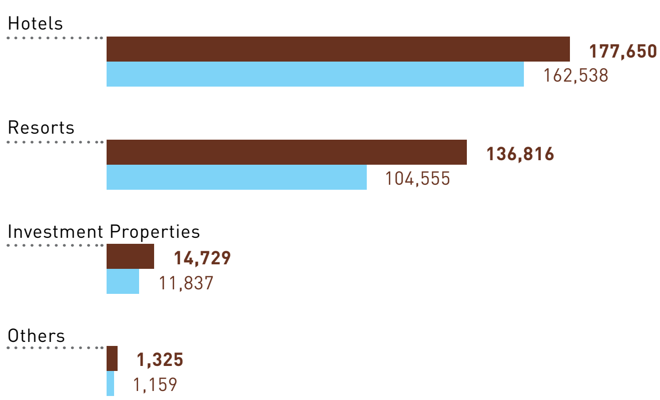
EARNINGS PER SHARE & DIVIDEND PER SHARE



Earnings per share (sen)*
Dividend per share (sen)

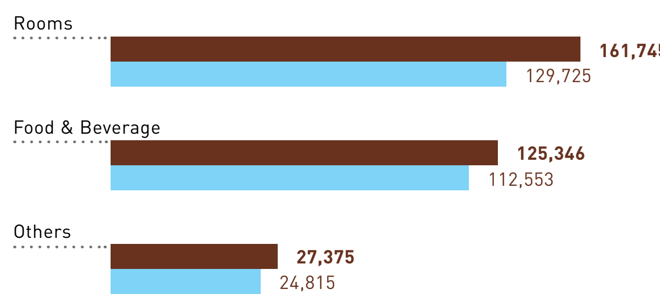
* Figures for 2005 have been restated for comparison purposes in accordance with the new and revised Financial Reporting Standards adopted by the Group with effect from 1 January 2006. Figures for 2002 to 2004 have not been restated.

REVENUE BY SEGMENT



2006 – Total 330,520 (RM'000)
2005 – Total 280,089 (RM'000)

REVENUE OF HOTELS & RESORTS BY DEPARTMENTS



2006 – Total 314,466 (RM'000)
2005 – Total 267,093 (RM'000)

CHAIRMAN'S STATEMENT

Dear Shareholders,

2006 WAS A YEAR OF GOOD PROGRESS FOR THE GROUP'S HOTEL BUSINESS, WITH PARTICULARLY STRONG OPERATING RESULTS FROM OUR RESORTS IN PENANG AND SABAH. DURING THE YEAR, INCREASED BUSINESS AND LEISURE TRAVEL BUOYED BY A STRONG GLOBAL ECONOMY ENABLED OUR HOTELS AND RESORTS TO ACHIEVE HEALTHY IMPROVEMENTS IN BOTH OCCUPANCY LEVELS AND AVERAGE ROOM RATES.

GARDEN WING LOBBY *at* RASA SAYANG RESORT

At the same time, there was an encouraging performance from our investment properties in Kuala Lumpur amidst better trading conditions in the property rental market.

The year was also an important milestone for the Group, which saw the successful re-opening of Rasa Sayang Resort in Penang in late September, following the completion of its major redevelopment and repositioning programme. The newly redeveloped resort has significantly raised the Group's profile and further strengthened its leadership position in the hotel industry.

GROUP RESULTS

In the twelve months to 31 December 2006, Group revenue increased by 18% to RM330.520 million from RM280.089 million recorded in the year ended 31 December 2005.

Group profit before tax for the year at RM45.208 million was slightly higher than the profit of RM44.673 million in 2005. The Group's profit attributable to shareholders for 2006 reduced to RM35.679 million compared with RM37.326 million in 2005.

The results for 2005 had included a significant gain of RM12.191 million arising from the disposal of the Group's 30% interest in Johdaya Karya Sdn Bhd. Excluding the gain from this disposal, the attributable profit to shareholders for the year of RM35.679 million was up by 42% versus RM25.135 million in 2005. This translates to earnings per share of 8.11 sen for 2006 compared with 5.71 sen in the previous year.

The Group's shareholders' equity as at 31 December 2006 increased to RM0.671 million from RM0.658 million a year ago. Consequently, the net asset value per share of the Group rose to RM1.53 from RM1.50 at year-end 2005.

Net debt of the Group at 31 December 2006 amounted to RM184.348 million compared with RM141.430 million at end-December 2005. The increase primarily reflects the higher level of borrowings during the year to finance the major redevelopment of Rasa Sayang Resort and the extension project at Rasa Ria Resort in Sabah currently in progress. As a result, the Group's net gearing, that is the ratio of net debt to shareholders' equity increased from 22% as at 2005 year-end to 28% at end-December 2006.

DIVIDENDS

Your Board is recommending to shareholders a final dividend of 5% less tax of 27%. This, taken together with the interim dividend of 3% less tax of 28% paid in November 2006, will give a total dividend of 8% less tax for the year ended 31 December 2006, maintaining the dividend rate as in the previous year. The proposed final dividend is subject to shareholders' approval at the Annual General Meeting scheduled on 21 May 2007. If approved, the final dividend will be payable on 25 June 2007.

PERFORMANCE REVIEW

In the year under review, Shangri-La Hotel Kuala Lumpur reported an 8% rise in total revenues to RM142.741 million, while pre-tax profit increased by 24% over 2005 to RM28.074 million. The hotel's occupancy for 2006 was 70% and the average room rate went up by 10%.

In Sabah, Rasa Ria Resort made excellent progress in a buoyant market, with total revenues increasing by 14% to RM62.924 million and pre-tax profit by 86% from RM9.823 million to RM18.244 million. The resort improved its average room rate by nearly 20% over the previous year, while its occupancy moved up to 81%.


CHI SPA *at* RASA SAYANG RESORT

PERFORMANCE REVIEW (Cont'd)

Golden Sands Resort in Penang also delivered a strong performance, supported by robust demand from its key markets. Total revenues amounted to RM54.922 million, 20% better than the RM45.701 million recorded in 2005, with pre-tax profit rising by 29% to RM17.011 million. The resort raised its occupancy to 77%, up from 71% in 2005, with an average room rate increase of 14%.

There were good results from Traders Hotel Penang, where total revenues improved by 14% to RM34.909 million and pre-tax profit by 193% from RM1.638 million to RM4.807 million. Increased corporate business enabled the hotel to achieve a higher occupancy of 76% against 68% last year, while the average room rate was up by 10%.

Rasa Sayang Resort reopened for business in late September 2006, after a period of closure of about twenty-one months for major redevelopment. For the three-month period from October to December 2006, the resort generated RM14.770 million in total revenues and occupancy averaged 48%.

As for the Group's investment properties in Kuala Lumpur, the rental revenues from UBN Tower and UBN Apartments rose by 24% to RM14.729 million and their combined pre-tax profit at RM9.222 million was 14% higher than in 2005. These increases mainly reflected a steady rise in demand levels for office space at UBN Tower during the year.

The Group's share of losses in associates increased from RM2.135 million in 2005 to RM3.725 million as the Group ceased to equity account for the 30% share of profits in Johdaya Karya Sdn Bhd, which was divested in May 2005. The net loss of RM3.725 million pertains wholly to the Group's share of losses in Traders Hotel Yangon, its 23.53% associate hotel in Myanmar.

INITIATIVES & DEVELOPMENT

In the past year, our hotels and resorts built on their strong market positions and took full advantage of the favourable trends in the travel industry by leveraging effectively on our extensive global sales and marketing network, and the strength of our brand.

Focused execution of a number of innovative marketing programmes, coupled with aggressive promotional activities led to increased market share and good revenue growth across all our hotels and resorts.

Additionally, as we operate in an ever more challenging business environment, we have been increasing our efforts to further enhance the operational competitiveness of our businesses. In the course of 2006, we continued to simplify and streamline our work processes wherever possible, maintained a strong discipline in cost management, and pursued various programmes to maximise operating efficiencies throughout the Group.

To sustain our competitive edge in the industry, we aim to support the running of our business operations with robust and reliable technology capabilities. During 2006, we made further refinements and updated our information technology infrastructure and critical systems with new and more advanced technologies to achieve greater operating effectiveness, and quicker access to information, as well as to facilitate more efficient management of our customer relationships worldwide.

Alongside these efforts, building the core competencies and knowledge of our employees at every level, and developing their capabilities to the full remain key priorities for the Group. To this end, we are working hard to ensure that these objectives are accomplished through a wide range of training and leadership development programmes in all areas of operations. A major part of our focus is to provide a stimulating and rewarding work environment for our employees, as well as to promote their health, safety and wellbeing.

We are also firmly focused in our drive to maintain and improve the high standards and quality of our existing products and facilities, which are fundamental to the continuing success and growth of our business.

CHI SPA

In support of these initiatives, we constantly seek ways to introduce new and highly innovative products and services to ensure that we go on meeting the evolving expectations and tastes of our customers.

At the same time, we work tirelessly to improve the service delivery skills of our employees across all of our activities to enable us to deliver enhanced experiences and higher levels of service to our customers.

We are particularly pleased with the very positive market response to the re-opening of the Rasa Sayang Resort in Penang in late September 2006. Its early performance has been encouraging. The redevelopment programme has greatly enhanced the overall quality and product offering of the resort, and has repositioned it within the top end of luxury resorts in Malaysia and in the region.

Above all, this major undertaking has provided the resort with a solid foundation for significant long-term growth, the benefits of which will flow through in 2007 and the years ahead.

CHAIRMAN'S STATEMENT

INITIATIVES & DEVELOPMENT (Cont'd)

Meanwhile, satisfactory progress has been made on the extension project at Rasa Ria Resort in Sabah, comprising two additional blocks of guestrooms with a total of ninety rooms of premier quality. The main construction work, which commenced on site in April 2006 is proceeding to schedule, with fit-out of the interiors due to begin in mid-2007. The extension project is targeted to be fully completed by end-December 2007.

In 2007, a number of enhancement and upgrading works to food and beverage outlets, as well as banqueting and meeting facilities are taking place at several of our hotel properties including the creation of new recreational facilities at our resort properties in Penang and Sabah.

Specifically, in the light of the highly competitive hotel market in Kuala Lumpur, we also plan to embark on a major upgrade and modernisation of the guestrooms at Shangri-La Hotel Kuala Lumpur in order to maintain the hotel's position firmly at the forefront of the market. We are already actively engaged on the preparatory work and the development of the conceptual interior designs for the guestrooms, and expect to commence this renovation project towards the end of the fourth quarter of 2007.

OUTLOOK

Turning to the outlook for 2007, we expect the prospects for the Group's hotel business to remain positive. Our hotels and resorts should continue to do well in tandem with the expected continuing growth in the corporate and business travel markets. Added to this, the Government's ongoing efforts to promote the Visit Malaysia Year 2007 campaign should provide a major boost to the number of visitor arrivals into the country.

The Group's overall results in 2007 will also benefit from a full-year's contribution from Rasa Sayang Resort.

Meanwhile, demand trends in the property rental market in Kuala Lumpur are likely to remain at a healthy level in 2007 backed by a favourable economic climate.

Although we have achieved a great deal in 2006, we recognise that there is still much work to be done to secure the future growth of the Group. We enter the new financial year committed to driving better financial performance and to further strengthening our business, while continuing to address challenges where we face them.

Our strength is underpinned by our strong portfolio of properties, our well-established brand reputation, and our significant experience and operational capabilities.

THE BOARD

There were a number of changes to the membership of the Board during the year.

We were delighted to welcome Dato' Hj Ayoub Hj Ismail and Mr Gabriel Teo who joined the Board as non-executive directors in September 2006, and Dato' Haris Onn Hussein and Mr Tan Yew Jin who were appointed as non-executive directors to the Board in October 2006.

At the same time, we want to take this opportunity to record our sincere thanks and appreciation to Tan Sri Dato' Wan Sidek Wan Abd. Rahman and Encik Harun Halim Rasip who stood down from the Board in May 2006 and July 2006 respectively. Also, in August 2006, Mr Sulip R. Menon resigned from the Board, and was appointed alternate director to Dato' Hj Ayoub Hj Ismail and Mr Gabriel Teo in September 2006.

RASA WING POOL *at* RASA SAYANG RESORT

In May 2006, Dato' Seri Ismail Farouk Abdullah assumed the role of Chairman of the Audit Committee, whilst Datuk Supperamaniam Manickam and Mr Tan Yew Jin joined as new members of the Audit Committee in May and October 2006 respectively.

SPECIAL THANKS

Our achievements would not have been possible without the strong resolve, commitment and loyalty of our employees across the Group. They are an essential part of the success of our business, and to each of them I extend our wholehearted thanks for their hard work and tremendous efforts.

Equally, I am very grateful to my Board colleagues for their unswerving support and important contributions during the past year.

On behalf of the Board, I would like to thank you, our shareholders for your continued support and encouragement.

TAN SRI A. RAZAK BIN RAMLI
Chairman
6 April 2007

SHANGRI-LA HOTEL KUALA LUMPUR ACHIEVED GOOD REVENUE AND PROFIT GROWTH IN 2006, DESPITE OPERATING IN AN INCREASINGLY CHALLENGING ENVIRONMENT. OVERALL, TOTAL REVENUES FROM THE HOTEL'S OPERATIONS FOR THE YEAR ROSE 8% TO RM142.741 MILLION COMPARED WITH RM132.015 MILLION IN 2005, AND PRE-TAX PROFIT WAS UP BY 24% TO RM28.074 MILLION FROM RM22.551 MILLION IN THE PRIOR YEAR.

SPICE MARKET CAFÉ *at* RASA SAYANG RESORT

The hotel recorded an occupancy rate of 70% in 2006 and increased its average room rate by 10% over the previous year. As a consequence, the hotel's total room revenues grew by 11% to RM62.992 million in 2006 from RM56.899 million in 2005.

In the course of 2006, the hotel enjoyed healthy volumes of business from the corporate group and corporate individual segments from the US, UK, Singapore, Japan and Malaysia. In the leisure sector, the hotel benefited from high levels of demand from the UK, Australia and the Middle Eastern markets. At the same time, there was a strong growth in room bookings from the conventions travel market with more pharmaceutical and medical conferences being held during the year.

Effective yield management strategies coupled with aggressive up-selling efforts contributed to higher average room rates in most segments, particularly in the corporate individual and leisure group segments. In addition, a strong marketing programme enabled the hotel to expand its base of higher-yield corporate accounts for its five floors of Horizon Club guestrooms.

The hotel's food and beverage operations also turned in a good performance in 2006. This favourable result was primarily driven by a significant improvement in the number of food and beverage covers, as well as increased average checks from the hotel's banqueting and catering facilities, and from its coffee shop, *Lemon Garden Café*.

During the year, buoyant corporate and convention activities, and social events generated much higher business levels in banqueting than the previous year. Meanwhile, successful food and beverage promotions and the introduction of new and creative food and beverage concepts drove improved levels of patronage at the food and beverage outlets from both hotel guests and the local community. Revenue from food and beverage operations increased by 7% to RM71.230 million in 2006, and profit rose to RM27.765 million from RM24.172 million last year.

In recognition of the high quality of its products and service excellence, the hotel again garnered a wide array of notable awards and accolades. Condé Nast Traveler (USA) Readers' Choice Awards rated the hotel as *One of the Top 75 Asia Hotels for 2006.* Similarly, the readers of Condé Nast Traveller (UK) voted the hotel as *One of the Top 20 Overseas Leisure Hotels in Asia and the Indian Subcontinent for 2006,* while Global Finance (USA) readers' survey named the hotel the *Best Hotel in Kuala Lumpur for 2006* for the fifth consecutive year.

To maintain the hotel's leadership position at the forefront of the highly competitive hotel market in Kuala Lumpur, and in keeping with its reputation for excellence, plans are underway to embark on a major upgrade of the hotel's guestrooms. This renovation programme is expected to commence late in the last quarter of 2007. Additionally, significant enhancement works will be undertaken in 2007 to revamp and refresh the hotel's *Lobby Lounge* and swimming pool area on Level 2.

The hotel has made a promising start to 2007 and is well positioned to benefit further from the expected continuing growth in both the business and leisure travel segments. The hotel's priorities for 2007 are to improve capabilities in marketing so as to grow increased business volumes from its major corporate markets and the leisure markets of the Middle East and Australia, as well as to capture a greater market share of the emerging corporate business from India and China. At the same time, the hotel will continue to focus on enhancing room yields, operational effectiveness and profitability in all areas of its business.

Increased promotions and innovative food and beverage concepts will be introduced in 2007 to generate further growth in food and beverage sales, and to secure a higher rate of repeat business for the hotel's food and beverage outlets. In addition, sales and marketing activities will be stepped up to attract more high-yield corporate meetings, conventions, and social events for its banqueting and function rooms.

RASA DELUXE ROOM *at* RASA SAYANG RESORT

TRADERS HOTEL PENANG PRODUCED SIGNIFICANTLY BETTER FINANCIAL RESULTS IN 2006 COMPARED TO 2005. THE IMPROVED PERFORMANCE WAS ATTRIBUTABLE TO A STRONG PICK-UP IN DEMAND AND HEALTHY GROWTH IN AVERAGE ROOM RATES. FOR THE YEAR 2006, THE HOTEL REGISTERED A 14% GROWTH IN TOTAL REVENUES TO RM34.909 MILLION COMPARED WITH RM30.523 MILLION IN THE PREVIOUS YEAR, WHILE PRE-TAX PROFIT INCREASED BY 193% TO RM4.807 MILLION FROM RM1.638 MILLION IN 2005.

In the year, room occupancy at the hotel rose strongly from 68% in 2005 to 76%, while its average room rate was up 10% above 2005. Room revenue for 2006 showed an improvement of 25% to RM22.627 million from RM18.039 million recorded in 2005. These results were supported by greater sales and marketing efforts targeted at key growth sectors and better execution in room yield management. Enhanced customer relationship management programmes and higher rates contracted for its major volume-producing corporate accounts during 2006 also contributed to the success.

Occupancy at the hotel benefited from improved levels of business in the corporate group and corporate individual segments mainly from the US, UK, Japan, China and Malaysia. The hotel also experienced strong volumes of leisure business from Indonesia and the UK. In addition, attractive room packages and promotions yielded stronger weekend leisure business from Singapore and the domestic market. The hotel was also able to drive increased room bookings for its guestrooms on the Traders Club floors from the higher-rated business and leisure travellers through targeted marketing initiatives.

Results from the hotel's food and beverage operations were however below expectation. Its food and beverage outlets and banqueting business continue to face tough market conditions during most of 2006 with growing competition and increased pricing pressures. These factors resulted in reduced levels of food and beverage covers at most of its outlets. In particular, the hotel's banqueting and catering facilities saw a large drop in business levels with fewer corporate events and meetings, and private functions. Although improvements in average checks were achieved in banqueting and all the outlets in 2006, they were not sufficient to counter the decline in sales volumes and the impact of increasing cost pressures.

Consequently, food and beverage revenue for 2006 dropped by 5% to RM10.381 million from RM10.872 million in 2005, while profit reduced to RM1.613 million compared with RM1.644 million in 2005.

The hotel has taken significant steps to reinvigorate the performance and operational competitiveness of its food and beverage business. Whilst vigorous promotional activities and marketing programmes have been implemented to grow increased business levels for its banqueting facilities, new and innovative food promotions are being introduced at its food and beverage outlets to create heightened awareness in the marketplace. At the same time, appropriate action has also been taken to maximise profitability and to further streamline the operating cost structures. To keep ahead of competition, the hotel's ballroom, function rooms and pre-function areas, together with the business centre will undergo refurbishment works during 2007.

The prospect for the hotel in 2007 is expected to remain bright as activities in the business and travel markets should continue to progress well in line with the improving economic climate. Against this background, the hotel will redouble its marketing efforts to secure further growth in business volumes from its key business and leisure markets, as well as to gain more new accounts in the corporate sector and meetings business. At the same time, the hotel will keep up efforts to achieve greater operating efficiency, improve customer management and continue to work towards providing higher service levels to all its customers.

2006 WAS A NOTABLE YEAR FOR RASA SAYANG RESORT IN PENANG. THE RESORT WAS SUCCESSFULLY RE-OPENED AND RE-LAUNCHED IN THE MARKETPLACE IN LATE SEPTEMBER 2006, AFTER BEING CLOSED SINCE DECEMBER 2004 FOR A MAJOR REDEVELOPMENT AND REPOSITIONING PROGRAMME. THE SUBSTANTIALLY ENHANCED RESORT IS NOW FIRMLY ESTABLISHED WITHIN THE TOP TIER OF LUXURY RESORTS IN MALAYSIA, AND HAS BEEN WELL RECEIVED IN THE MARKET.

THE REDEVELOPMENT PROGRAMME HAS SIGNIFICANTLY STRENGTHENED THE RESORT'S LEADERSHIP POSITION AND RAISED ITS PROFILE INTERNATIONALLY, WHILST PROVIDING IT WITH A SOLID BASE FOR LONG TERM GROWTH.

RASA PREMIER ROOM *at* RASA SAYANG RESORT

The new and redeveloped Rasa Sayang Resort offers 304 rooms in two separate wings, each with its own entrance. The Rasa wing consists of 115 high-end rooms and suites with elegant furnishings and amenities, while the Garden wing houses 189 rooms and suites, which have all undergone soft refurbishment. The new resort also features four food and beverage outlets, each with its own innovative style, fully upgraded banqueting and meeting facilities, as well as a full range of recreational facilities including a well-equipped health club and a Par 3 executive golf course.

The overall image of the resort has been further enhanced by a new luxurious Chi Spa in a beautiful garden setting, offering the finest in spa services and facilities. The opening of the Chi Spa met with favourable response, and continues to attract good demand from both the hotel guests and the local community.

For the three-month period from October to December 2006, the resort recorded an average occupancy of 48% based on available rooms, and produced total revenues of RM14.770 million from its operations. Since re-opening its doors, the resort has been rebuilding its business at significantly higher room rates. In the last quarter of 2006, the resort achieved an increase of over 150% in its average room rate compared with the period prior to closure. The benefits of the redevelopment programme will be more fully realised in 2007, the first full year of operations for the resort following its re-opening in late September 2006.

During 2006, the resort mounted a major global advertising and marketing promotional campaign to re-introduce its new guestrooms and facilities into the marketplace, and also undertook a number of sales and marketing roadshows to important source markets. These marketing initiatives have led to enhanced visibility of the resort and widespread media coverage in high profile publications.

For 2007, an ongoing intensive marketing drive is in place to strengthen the profile of the resort and create stronger awareness. The resort will aggressively pursue strategic marketing activities to further grow its customer base by targeting the higher-end leisure and corporate travellers, particularly from its key markets in the UK, Europe and the Asian region. Concerted efforts will also be made to capture an increasing share of the high-yield corporate meeting segments and incentive business. At the same time, the resort will continue to strengthen its strategic alliances with key travel trade partners, major airlines and credit card companies through joint promotions of creative marketing programmes.

A major focus for the resort is to maintain and enhance its reputation for high levels of service excellence. The resort will continue to drive training activities across all areas of operations to further improve its service standards, build customer loyalty, as well as to deliver enhanced and memorable experiences for its customers.

FERINGGI GRILL *at* RASA SAYANG RESORT

GOLDEN SANDS RESORT IN PENANG HAD A VERY SUCCESSFUL YEAR IN 2006 IN A MORE POSITIVE OPERATING ENVIRONMENT. THE RESORT LEVERAGED FULLY ON ITS STRONG MARKET POSITION AND OUTPERFORMED ITS COMPETITION TO CAPTURE SIGNIFICANT GAINS IN MARKET SHARE IN 2006.

The resort's operating results for 2006 recorded robust growth, with total revenues increasing by 20% to RM54.922 million from RM45.701 million in 2005 and pre-tax profit up 29% to RM17.011 million versus RM13.148 million in the previous year.

During 2006, the resort registered strong leisure arrivals from its major markets with demand being particularly strong from the Middle East, Australia and Japan, which together produced an increase of 34% or 10,057 room nights sold on the previous year. The resort also continued to enjoy healthy corporate business volumes, particularly from Malaysia and the UK.

At the same time, active room yield management enabled the resort to achieve significantly better average room rates in most market segments. In 2006, the resort's average room rate rose by 14% over 2005.

Occupancy at the resort for the full year increased to 77% from 71% achieved in 2005. In consequence, room revenue reached RM36.468 million, a rise of 24% as compared with RM29.378 million in 2005.

Performance of the resort's food and beverage operations also showed a notable improvement over 2005.

Food and beverage revenues for the year went up by 11% from RM14.253 million in 2005 to RM15.819 million, while profit grew to RM4.752 million compared with RM3.493 million in 2005.

To counter intense competitive activity from freestanding restaurants in the nearby surrounding areas, the resort launched a wide variety of food promotions and dining programmes to attract high levels of patronage at its food and beverage outlets. These initiatives achieved an increase in covers at all outlets.

Going into 2007, with market conditions expected to remain encouraging, the resort will sharpen its focus to best capitalise on the opportunities as they arise in its key long-haul and regional markets, and at the same time will improve its penetration of the important emerging markets of China and India. Additionally, the resort will continue to optimise operational efficiency, drive further improvements in room yield strategies, as well as to deliver enhanced products and quality services to its customers.

RASA RIA RESORT in Sabah delivered a strong financial performance in 2006, with revenue and profit well ahead of last year. The hotel and tourism industry in Sabah continued to flourish in 2006, with the number of visitor arrivals rising steadily and a limited new supply of hotel rooms, driving healthy increases in room rates.

Against this backdrop, the resort posted total revenues of RM62.924 million in 2006 compared with RM55.034 million in 2005, while pre-tax profit surged 86% to RM18.244 million from RM9.823 million the previous year.

The resort's occupancy rate advanced to 81% in 2006 versus 79% the year before, with average room rate rising by 20% over 2005. These improvements were achieved through a combination of successful sales and marketing initiatives and vigilant room yield management. The resort did well to improve room rates across all market segments in 2006. Overall, room revenue increased by 21% from RM25.409 million in 2005 to RM30.711 million in 2006.

Rasa Ria Resort saw robust demand from its key leisure markets of the UK, Australia and Japan for much of the year. The resort also benefited from a significant pick-up in leisure arrivals from Hong Kong and Korea, experiencing a growth of almost 60% in room night bookings from these market sectors over the previous year. At the same time, the number of room night bookings from the corporate travel markets of Malaysia and Singapore has also risen markedly during 2006.

Food and beverage operations at the resort also produced a strong performance in 2006, supported by higher room occupancy, creative dining promotions, and the positive effect from increases in selling prices. Total food and beverage revenues were up by 10% from RM20.614 million in 2005 to RM22.627 million, while profit rose 12% to RM9.431 million compared with RM8.394 million in the prior year.

In the light of the favourable trading conditions in the hotel market, the outlook for the resort remains positive for 2007. The resort will continue to aggressively pursue focused sales and marketing strategies in its existing major markets to further enhance its operating performance in the current year. Alongside this, the resort will intensify its marketing initiatives to expand its share of leisure business from the emerging markets of Korea and Germany.

To retain its competitive position, the resort will also place increasing focus on improving cost efficiency in all areas of its operations, as well as seek further improvements in the overall quality and standards of its products and customer service levels. Towards this end, the resort will extensively upgrade its coffee shop in the current year, and will also construct a new Kid's Club facility so as to offer better outdoor and indoor recreational facilities for children.


CHI SPA *at* RASA SAYANG RESORT

OPERATIONS REVIEW
INVESTMENT PROPERTIES

THE GROUP'S INVESTMENT PROPERTIES IN KUALA LUMPUR RECORDED AN ENCOURAGING SET OF FINANCIAL RESULTS IN 2006, PRIMARILY DRIVEN BY GOOD GROWTH IN OCCUPANCY LEVELS AT UBN TOWER. FOR THE YEAR UNDER REVIEW, TOTAL RENTAL REVENUES FROM UBN TOWER AND UBN APARTMENTS SHOWED AN IMPROVEMENT OF 24% TO RM14.729 MILLION COMPARED WITH RM11.837 MILLION ACHIEVED IN 2005, WHILE THEIR COMBINED PRE-TAX PROFIT GREW 14% TO RM9.222 MILLION FROM RM8.056 MILLION IN THE PREVIOUS YEAR.

Over the last year, there has been a healthy surge in demand levels in the office sector of the property rental market in Kuala Lumpur, particularly in the second half of 2006. Growth in demand was underpinned by a more buoyant economy and improved business sentiment. Through strong marketing efforts, UBN Tower managed to secure a total of 75,659 square feet of new leases during 2006. Amongst the new tenants, EXIM Bank has taken 50,000 square feet of office space, whilst the remaining space of 25,659 square feet was leased to other new individual tenants chiefly from the oil & gas, financial services and information technology sectors.

Consequently, the average occupancy rate at UBN Tower climbed from 41% in 2005 to 59% in 2006, and total rental revenue rose 27% to RM12.670 million from RM9.944 million in the prior year.

Meanwhile, leasing activity in the high-end apartment rental market remained firm in 2006, benefiting from a higher level of expatriate arrivals. During the year, more global multinational companies expanded their operations or set up new offices within the Kuala Lumpur city area as economic and business activity gained momentum.

Despite intense levels of competition and rate undercutting, UBN Apartments was able to register a higher average occupancy rate of 76% in 2006, with total rental revenue up by 9% to RM2.059 million compared with RM1.893 million in the previous year. In 2006, most of the demand came from expatriates from the oil companies, manufacturing firms, as well as from the finance sectors.

Trading conditions in the property rental market in Kuala Lumpur are expected to improve further in 2007 on the back of a favorable economic outlook. While this should have a positive impact on demand levels, existing significant oversupply will put ongoing downward pressure on rental rates.

In the face of a highly competitive environment, continued efforts will be made to achieve better operating efficiencies, and to provide higher standards of building maintenance and security, as well as to further enhance the overall quality of the facilities and services offered to tenants. Additionally, strategic marketing initiatives are being stepped up to secure new tenants in key growth sectors and to improve rental yields.

CORPORATE STRUCTURE

SHANGRI-LA HOTELS (MALAYSIA) BERHAD

Hotels & Resorts

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

Investment Holding & Others

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

Investment Properties

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

1 Held via Pantai Dalit Beach Resort Sdn Bhd
2 Incorporated in British Virgin Islands
3 Incorporated in Union of Myanmar

FINANCIAL CALENDAR

YEAR 2006

18 MAY
Announcement of Unaudited Consolidated Results for the 1st Quarter ended 31.3.2006

23 AUGUST
Announcement of Unaudited Consolidated Results for the 2nd Quarter ended 30.6.2006

27 OCTOBER
2006 Interim Dividend Entitlement Date

1 NOVEMBER
Announcement of Unaudited Consolidated Results for the 3rd Quarter ended 30.9.2006

17 NOVEMBER
2006 Interim Dividend Payment Date

31 DECEMBER
Financial Year End

YEAR 2007

28 FEBRUARY
Announcement of Audited Consolidated Results for the 4th Quarter and Financial year ended 31.12.2006

27 APRIL
Issue of 2006 Annual Report

21 MAY
2007 Annual General Meeting to be held

21 MAY
Announcement of Unaudited Consolidated Results for the 1st Quarter ended 31.3.2007

31 MAY
Entitlement Date for the proposed 2006 Final Dividend

25 JUNE
Payment Date for the proposed 2006 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' Hj Ayoub bin Dato' Hj Ismail

Dato' Haris Onn bin Hussein*

Dato' Seri Ismail Farouk Abdullah*

Kuok Khoon Ho

Tan Sri Dato' Mohd Amin bin Osman

Datuk Supperamaniam a/l Manickam*

Dato' Dr Tan Tat Wai*

Tan Yew Jin

Teo Yee Yen Gabriel

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

* 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

Kuok Khoon Ho

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

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 holds a Bachelor of Arts (Honours) degree in Public Administration from the University of Tasmania, Australia and has a diploma in Gestion Publique from Institut International d'Administration Publique, Paris, France. He has served in various Ministries including the Public Services Department and Economic Planning Unit in the Prime Minister's Department and the Ministry of International Trade and Industry (MITI). Tan Sri A. Razak was Chairman of APEC Senior Officials when Malaysia hosted APEC, and held various positions in MITI including Deputy Secretary General (Industry), Deputy Secretary General (Trade) and retired as the Secretary General of MITI. He was also actively involved as MITI's representative in several government agencies such as MIDA and MATRADE. He also sits on the boards of Lafarge Malayan Cement Berhad, Favelle Favco Berhad, Ann Joo Resources Berhad and Transmile Group 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 2006. Age 58.

KUOK OON KWONG

Managing Director

SINGAPOREAN, NON-INDEPENDENT EXECUTIVE DIRECTOR

Madam Kuok Oon Kwong was appointed Managing Director on 16 November 1998 and has been an Executive Director of the Company since 14 November 1996. In her capacity as Managing Director, she has overall responsibility for the Group's business operations and development. She also sits on the board of all the major subsidiaries in the SHMB Group and is the Chairman of the Policy Implementation Committee, which oversees the Group's hotel 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. Madam Kuok is an Advocate and Solicitor (Barrister-at-Law) of Gray's Inn, London.

Her brother, Mr Kuok Khoon Ho is also a member of the Board. 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 2006. Age 60.

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 2006. Age 47.

DATO' HJ AYOUB BIN DATO' HJ ISMAIL

MALAYSIAN, NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

Dato' Hj Ayoub bin Dato' Hj Ismail was appointed to the Board on 8 September 2006. He is multi-disciplinary in Electronics and the Print Media Communications. Upon his return from England, he joined the Straits Times Malaysia as a consultant in 1971 and thereafter was appointed as Group Managing Director of the Fleet Group, Publishing Operations (1976-1982). He was a pioneer member of the FINAS Board (1979-1994). He does not sit on the board of any other public listed company.

Dato' Hj Ayoub 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 out of two Board meetings held since his appointment in September 2006. Age 61.

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 a 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 one out of two Board meetings held since his appointment in October 2006. Age 40.

PROFILE OF BOARD OF DIRECTORS

DATO' SERI ISMAIL FAROUK ABDULLAH

MALAYSIAN, INDEPENDENT NON-EXECUTIVE DIRECTOR

Dato' Seri Ismail Farouk Abdullah was appointed to the Board on 23 June 1979 and is currently the Chairman of the Audit 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 2006. Age 61.

KUOK KHOON HO

MALAYSIAN, NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr Kuok Khoon Ho was appointed to the Board on 1 June 2001 and is a member of the Nomination & Remuneration Committee. He graduated from McGill University, Canada with a bachelor's degree in Commerce. He began his career with the Kuok Group in 1976 and has extensive international experience in hotel management, property development and corporate management. He previously held the positions of Managing Director and Deputy Chairman of Shangri-La Asia Limited, Hong Kong and is currently the Chairman of PPB Oil Palms Berhad and Kuok Brothers Sdn Bhd. He also sits on the board of Transmile Group Berhad.

His sister, Madam Kuok Oon Kwong is also a member of the Board. He has no conflict of interest with SHMB and no convictions for any offences within the past ten years. He attended three out of five Board meetings held in 2006. Age 56.

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 all five Board meetings held in 2006. Age 79.

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 does not sit on the board of any other public listed company.

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 2006. Age 62.

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 2006. Age 60.

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, Certified Public Accountants, 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) and also the Executive Chairman of PPB Oil Palms Berhad (2000-2004). He is currently the Deputy Chairman of Jerneh Asia Berhad and 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 two out of two Board meetings held since his appointment in October 2006. Age 65.

TEO YEE YEN GABRIEL

MALAYSIAN, NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr Teo Yee Yen Gabriel was appointed to the Board on 8 September 2006. He holds a Bachelor's degree in Business Administration from the National University of Singapore and is also a Chartered Financial Analyst (CFA). He was attached to the Singapore Ministry of Defence (1985-1996). He has previously worked with IBJ Merchant Bank (S) Ltd, the Government of Singapore Investment Corporation and UOB Kay Hian Pte Ltd. He is currently the Executive Director of Landmarks Berhad, which is primarily focussed in the hotel and resort business.

Mr Teo 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 out of two Board meetings held since his appointment in September 2006. Age 40.

SULIP R. MENON

MALAYSIAN, ALTERNATE DIRECTOR

Mr Sulip R. Menon was appointed as Alternate Director to Dato' Hj Ayoub bin Dato' Hj Ismail and Mr Teo Yee Yen Gabriel on 8 September 2006. He holds a degree in Law from the University of London, is a Barrister-at-Law of the Honourable Society of Lincoln's Inn and also holds an eMBA from the Asian Institute of Management, Manila. Mr Menon began his career as a Legal Assistant with Messrs Zaid Ibrahim & Co and later joined the legal department of Peremba (Malaysia) Sdn Bhd as its Assistant Manager, Legal. He moved to Landmarks Berhad in 1996 and has held the positions of Group Legal Adviser/General Manager before assuming his current position as the Chief Operating Officer of Landmarks Berhad, which is primarily focussed in the hotel and resort business. He does not sit on the board of any other public listed company.

Mr Menon 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 43.

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 2006.

THE BOARD

Board Structure and Procedures

The Board currently consists of ten 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 2006 save for Dato' Hj Ayoub bin Dato' Hj Ismail, Mr Teo Yee Yen Gabriel, Dato' Haris Onn bin Hussein and Mr Tan Yew Jin.

Dato' Hj Ayoub and Mr Gabriel Teo joined the Board as non-independent non-executive directors with effect from 8 September 2006. On 17 October 2006, Dato' Haris Onn was appointed as an independent non-executive director. Also with effect from 17 October 2006, Mr Tan Yew Jin joined the Board as a non-independent non-executive director.

Tan Sri Dato' Wan Sidek bin Wan Abd. Rahman and Encik Harun bin Halim Rasip stepped down from the Board on 19 May 2006 and 27 July 2006 respectively. In addition, Mr Sulip R. Menon resigned as a Director of the Company on 21 August 2006, and was appointed as an Alternate Director to Dato' Hj Ayoub and Mr Gabriel Teo on 8 September 2006.

The brief profiles of the current members of the Board are given on pages 27 to 31 of this annual report.

Of the ten non-executive directors on the Board, four are considered to be fully independent. As such, independent non-executive directors make-up 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 two out of the twelve-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.

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-sixth AGM of the Company to be held on 21 May 2007 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 2006 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 2006 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' Seri Ismail Farouk Abdullah	5 / 5
Kuok Khoon Ho	3 / 5
Tan Sri Dato' Mohd Amin bin Osman	5 / 5
Datuk Supperamaniam a/l Manickam	5 / 5
Dato' Dr Tan Tat Wai	5 / 5
Dato' Hj Ayoub bin Dato' Hj Ismail (Appointed on 8.9.2006)	2 / 2
Teo Yee Yen Gabriel (Appointed on 8.9.2006)	2 / 2
Dato' Haris Onn bin Hussein (Appointed on 17.10.2006)	1 / 2
Tan Yew Jin (Appointed on 17.10.2006)	2 / 2
Tan Sri Dato' Wan Sidek bin Wan Abd. Rahman (Resigned on 19.5.2006)	0 / 2

STATEMENT ON CORPORATE GOVERNANCE

NAME OF DIRECTOR	TOTAL ATTENDANCE
Harun bin Halim Rasip (Resigned on 27.7.2006)	1 / 2
Sulip R. Menon (Resigned on 21.8.2006)#	1 / 2

Appointed as Alternate Director to Dato' Hj Ayoub bin Dato' Hj Ismail and Teo Yee Yen Gabriel on 8.9.2006

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. On 26 May 2006, Dato' Seri Ismail Farouk Abdullah has taken on the role of Chairman of the AC succeeding Tan Sri Dato' Wan Sidek, who resigned from the Board in May 2006. Additionally, Datuk M. Supperamaniam and Mr Tan Yew Jin were appointed as new members of the AC on 26 May 2006 and 17 October 2006 respectively. Encik Harun bin Halim Rasip ceased to be a member of the AC, following his resignation from the Board at the end of July 2006. 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 2006 and comprises three non-executive directors, two of whom are independent. The current members of the NRC are Dato' Dr Tan Tat Wai, Datuk M. Supperamaniam and Mr Kuok Khoon Ho. Dato' Dr Tan succeeded Tan Sri Dato' Wan Sidek as Chairman of the NRC on 26 May 2006, following Tan Sri Dato' Wan Sidek's resignation from the Board in May 2006. Datuk M. Supperamaniam joined as a new member of the NRC on 26 May 2006. 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.

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 July and November 2006. The training seminars were well attended by the Directors and covered areas such as succession planning, directors & officers liability, and the regulation of the securities market relating to insider trading and market rigging.

Dato' Hj Ayoub, Mr Gabriel Teo, Dato' Haris Onn and Mr Tan Yew Jin, who were appointed to the Board during 2006 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 2006 is set out below.

CATEGORY	FEES & ALLOWANCES (RM)	SALARIES & BONUS (RM)	BENEFITS-IN-KIND (RM)
Executive Directors	-	1,103,500	13,500
Non-Executive Directors	220,000	-	-
Total	**220,000**	**1,103,500**	**13,500**

AMOUNT OF REMUNERATION	EXECUTIVE DIRECTORS	NON-EXECUTIVE DIRECTORS
Below RM50,000	-	13
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	1	-
RM550,001 to RM600,000	1	-

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 44 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 37 to 39 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 6 April 2007.

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 engagement of a firm of external risk consultants, which monitors the continuing effectiveness of the Group's risk management activities and reports to the Audit Committee of the Board on any control failings and corrective action.

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.

- **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 Dominance* 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 Group has outsourced the risk-based internal audit function to KPMG Internal Audit Services ("KAS") which reports to the Audit Committee of the Board regarding the effectiveness of risk and control management, and also recommends improvements in controls. The audits performed by KAS are based on risk based audit plans approved by the Audit Committee. With effect from 1 January 2007, the risk-based internal audit function of the Group was taken over by the IAD of the Company's ultimate holding company.

The Audit Committee of the Board considers significant control matters and receives regular reports from both the IAD and KAS, 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 6 April 2007.

AUDIT COMMITTEE REPORT

for the year ended 31 December 2006

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. On 26 May 2006, Dato' Seri Ismail Farouk Abdullah was appointed as Chairman of the committee to succeed Tan Sri Dato' Wan Sidek, who resigned from the Board in May 2006. Additionally, Datuk M. Supperamaniam and Mr Tan Yew Jin were appointed as new members of the committee on 26 May 2006 and 17 October 2006 respectively. Encik Harun bin Halim Rasip ceased to be a member of the committee, following his resignation from the Board at the end of July 2006.

The committee met four times in 2006. 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/l Manickam (Appointed as a member on 26.5.2006) (Independent Non-Executive Director)	2 / 2
Tan Yew Jin (Appointed as a member on 17.10.2006) (Non-Independent Non-Executive Director)	1 / 1
Tan Sri Dato' Wan Sidek bin Wan Abd. Rahman (Ceased as a member on 19.5.2006) (Independent Non-Executive Director)	2 / 2
Harun bin Halim Rasip (Ceased as a member on 27.7.2006) (Non-Independent Non-Executive Director)	1 / 2

AUDIT COMMITTEE REPORT

for the year ended 31 December 2006

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.

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.

AUDIT COMMITTEE REPORT

for the year ended 31 December 2006

2. Meetings (Cont'd)

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.

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.

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. With effect from 1 January 2007, the IAD has taken over the risk-based internal audit function from KPMG Internal Audit Services. The IAD reports to the Audit Committee of the Board regarding the effectiveness of risk and control management, and also recommends improvements in controls.

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 2006 amounted to RM526,656. These were mainly in respect of tax advisory services, as well as enterprise risk management advisory services and risk-based internal audits undertaken by KPMG Internal Audit Services.

	RM
KPMG	379,732
KPMG Tax Services Sdn Bhd	146,924
Total	526,656

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 2006, 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 2006

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 2006 on pages 54 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 accounting standards for entities other than private entities 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.

FINANCIAL STATEMENTS

CONTENTS

DIRECTORS' REPORT
for the year ended 31 December 2006

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 2006.

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. The resort which closed for about twenty-one (21) months for a major redevelopment and repositioning exercise was reopened for business on 28 September 2006.

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 for the year attributable to shareholders of the Company	**35,679**	**28,932**

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 5.0% less tax at 28% totalling RM15,840,000 in respect of the year ended 31 December 2005 on 19 June 2006; and

ii. an interim dividend of 3.0% less tax at 28% totalling RM9,504,000 in respect of the year ended 31 December 2006 on 17 November 2006.

The Board has proposed a final dividend of 5% less tax at 27% totalling RM16,060,000 for the financial year ended 31 December 2006. 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 21 May 2007. 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 2007.

DIRECTORS' REPORT
for the year ended 31 December 2006

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
Kuok Khoon Ho
Tan Sri Dato' Mohd Amin bin Osman
Datuk Supperamaniam a/l Manickam
Dato' Dr Tan Tat Wai
Dato' Hj Ayoub bin Dato' Hj Ismail (Appointed on 8.9.2006)
Teo Yee Yen Gabriel (Appointed on 8.9.2006)
Dato' Haris Onn bin Hussein (Appointed on 17.10.2006)
Tan Yew Jin (Appointed on 17.10.2006)
Tan Sri Dato' Wan Sidek bin Wan Abd. Rahman (Resigned on 19.5.2006)
Harun bin Halim Rasip (Resigned on 27.7.2006)
Sulip R. Menon (Resigned on 21.8.2006)

Alternate Director
Sulip R. Menon (Appointed as Alternate Director to Dato' Hj Ayoub bin Dato' Hj Ismail and Teo Yee Yen Gabriel on 8.9.2006)

In accordance with Article 76 of the Company's Articles of Association, Dato' Hj Ayoub bin Dato' Hj Ismail, Mr Teo Yee Yen Gabriel, Dato' Haris Onn bin Hussein and Mr Tan Yew Jin 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, Tan Sri A. Razak bin Ramli and Mr Kuok Khoon Ho 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 2006

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 in shares and share options in the Company and a related corporation are as follows:

The Company	As at 1.1.2006/ Date of Appointment	Acquired	(Disposed)	As at 31.12.2006
	Number of Ordinary Shares of RM1.00 each			
DIRECT INTERESTS				
Tan Sri A. Razak bin Ramli	-	-	-	-
Kuok Oon Kwong	-	-	-	-
Rozina Mohd Amin	-	-	-	-
Dato' Hj Ayoub bin Dato' Hj Ismail	-	-	-	-
Dato' Haris Onn bin Hussein	-	-	-	-
Dato' Seri Ismail Farouk Abdullah	200,000	-	-	200,000
Kuok Khoon Ho	-	-	-	-
Tan Sri Dato' Mohd Amin bin Osman	-	-	-	-
Datuk Supperamaniam a/l Manickam	-	-	-	-
Dato' Dr Tan Tat Wai	-	-	-	-
Tan Yew Jin	5,000	-	-	5,000
Teo Yee Yen Gabriel	-	-	-	-
Sulip R. Menon	-	-	-	-
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	151,379	-	-	151,379
Rozina Mohd Amin	-	-	-	-
Dato' Hj Ayoub bin Dato' Hj Ismail	-	-	-	-
Dato' Haris Onn bin Hussein	-	-	-	-
Dato' Seri Ismail Farouk Abdullah	-	-	-	-
Kuok Khoon Ho	-	1,136,768	(500,000)	636,768
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
Teo Yee Yen Gabriel	-	-	-	-
Sulip R. Menon	-	-	-	-
DEEMED INTERESTS IN SAL				
Kuok Oon Kwong	1,762,610	-	(1,600,000)	162,610
Kuok Khoon Ho	2,162,610	-	(2,000,000)	162,610

DIRECTORS' REPORT
for the year ended 31 December 2006

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 1.1.2006	Granted	Exercised	As at 31.12.2006
Kuok Oon Kwong	28.4.2006 – 27.4.2015	HKD11.60	150,000	-	-	150,000
	28.4.2007 – 27.4.2015	HKD11.60	150,000	-	-	150,000
	16.6.2007 – 15.6.2016	HKD14.60	-	60,000	-	60,000
	16.6.2008 – 15.6.2016	HKD14.60	-	60,000	-	60,000
Rozina Mohd Amin	28.4.2006 – 27.4.2015	HKD11.60	25,000	-	-	25,000
	28.4.2007 – 27.4.2015	HKD11.60	25,000	-	-	25,000
	16.6.2007 – 15.6.2016	HKD14.60	-	10,000	-	10,000
	16.6.2008 – 15.6.2016	HKD14.60	-	10,000	-	10,000
Kuok Khoon Ho	1.5.2001 – 30.4.2008	HKD 8.26	361,123	-	(361,123)	-
	15.1.2001 – 14.1.2010	HKD 8.82	242,278	-	(242,278)	-
	15.1.2002 – 14.1.2010	HKD 8.82	242,277	-	(242,277)	-
	15.1.2002 – 14.1.2011	HKD 8.18	145,545	-	(145,545)	-
	15.1.2003 – 14.1.2011	HKD 8.18	145,545	-	(145,545)	-

Other than as disclosed above, none of the Directors held any shares as at 31 December 2006, 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 2006

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 changes in accounting policies as disclosed in Note 27 to the financial statements, the results of the operations of the Group and of the Company for the financial year ended 31 December 2006 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 2006

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,
28 February 2007

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 54 to 99 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards for entities other than private entities 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 2006 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,
28 February 2007

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 54 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 28 February 2007

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 54 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 accounting standards for entities other than private entities 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 2006 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: 1745/12/07(J)

Kuala Lumpur,
28 February 2007

BALANCE SHEETS

as at 31 December 2006

	Note	GROUP 2006 RM'000	GROUP 2005 RM'000 restated	COMPANY 2006 RM'000	COMPANY 2005 RM'000 restated
ASSETS					
Non-current assets					
Property, plant and equipment	3	**646,131**	580,403	**123,562**	49,735
Investment properties	4	**262,500**	262,500	**-**	-
Investments in subsidiaries	5	**-**	-	**459,188**	459,188
Interests in associates	6	**17,072**	21,232	**-**	-
Property development expenditure	7	**11,605**	11,578	**-**	-
Deferred tax assets	8	**-**	735	**-**	-
		937,308	876,448	**582,750**	508,923
Current assets					
Inventories	9	**9,756**	8,616	**1,517**	-
Trade and other receivables, prepayments and deposits	10	**32,756**	24,333	**239,861**	226,314
Tax recoverable	10	**18,830**	14,109	**14,171**	8,509
Cash and cash equivalents	11	**12,141**	14,549	**2,469**	3,167
		73,483	61,607	**258,018**	237,990
Total assets		**1,010,791**	938,055	**840,768**	746,913
EQUITY					
Share capital	12	**440,000**	440,000	**440,000**	440,000
Reserves	12	**231,069**	217,860	**217,057**	213,469
Total equity attributable to shareholders of the Company		**671,069**	657,860	**657,057**	653,469
Minority interests		**48,450**	43,747	**-**	-
Total equity		**719,519**	701,607	**657,057**	653,469
Negative goodwill	27	**-**	2,874	**-**	-
LIABILITIES					
Non-current liabilities					
Long-term borrowings	13	**94,401**	44,515	**86,700**	28,420
Retirement benefits	14	**10,453**	9,654	**25**	-
Deferred tax liabilities	8	**13,579**	15,441	**-**	2,686
		118,433	69,610	**86,725**	31,106
Current liabilities					
Trade and other payables and accruals	15	**69,931**	51,529	**38,085**	25,434
Short-term borrowings	13	**102,088**	111,464	**58,901**	36,904
Current tax liabilities		**820**	971	**-**	-
		172,839	163,964	**96,986**	62,338
Total liabilities		**291,272**	233,574	**183,711**	93,444
Total equity and liabilities		**1,010,791**	938,055	**840,768**	746,913

The notes on pages 61 to 99 are an integral part of these financial statements.

INCOME STATEMENTS

for the year ended 31 December 2006

		GROUP		COMPANY	
	Note	**2006 RM'000**	2005 RM'000 restated	**2006 RM'000**	2005 RM'000 restated
Revenue	16	**330,520**	280,089	**71,095**	52,025
Operating profit	16	**54,373**	52,646	**34,818**	56,869
Interest income	17	**120**	178	**126**	212
Interest expense	18	**(5,560)**	(6,016)	**(2,878)**	(2,630)
Share of results of associates		**(3,725)**	(2,135)	**-**	-
Profit before tax		**45,208**	44,673	**32,066**	54,451
Tax expense	19	**(4,026)**	(5,413)	**(3,134)**	(10,894)
Profit for the year		**41,182**	39,260	**28,932**	43,557
Attributable to:					
Shareholders of the Company		**35,679**	37,326	**28,932**	43,557
Minority interests		**5,503**	1,934	**-**	-
Profit for the year		**41,182**	39,260	**28,932**	43,557
Basic earnings per ordinary share (sen):	20	**8.1**	8.5		

The notes on pages 61 to 99 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2006

		ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		
		NON-DISTRIBUTABLE		
	Note	SHARE CAPITAL RM'000	SHARE PREMIUM RM'000	ASSET REVALUATION RESERVE RM'000
GROUP				
At 1 January 2005				
As previously reported		440,000	104,501	414,854
Adjusted retrospectively				
- Effect of adopting FRS 116	27	-	-	(414,854)
- Effect of adopting FRS 140	27	-	-	-
- Effect of adopting FRS 112_{2004}	27	-	-	-
At 1 January 2005 as restated		440,000	104,501	-
Profit for the year		-	-	-
Dividends to shareholders	21	-	-	-
Dividend to minority shareholder of a subsidiary		-	-	-
At 31 December 2005 as restated		440,000	104,501	-
At 1 January 2006				
As previously reported		**440,000**	**104,501**	**414,854**
Adjusted retrospectively				
- Effect of adopting FRS 116	27	**-**	**-**	**(414,854)**
- Effect of adopting FRS 140	27	**-**	**-**	**-**
- Effect of adopting FRS 112_{2004}	27	**-**	**-**	**-**
		440,000	**104,501**	**-**
Adjusted prospectively				
- Effect of adopting FRS 3	27	**-**	**-**	**-**
At 1 January 2006 as restated		**440,000**	**104,501**	**-**
Transfer of reserves	27	**-**	**-**	**-**
Profit for the year		**-**	**-**	**-**
Dividends to shareholders	21	**-**	**-**	**-**
Dividend to minority shareholder of a subsidiary		**-**	**-**	**-**
At 31 December 2006		**440,000**	**104,501**	**-**

The notes on pages 61 to 99 are an integral part of these financial statements.

ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

DISTRIBUTABLE						
MERGER RESERVE RM'000	CAPITAL RESERVE RM'000	OTHER RESERVES RM'000	RETAINED EARNINGS/ (ACCUMULATED LOSSES) RM'000	TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY RM'000	MINORITY INTERESTS RM'000	TOTAL EQUITY RM'000
(65,859)	-	7,512	212,197	1,113,205	68,120	1,181,325
-	205,869	-	(290,606)	(499,591)	(21,091)	(520,682)
-	-	-	44,888	44,888	-	44,888
-	-	-	(14,208)	(14,208)	(4,736)	(18,944)
(65,859)	205,869	7,512	(47,729)	644,294	42,293	686,587
-	-	-	37,326	37,326	1,934	39,260
-	-	-	(23,760)	(23,760)	-	(23,760)
-	-	-	-	-	(480)	(480)
(65,859)	205,869	7,512	(34,163)	657,860	43,747	701,607
(65,859)	**-**	**7,512**	**238,141**	**1,139,149**	**70,564**	**1,209,713**
-	**205,869**	**-**	**(302,984)**	**(511,969)**	**(22,081)**	**(534,050)**
-	**-**	**-**	**44,888**	**44,888**	**-**	**44,888**
-	**-**	**-**	**(14,208)**	**(14,208)**	**(4,736)**	**(18,944)**
(65,859)	**205,869**	**7,512**	**(34,163)**	**657,860**	**43,747**	**701,607**
-	**-**	**-**	**2,874**	**2,874**	**-**	**2,874**
(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**

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2006

		ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY					
		NON-DISTRIBUTABLE			DISTRIBUTABLE		
	Note	SHARE CAPITAL RM'000	SHARE PREMIUM RM'000	ASSET REVALUATION RESERVE RM'000	CAPITAL RESERVE RM'000	RETAINED EARNINGS RM'000	TOTAL EQUITY RM'000
COMPANY							
At 1 January 2005							
As previously reported		440,000	104,501	117,037	145,835	96,333	903,706
Adjusted retrospectively							
- Effect of adopting FRS 116	27	-	-	(98,535)	-	(39,284)	(137,819)
- Effect of adopting FRS 127	27	-	-	(18,502)	(113,713)	-	(132,215)
At 1 January 2005 as restated		440,000	104,501	-	32,122	57,049	633,672
Profit for the year		-	-	-	-	43,557	43,557
Dividends to shareholders	21	-	-	-	-	(23,760)	(23,760)
At 31 December 2005 as restated		440,000	104,501	-	32,122	76,846	653,469
At 1 January 2006							
As previously reported		**440,000**	**104,501**	**117,037**	**145,835**	**117,876**	**925,249**
Adjusted retrospectively							
- Effect of adopting FRS 116	27	**-**	**-**	**(98,535)**	**-**	**(41,030)**	**(139,565)**
- Effect of adopting FRS 127	27	**-**	**-**	**(18,502)**	**(113,713)**	**-**	**(132,215)**
At 1 January 2006 as restated		**440,000**	**104,501**	**-**	**32,122**	**76,846**	**653,469**
Transfer of reserves	27	**-**	**-**	**-**	**(32,122)**	**32,122**	**-**
Profit for the year		**-**	**-**	**-**	**-**	**28,932**	**28,932**
Dividends to shareholders	21	**-**	**-**	**-**	**-**	**(25,344)**	**(25,344)**
At 31 December 2006		**440,000**	**104,501**	**-**	**-**	**112,556**	**657,057**

The notes on pages 61 to 99 are an integral part of these financial statements.

CASH FLOW STATEMENTS
for the year ended 31 December 2006

	GROUP		COMPANY	
	2006	2005	**2006**	2005
	RM'000	RM'000	**RM'000**	RM'000
		restated		restated
Cash flows from operating activities				
Profit before tax	**45,208**	44,673	**32,066**	54,451
Adjustments for:				
Allowance for doubtful debts of subsidiary written back	**-**	-	**(6,602)**	(459)
Depreciation	**33,737**	35,748	**3,896**	2,662
Gain on disposal of investment in an associate	**(1,286)**	(12,191)	**(1,286)**	(16,736)
Interest expense	**5,560**	6,016	**2,878**	2,630
Interest income	**(120)**	(178)	**(126)**	(212)
Loss/(Gain) on disposal of property, plant and equipment	**4**	(938)	**(23)**	(1,789)
Property, plant and equipment written off	**1,850**	2,467	**-**	167
Retirement benefits charged	**1,388**	1,220	**25**	-
Share of losses of associates	**3,725**	2,135	**-**	-
Unrealised (gain)/loss on foreign exchange	**(1,248)**	(99)	**6,602**	459
Operating profit before changes in working capital	**88,818**	78,853	**37,430**	41,173
Change in inventories	**(1,140)**	591	**(1,517)**	-
Change in trade and other payables and accruals	**18,402**	(10,352)	**11,664**	(10,176)
Change in trade and other receivables, prepayments and deposits	**(8,423)**	(4,188)	**(14,907)**	(16,104)
Cash generated from operations	**97,657**	64,904	**32,670**	14,893
Tax paid	**(10,025)**	(964)	**(11,482)**	(13,423)
Retirement benefits paid	**(589)**	(455)	**-**	-
Net cash generated from operating activities	**87,043**	63,485	**21,188**	1,470

The notes on pages 61 to 99 are an integral part of these financial statements.

CASH FLOW STATEMENTS

for the year ended 31 December 2006

	Note	GROUP 2006 RM'000	GROUP 2005 RM'000 restated	COMPANY 2006 RM'000	COMPANY 2005 RM'000 restated
Cash flows from investing activities					
Acquisition of property, plant and equipment		**(100,176)**	(37,121)	**(76,195)**	(8,851)
Additions to property development expenditure		**(27)**	-	**-**	-
Interest received		**120**	178	**126**	212
Proceeds from disposal of property, plant and equipment, and investment properties		**591**	2,604	**229**	1,808
Proceeds from disposal of investment in an associate		**1,286**	32,936	**1,286**	32,936
Net cash (used in)/generated from investing activities		**(98,206)**	(1,403)	**(74,554)**	26,105
Cash flows from financing activities					
Advances and payments made on behalf of subsidiaries		**-**	-	**2,347**	4,338
Dividend paid to minority shareholder of a subsidiary		**(800)**	(480)	**-**	-
Dividend paid to shareholders of the company		**(25,344)**	(23,760)	**(25,344)**	(23,760)
Interest paid		**(7,294)**	(6,132)	**(4,612)**	(2,746)
Refund of excess call from associates		**435**	447	**-**	-
Drawdown of revolving credits		**6,150**	15,126	**15,000**	8,500
Drawdown/(Repayments) of term loans		**35,406**	(39,394)	**64,880**	(13,180)
Net cash generated from/(used in) financing activities		**8,553**	(54,193)	**52,271**	(26,848)
Net (decrease)/increase in cash and cash equivalents		**(2,610)**	7,889	**(1,095)**	727
Cash and cash equivalents at 1 January		**14,350**	6,461	**3,163**	2,436
Cash and cash equivalents at 31 December		**11,740**	14,350	**2,068**	3,163

Cash and cash equivalents

Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

	Note	GROUP 2006 RM'000	GROUP 2005 RM'000 restated	COMPANY 2006 RM'000	COMPANY 2005 RM'000 restated
Cash and bank balances	11	**9,721**	9,148	**2,069**	3,167
Deposits placed with:					
– licensed banks	11	**2,420**	4,900	**400**	-
– a licensed financial institution	11	**-**	501	**-**	-
Bank overdrafts	13	**(401)**	(199)	**(401)**	(4)
		11,740	14,350	**2,068**	3,163

The notes on pages 61 to 99 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2006

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 2006 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.

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 accounting standards for entities other than private entities 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 new and revised Financial Reporting Standards (FRSs) that are effective for accounting periods beginning on or after 1 January 2006 or available for early adoption. The changes in the Group's accounting policies and the effect of adopting the new and revised FRSs are set out in Note 27 to the financial statements.

The financial statements were approved by the Board of Directors on 28 February 2007.

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).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2006

1. BASIS OF PREPARATION (Cont'd)

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.

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 4 – Valuation of Investment Properties.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Certain comparative amounts have been reclassified to conform to the current year's presentation (see Note 28).

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.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

All subsidiaries are accounted for in the consolidated financial statements using the purchase method of accounting, except for UBN Holdings Sdn Bhd, which 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.

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).

Minority interests at the balance sheet date, being the portion of the net assets 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 interests 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 interests 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 all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

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. 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.

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 transaction. 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.

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 only when the loan is denominated in either the functional currency of the Company or the foreign operation. Deferred exchange differences are released to the 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. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located.

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.

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 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.

iv. CHANGE IN ESTIMATES

Estimates in respect of integral plant and machinery were revised in 2006 (see Note 3).

d. Intangible asset

GOODWILL

Goodwill/(negative goodwill) arises on the acquisition of subsidiaries and associates.

For acquisitions prior to 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair values of the net identifiable assets and liabilities.

With the adoption of FRS 3, Business Combinations beginning 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill is measured at cost and is tested for impairment at least annually or more frequently when there is objective evidence of impairment. When the excess is negative (negative goodwill), it is recognised immediately in the income statement. With the adoption of FRS 3, the carrying amount of negative goodwill at 1 January 2006 is derecognised with a corresponding adjustment to the opening balance of accumulated losses (see Note 27).

Goodwill is allocated to cash-generating units and is tested annually for impairment or more frequently if events of changes in circumstances indicate that it might be impaired.

In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. The entire carrying amount of the investment is tested for impairment when there is objective evidence of impairment.

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e. Investment properties

Investment properties are properties which are owned to earn rental income or for capital appreciation or for both. Properties that are occupied by the companies in the Group are accounted for as owner-occupied rather than as investment properties.

In the previous years, investment properties were stated at valuation/fair value. Revaluation surpluses, if considered by the Directors to be other than temporary, were incorporated in the financial statements through the Asset Revaluation Reserve. Any deficit would be set off against the Asset Revaluation Reserve. If the reserve was insufficient to cover a deficit on an individual basis, the excess of the deficit was charged to the income statement. Following the adoption of FRS 140, Investment Property, investment properties are measured initially and subsequently at fair value with any change therein recognised in the income statement.

Any surplus previously recorded in equity is transferred directly to retained earnings. The effects of adopting FRS 140 are set out in Note 27.

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 selling expenses.

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.

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 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.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount unless the asset is carried at a revalued amount, in which case the impairment loss is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. 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.

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.

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 statement in the year in which the reversals are recognised unless it reverses an impairment loss on a revalued asset, in which case it is credited directly to revaluation surplus. Where an impairment loss on the same revalued asset was previously recognised in the income statement, a reversal of that impairment loss is also recognised in the income statement.

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 Employee's Provident Fund 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.

k. Employee benefits (Cont'd)

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 and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. 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.

l. 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.

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

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.

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 substantively enacted by the balance sheet date.

Deferred tax liability is recognised for all taxable temporary differences.

p. Tax expense (Cont'd)

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.

Additional taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

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.

3. PROPERTY, PLANT AND EQUIPMENT

	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 2005, restated	39,026	20,439	525,294	89,136	48,779	191,853	7,082	921,609
Additions	-	3,138	211	1,597	-	9,433	22,858	37,237
Disposals	-	-	(1,049)	-	-	(4,228)	-	(5,277)
Write off	-	-	(797)	(79)	-	(13,602)	(596)	(15,074)
Reclassifications	-	-	3,416	5,396	-	12,502	(21,314)	-
At 31 December 2005/ 1 January 2006, restated	**39,026**	**23,577**	**527,075**	**96,050**	**48,779**	**195,958**	**8,030**	**938,495**
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	**39,026**	**23,577**	**552,913**	**106,219**	**48,817**	**251,066**	**9,749**	**1,031,367**

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	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
DEPRECIATION AND IMPAIRMENT LOSS								
At 1 January 2005, restated								
Accumulated depreciation	-	2,659	133,996	70,513	6,184	119,323	-	332,675
Accumulated impairment loss	-	-	-	-	5,882	-	-	5,882
	-	2,659	133,996	70,513	12,066	119,323	-	338,557
Depreciation for the year	-	378	11,652	4,242	765	18,711	-	35,748
Disposals	-	-	(187)	-	-	(3,419)	-	(3,606)
Write off	-	-	(125)	(76)	-	(12,406)	-	(12,607)
Reclassifications	-	-	-	-	-	-	-	-
At 31 December 2005/ 1 January 2006, restated								
Accumulated depreciation	**-**	**3,037**	**145,336**	**74,679**	**6,949**	**122,209**	**-**	**352,210**
Accumulated impairment loss	**-**	**-**	**-**	**-**	**5,882**	**-**	**-**	**5,882**
	-	**3,037**	**145,336**	**74,679**	**12,831**	**122,209**	**-**	**358,092**
Depreciation for the year	**-**	**336**	**12,003**	**2,087**	**849**	**18,462**	**-**	**33,737**
Disposals	**-**	**-**	**(62)**	**(279)**	**-**	**(2,543)**	**-**	**(2,884)**
Write off	**-**	**-**	**(279)**	**(384)**	**-**	**(3,046)**	**-**	**(3,709)**
Reclassifications	**-**	**16**	**(1,048)**	**1,057**	**-**	**(25)**	**-**	**-**
At 31 December 2006								
Accumulated depreciation	**-**	**3,389**	**155,950**	**77,160**	**7,798**	**135,057**	**-**	**379,354**
Accumulated impairment loss	**-**	**-**	**-**	**-**	**5,882**	**-**	**-**	**5,882**
	-	**3,389**	**155,950**	**77,160**	**13,680**	**135,057**	**-**	**385,236**
CARRYING AMOUNTS								
At 1 January 2005, restated	39,026	17,780	391,298	18,623	36,713	72,530	7,082	583,052
At 31 December 2005/ 1 January 2006, restated	39,026	20,540	381,739	21,371	35,948	73,749	8,030	580,403
At 31 December 2006	**39,026**	**20,188**	**396,963**	**29,059**	**35,137**	**116,009**	**9,749**	**646,131**

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

	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 2005, restated	1,012	800	43,560	8,883	13,254	449	67,958
Additions	-	3,138	-	15	190	5,624	8,967
Disposals	-	-	-	-	(126)	-	(126)
Write off	-	-	(15)	(3)	(5,025)	-	(5,043)
At 31 December 2005/ 1 January 2006, restated	**1,012**	**3,938**	**43,545**	**8,895**	**8,293**	**6,073**	**71,756**
Additions	**-**	**-**	**374**	**328**	**1,221**	**76,006**	**77,929**
Disposals	**-**	**-**	**(120)**	**-**	**(599)**	**-**	**(719)**
Write off	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfer	**-**	**-**	**27,241**	**6,845**	**47,993**	**(82,079)**	**-**
At 31 December 2006	**1,012**	**3,938**	**71,040**	**16,068**	**56,908**	**-**	**148,966**
DEPRECIATION							
At 1 January 2005, restated	-	53	11,508	3,193	9,588	-	24,342
Depreciation for the year	-	122	1,539	207	794	-	2,662
Disposals	-	-	-	-	(125)	-	(125)
Write off	-	-	-	-	(4,858)	-	(4,858)
At 31 December 2005/ 1 January 2006, restated	**-**	**175**	**13,047**	**3,400**	**5,399**	**-**	**22,021**
Depreciation for the year	**-**	**122**	**1,122**	**157**	**2,495**	**-**	**3,896**
Disposals	**-**	**-**	**(30)**	**-**	**(483)**	**-**	**(513)**
At 31 December 2006	**-**	**297**	**14,139**	**3,557**	**7,411**	**-**	**25,404**
CARRYING AMOUNTS							
At 1 January 2005, restated	1,012	747	32,052	5,690	3,666	449	43,616
At 31 December 2005/ 1 January 2006, restated	1,012	3,763	30,498	5,495	2,894	6,073	49,735
At 31 December 2006	**1,012**	**3,641**	**56,901**	**12,511**	**49,497**	**-**	**123,562**

BORROWING COSTS

GROUP AND COMPANY

Included in renovation and contract in-progress of the Group and of the Company is interest capitalised at rates ranging from 3.8% to 4.5% per annum (2005 – 3.5% to 3.8% per annum) of RM1,734,000 (2005 – RM116,000).

Hotel properties at 31 December 2006 are all located in Malaysia and comprised the following:

PROPERTY	LOCATION	USAGE	TITLE
Rasa Sayang Resort	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	330 room resort	Leasehold

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

Change in estimates

The depreciation rate for integral plant and machinery in respect of the Group's hotels and resorts was revised from 10 years (equivalent to 10% per annum) to 15 years (equivalent to 6.67% per annum) with effect from 1 January 2006 to be more in line with the depreciation rates adopted by the Group's ultimate holding company, Shangri-La Asia Limited. This revision of depreciation rate has resulted in a decrease in depreciation charged to the Group's and Company's income statement for the year ended 31 December 2006 by RM2,566,000 and RM78,000 respectively.

4. INVESTMENT PROPERTIES

	GROUP	
	2006 RM'000	2005 RM'000 restated
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

As at 31 December 2006, the Group's investment properties was revalued at RM262,500,000 by W.M. Malik & Kamaruzaman, an independent firm of professional valuers, based on open market value on an existing use basis.

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5. INVESTMENTS IN SUBSIDIARIES

	COMPANY 2006 RM'000	2005 RM'000 restated
Unquoted shares, at cost	**459,188**	459,188

Details of the subsidiaries are as follows:

NAME OF SUBSIDIARY	PRINCIPAL ACTIVITIES	EFFECTIVE OWNERSHIP INTEREST 2006 %	2005 %
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.

6. INTERESTS IN ASSOCIATES

	GROUP 2006 RM'000	2005 RM'000
Unquoted shares, at cost	**3,557**	3,557
Loans to associates	**107,820**	115,852
	111,377	119,409
Share of post-acquisition results of an associate	**(50,008)**	(46,283)
Impairment losses on unquoted shares	**(3,557)**	(3,557)
Allowance for doubtful debts on loans to associates	**(40,740)**	(48,337)
	17,072	21,232

Summary financial information on associates:

	COUNTRY OF INCORPORATION	EFFECTIVE OWNERSHIP INTEREST %	REVENUE (100%) RM'000	PROFIT/(LOSS) (100%) RM'000	TOTAL ASSETS (100%) RM'000	TOTAL LIABILITIES (100%) RM'000
GROUP						
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**
2005						
Johdaya Karya Sdn Bhd#	Malaysia	-	-	2,168	-	-
Traders Yangon Company Ltd ("TYCL")*	Union of Myanmar	23.53	22,038	(11,837)	211,970	398,215
Shangri-La Yangon Company Ltd ("SYCL")*	Union of Myanmar	22.22	-	-	148,317	140,908
Traders Square Company Ltd ("TSCL")*	Union of Myanmar	23.56	-	-	22,113	21,775
			22,038	(9,669)	382,400	560,898

Notes

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 2006, the Company has recognised the first year gain of RM1,286,000.

* The results of these companies are based on unaudited financial statements for the years ended 31 December 2006 and 31 December 2005.

The Group's interest in TYCL, SYCL and TSCL are held via a 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 2006, balances of RM67,526,000 (2005 – RM72,278,000) of the loans to associates are interest-free and the remaining balances are interest-bearing at 2.5% (2005 – 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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7. PROPERTY DEVELOPMENT EXPENDITURE

The property development expenditure represents development expenditure incurred by a subsidiary. Included in property development expenditure is interest capitalised amounting to RM4,142,000 (2005 – RM4,142,000).

8. DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

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

	GROUP		COMPANY	
	2006 RM'000	2005 RM'000 restated	**2006 RM'000**	2005 RM'000 restated
Deferred tax assets	**-**	735	**-**	-
Deferred tax liabilities	**13,579**	15,441	**-**	2,686

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	
	2006 RM'000	2005 RM'000 restated	**2006 RM'000**	2005 RM'000 restated	**2006 RM'000**	2005 RM'000 restated
GROUP						
Property, plant and equipment	**-**	(3,478)	**(18,380)**	(15,962)	**(18,380)**	(19,440)
Investment properties	**-**	-	**(2,373)**	(2,373)	**(2,373)**	(2,373)
Provisions	**-**	172	**3,277**	2,894	**3,277**	3,066
Unutilised tax losses	**-**	4,041	**3,897**	-	**3,897**	4,041
Net tax assets/(liabilities)	**-**	735	**(13,579)**	(15,441)	**(13,579)**	(14,706)
COMPANY						
Property, plant and equipment	**-**	-	**-**	(2,686)	**-**	(2,686)

In recognising the deferred tax assets attributable to unutilised tax losses carry-forward and unutilised capital allowances carry-forward (included in deductible temporary differences of property, plant and equipment), the Directors made an assumption that there will not be any substantial change (more than 50%) in the shareholders before these assets are utilised. If there is substantial change in the shareholders, unutilised tax loss carry-forwards amounting to approximately RM14,433,000 for the Group will not be available for the Group, resulting in an increase in net deferred tax liabilities of RM3,897,000.

Unrecognised deferred tax assets

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

	GROUP		COMPANY	
	2006	2005	**2006**	2005
	RM'000	RM'000	**RM'000**	RM'000
Taxable temporary differences	**(27,660)**	(8,224)	**(26,894)**	(7,179)
Unabsorbed capital allowances	**50,364**	26,776	**44,940**	21,539
Unutilised tax losses	**20,555**	20,286	**8,708**	8,708
	43,259	38,838	**26,754**	23,068
Deferred tax assets at 27% (2005 – 28%)	**11,680**	10,875	**7,224**	6,459

The deductible 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. Unutilised tax losses carry-forward and unutilised capital allowances carry-forward amounting to RM20,555,000 and RM50,364,000 will not be available to the Group if there is substantial change in shareholders (more than 50%).

Two subsidiaries of the Group were granted Investment Tax Allowance ("ITA") by the Malaysian Industrial Development Authority (MIDA) on 3 February 2006 and 19 May 2006 respectively. The ITA tax incentives were granted in respect of the modernisation and renovation projects undertaken by the subsidiaries in the recent years.

Subject to agreement by the Inland Revenue Board, the Group has unutilised investment tax allowances of approximately RM73,140,000 (2005 – RM103,173,000), 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.

9. INVENTORIES

	GROUP		COMPANY	
	2006	2005	**2006**	2005
	RM'000	RM'000	**RM'000**	RM'000
At cost:				
Food, beverage and tobacco	**4,837**	3,678	**1,175**	-
Room supplies	**373**	332	**45**	-
Other supplies	**4,546**	4,606	**297**	-
	9,756	8,616	**1,517**	-

NOTES TO THE FINANCIAL STATEMENTS

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10. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Note	GROUP 2006 RM'000	GROUP 2005 RM'000 restated	COMPANY 2006 RM'000	COMPANY 2005 RM'000 restated
Trade					
Trade receivables		**25,566**	19,450	**5,494**	-
Non-trade					
Amount due from subsidiaries	a	**-**	-	**259,541**	267,503
Less: Allowance for doubtful debts		**-**	-	**(74,158)**	(80,760)
		-	-	**185,383**	186,743
Other receivables		**693**	2,684	**535**	769
Deposits		**4,001**	1,360	**2,126**	-
Prepayments		**2,496**	839	**1,480**	-
Dividend receivables		**-**	-	**44,843**	38,802
		32,756	24,333	**239,861**	226,314
Tax recoverable	b	**18,830**	14,109	**14,171**	8,509

Notes

a. The amounts due from subsidiaries represent payments made on behalf, which are unsecured, interest-free and repayable on demand, except for an amount of RM600,000 (2005 – RM3,620,000), which bears interest at 4.33% (2005 – 3.10% to 3.75%) per annum.

b. Tax recoverable is in respect of excess taxes paid, which are refundable and are subject to the agreement by the Inland Revenue Board.

11. CASH AND CASH EQUIVALENTS

	GROUP 2006 RM'000	GROUP 2005 RM'000	COMPANY 2006 RM'000	COMPANY 2005 RM'000
Deposits are placed with:				
Licensed banks	**2,420**	4,900	**400**	-
A licensed financial institution	**-**	501	**-**	-
	2,420	5,401	**400**	-
Cash and bank balances	**9,721**	9,148	**2,069**	3,167
	12,141	14,549	**2,469**	3,167

12. CAPITAL AND RESERVES

Share capital	GROUP AND COMPANY	
	2006	2005
	RM'000	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 2006 if paid out as dividends.

13. BORROWINGS

This note provides information about the contractual terms of the Group's and the Company's interest-bearing borrowings. For more information about the Group's and the Company's exposure to interest rate and foreign currency risk, see Note 23.

	GROUP		COMPANY	
	2006	2005	**2006**	2005
	RM'000	RM'000	**RM'000**	RM'000
Non-current				
Unsecured term loans	**94,401**	44,515	**86,700**	28,420
Current				
Unsecured term loans	**18,634**	33,114	**13,500**	6,900
Unsecured bank overdrafts	**401**	199	**401**	4
Unsecured revolving credits	**83,053**	78,151	**45,000**	30,000
	102,088	111,464	**58,901**	36,904
	196,489	155,979	**145,601**	65,324

13. BORROWINGS (Cont'd)

Significant covenants

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

i. 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

ii. 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						
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**	**-**
2005						
Unsecured term loans	2006–2008	77,629	33,114	21,894	22,621	-
Unsecured bank overdrafts	2006	199	199	-	-	-
Unsecured revolving credits	2006	78,151	78,151	-	-	-
		155,979	111,464	21,894	22,621	-
COMPANY						
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**	**-**
2005						
Unsecured term loans	2006–2008	35,320	6,900	13,500	14,920	-
Unsecured bank overdrafts	2006	4	4	-	-	-
Unsecured revolving credits	2006	30,000	30,000	-	-	-
		65,324	36,904	13,500	14,920	-

14. RETIREMENT BENEFITS

	GROUP		COMPANY	
	2006	2005	**2006**	2005
	RM'000	RM'000	**RM'000**	RM'000
Present value of unfunded obligations	**10,453**	9,654	**25**	-
Recognised liability for defined benefit obligations	**10,453**	9,654	**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 liability for defined benefit obligations

	GROUP		COMPANY	
	2006	2005	**2006**	2005
	RM'000	RM'000	**RM'000**	RM'000
Liability for defined benefit obligations at 1 January	**9,654**	8,889	**-**	-
Benefits paid	**(589)**	(455)	**-**	-
Expense recognised in the income statement	**1,388**	1,220	**25**	-
Liability for defined benefit obligations at 31 December	**10,453**	9,654	**25**	-

Expense recognised in the income statement

	GROUP		COMPANY	
	2006	2005	**2006**	2005
	RM'000	RM'000	**RM'000**	RM'000
Current service costs	**746**	607	**24**	-
Interest on obligation	**618**	613	**1**	-
Amortisation of actuarial loss	**24**	-	**-**	-
	1,388	1,220	**25**	-

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

	GROUP		COMPANY	
	2006	2005	**2006**	2005
	RM'000	RM'000	**RM'000**	RM'000
Cost of sales	**1,063**	994	**21**	-
Administrative expenses	**176**	147	**2**	-
Other operating expenses	**149**	79	**2**	-
	1,388	1,220	**25**	-

14. RETIREMENT BENEFITS (Cont'd)

Actuarial assumptions

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

	GROUP		COMPANY	
	2006	2005	**2006**	2005
	%	%	**%**	%
Discount rate at 31 December	**6.00**	7.00	**6.00**	-
Future salary increases	**6.38**	5.25	**7.00**	-

15. TRADE AND OTHER PAYABLES AND ACCRUALS

		GROUP		COMPANY	
		2006	2005	**2006**	2005
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Trade					
Trade payables		**26,541**	17,618	**5,857**	154
		26,541	17,618	**5,857**	154
Non-trade					
Loan from minority shareholder	a	**4,800**	4,800	**-**	-
Amount due to subsidiaries	b	**-**	-	**20,894**	19,907
Other payables		**30,775**	22,303	**11,334**	5,373
Accrued expenses		**7,815**	6,808	**-**	-
		69,931	51,529	**38,085**	25,434

Notes

a. The loan is from Petaling Garden Berhad, a minority shareholder of a subsidiary. The loan is unsecured, interest-free and repayable on demand.

b. The amounts due to subsidiaries represent advances received from subsidiaries which are unsecured, interest-free and repayable on demand, except for an amount of RM14,263,000 (2005 – RM13,276,000) which bears interest at 3.70% (2005 – 3.10%) per annum.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2006

16. OPERATING PROFIT

	Note	GROUP 2006 RM'000	GROUP 2005 RM'000 restated	COMPANY 2006 RM'000	COMPANY 2005 RM'000 restated
Revenue					
Hotel and golf operations		**314,466**	267,093	**14,770**	-
Rental		**14,729**	11,837	**-**	-
Dividend income		**-**	-	**56,325**	52,025
Laundry services		**1,325**	1,159	**-**	-
		330,520	280,089	**71,095**	52,025
Cost of sales		**(140,085)**	(123,229)	**(9,635)**	-
Cost of services		**(7,211)**	(5,541)	**-**	-
		183,224	151,319	**61,460**	52,025
Administrative expenses		**(56,388)**	(43,848)	**(11,931)**	(3,899)
Other operating expenses		**(75,111)**	(67,173)	**(15,997)**	(7,993)
Other operating income		**2,648**	12,348	**1,286**	16,736
Operating profit		**54,373**	52,646	**34,818**	56,869
Operating profit is arrived at after charging:					
Allowance for doubtful debts		**69**	244	**-**	-
Auditors' remuneration		**167**	141	**35**	23
Bad debts written off		**5**	10	**-**	-
Depreciation on property, plant and equipment	3	**33,737**	35,748	**3,896**	2,662
Company's Directors					
– remuneration and meeting allowances		**1,127**	941	**1,127**	941
– fees		**196**	202	**196**	202
Hire of motor vehicles		**237**	202	**-**	-
Hire of equipment		**118**	141	**-**	-
Loss on disposal of property, plant and equipment		**88**	1,244	**-**	-
Personnel expenses (including key management personnel):					
– contributions to Employee's Provident Fund		**5,940**	5,550	**527**	235
– retirement benefits charged	14	**1,388**	1,220	**25**	-
– wages, salaries and others		**78,103**	66,734	**6,053**	1,842
Property, plant and equipment written off		**1,850**	2,467	**-**	167
Rental of apartments		**720**	426	**-**	-
Unrealised loss on foreign exchange		**-**	-	**6,602**	459

NOTES TO THE FINANCIAL STATEMENTS

31 December 2006

16. OPERATING PROFIT (Cont'd)

	Note	GROUP 2006 RM'000	GROUP 2005 RM'000 restated	COMPANY 2006 RM'000	COMPANY 2005 RM'000 restated
and after crediting:					
Allowance for doubtful debts written back					
– subsidiary		**-**	-	**6,602**	459
– others		**104**	243	**-**	-
Gain on disposal of investment in an associate	6	**1,286**	-	**1,286**	-
Gain on disposal of property, plant and equipment		**84**	2,182	**23**	1,789
Gross dividends from subsidiaries		**-**	-	**56,325**	52,025
Realised gain on foreign exchange		**446**	367	**8**	-
Unrealised gain on foreign exchange		**1,248**	99	**-**	-
Rental receivable from:					
– subsidiary		**-**	-	**120**	120
– others		**424**	420	**-**	-
Exceptional item		**-**	12,191	**-**	16,736

GROUP AND COMPANY

The exceptional item in the previous year ended 31 December 2005 of RM12,191,000 and RM16,736,000 respectively for the Group and the Company relates to the gain on disposal of the Company's entire 30% equity interest in Johdaya Karya Sdn Bhd (Note 6).

The estimated monetary value of a Director's benefits-in-kind is RM13,500 (2005 – RM21,000).

17. INTEREST INCOME

	GROUP 2006 RM'000	GROUP 2005 RM'000	COMPANY 2006 RM'000	COMPANY 2005 RM'000
Interest income on:				
Deposits placed with licensed banks and a licensed financial institution	**120**	178	**29**	100
Subsidiaries	**-**	-	**97**	112
	120	178	**126**	212

18. INTEREST EXPENSE

	GROUP 2006 RM'000	GROUP 2005 RM'000	COMPANY 2006 RM'000	COMPANY 2005 RM'000
Interest expense on:				
Revolving credits	**3,670**	2,766	**1,585**	937
Term loans	**1,890**	3,250	**792**	1,415
Subsidiaries	**-**	-	**501**	278
	5,560	6,016	**2,878**	2,630

19. TAX EXPENSE

RECOGNISED IN THE INCOME STATEMENT

	GROUP		COMPANY	
	2006	2005	**2006**	2005
	RM'000	RM'000 restated	**RM'000**	RM'000 restated
Current tax expense				
Malaysian – Current year	**5,699**	4,003	**5,820**	11,025
– Prior years	**(546)**	177	**-**	-
	5,153	4,180	**5,820**	11,025
Deferred tax expense				
Origination and reversal of temporary differences	**1,532**	3,523	**-**	(131)
Over provision in prior years	**(2,659)**	(2,290)	**(2,686)**	-
	(1,127)	1,233	**(2,686)**	(131)
	4,026	5,413	**3,134**	10,894

RECONCILIATION OF EFFECTIVE TAX EXPENSE

Profit before tax	**45,208**	44,673	**32,066**	54,451
Tax calculated using Malaysian tax rate of 28% (2005:28%)	**12,658**	12,508	**8,978**	15,246
Effect of using different tax rates for chargeable income of up to RM500,000 of certain subsidiaries	**(40)**	(40)	**-**	-
Effect of change in tax rate*	**(157)**	-	**268**	-
Non-deductible expenses	**5,030**	6,473	**257**	1,678
Non-taxable income	**(360)**	(3,413)	**(4,448)**	(6,030)
Tax incentives	**(10,464)**	(7,965)	**-**	-
Deferred tax assets not recognised	**805**	256	**765**	-
(Over)/Under provision in prior years				
– current tax expense	**(546)**	177	**-**	-
– deferred tax expense	**(2,659)**	(2,290)	**(2,686)**	-
Other items	**(241)**	(293)	**-**	-
Tax expense	**4,026**	5,413	**3,134**	10,894

* In the Malaysian Budget 2007, it was announced that the corporate income tax rate will be reduced to 27% in 2007. Consequently, deferred tax assets and liabilities as at 31 December 2006 are measured using 27%.

20. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 31 December 2006 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

	GROUP	
	2006	2005 restated
Profit attributable to shareholders of the Company (RM'000)	**35,679**	37,326
Weighted average number of ordinary shares outstanding during the year ('000)	**440,000**	440,000
Basic earnings per share (sen)	**8.1**	8.5

21. DIVIDENDS

Dividends recognised in the current year by the Company are:

	TOTAL AMOUNT RM'000	DATE OF PAYMENT
2006		
Ordinary		
Interim 2006 – 3.0% less tax at 28%	**9,504**	17 November 2006
Final 2005 – 5.0% less tax at 28%	**15,840**	19 June 2006
Total amount	**25,344**	
2005		
Ordinary		
Interim 2005 – 3.0% less tax at 28%	9,504	17 November 2005
Final 2004 – 4.5% less tax at 28%	14,256	20 June 2005
Total amount	23,760	

The Board has proposed a final dividend of 5% less tax at 27% totalling RM16,060,000 for the financial year ended 31 December 2006. 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 21 May 2007. 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 2007.

22. 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.

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**	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	RM'000	RM'000 restated	**RM'000**	RM'000 restated	**RM'000**	RM'000 restated	**RM'000**	RM'000 restated	**RM'000**	RM'000 restated
BUSINESS SEGMENTS										
Total external revenue	**314,466**	267,093	**14,729**	11,837	**1,325**	1,159	**-**	-	**330,520**	280,089
Inter segment revenue	**56,325**	52,025	**1,995**	1,959	**2,613**	1,890	**(60,933)**	(55,874)	**-**	-
Total segment revenue	**370,791**	319,118	**16,724**	13,796	**3,938**	3,049	**(60,933)**	(55,874)	**330,520**	280,089
Operating profit	**103,118**	101,224	**8,843**	7,722	**8,452**	729	**(66,040)**	(57,029)	**54,373**	52,646
Interest income									**120**	178
Interest expense									**(5,560)**	(6,016)
Share of results of associates	**(3,725)**	(2,785)	**-**	-	**-**	650	**-**	-	**(3,725)**	(2,135)
Profit before tax									**45,208**	44,673
Tax expense									**(4,026)**	(5,413)
Profit for the year									**41,182**	39,260

22. SEGMENT REPORTING (Cont'd)

	HOTELS, RESORTS AND GOLF COURSE		INVESTMENT PROPERTIES		OTHERS		ELIMINATIONS		CONSOLIDATED	
	2006 RM'000	2005 RM'000 restated	**2006 RM'000**	2005 RM'000 restated	**2006 RM'000**	2005 RM'000 restated	**2006 RM'000**	2005 RM'000 restated	**2006 RM'000**	2005 RM'000 restated
Segment assets	**823,140**	740,558	**252,872**	253,269	**11,123**	10,177	**(112,246)**	(102,025)	**974,889**	901,979
Interests in associates	**-**	-	**-**	-	**30,613**	31,048	**(13,541)**	(9,816)	**17,072**	21,232
Unallocated assets	**-**	-	**-**	-	**-**	-	**-**	-	**18,830**	14,844
Total assets									**1,010,791**	938,055
Segment liabilities	**427,673**	367,498	**64,804**	57,899	**113,071**	119,936	**(328,675)**	(328,171)	**276,873**	217,162
Unallocated liabilities	**-**	-	**-**	-	**-**	-	**-**	-	**14,399**	16,412
Total liabilities									**291,272**	233,574
Capital expenditure	**101,338**	37,204	**54**	33	**518**	-	**-**	-	**101,910**	37,237
Depreciation	**30,352**	31,618	**115**	118	**157**	114	**3,113**	3,898	**33,737**	35,748
Non-cash expenses other than depreciation	**3,243**	2,749	**(1)**	-	**-**	-	**-**	-	**3,242**	2,749

23. 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 6). 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 and a licensed financial institution 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.

	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									
2006									
FLOATING RATE INSTRUMENTS									
Deposits placed with licensed banks	11	**3.0**	**2,420**	**2,420**	**-**	**-**	**-**	**-**	**-**
Unsecured bank overdrafts	13	**6.8**	**(401)**	**(401)**	**-**	**-**	**-**	**-**	**-**
Unsecured revolving credits	13	**4.5**	**(83,053)**	**(83,053)**	**-**	**-**	**-**	**-**	**-**
Unsecured term loans	13	**4.3**	**(113,035)**	**(113,035)**	**-**	**-**	**-**	**-**	**-**
			(194,069)	**(194,069)**	**-**	**-**	**-**	**-**	**-**
2005									
FLOATING RATE INSTRUMENTS									
Deposits placed with licensed banks and a licensed financial institution	11	2.4	5,401	5,401	-	-	-	-	-
Unsecured bank overdrafts	13	6.8	(199)	(199)	-	-	-	-	-
Unsecured revolving credits	13	3.8	(78,151)	(78,151)	-	-	-	-	-
Unsecured term loans	13	3.8	(77,629)	(77,629)	-	-	-	-	-
			(150,578)	(150,578)	-	-	-	-	-

23. 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
COMPANY									
2006									
FIXED RATE INSTRUMENTS									
Advances to subsidiaries	10	**4.3**	**600**	**600**	**-**	**-**	**-**	**-**	**-**
Advances from subsidiaries	15	**3.7**	**(14,263)**	**(14,263)**	**-**	**-**	**-**	**-**	**-**
			(13,663)	**(13,663)**	**-**	**-**	**-**	**-**	**-**
FLOATING RATE INSTRUMENTS									
Deposits placed with licensed banks	11	**3.2**	**400**	**400**	**-**	**-**	**-**	**-**	**-**
Unsecured bank overdrafts	13	**6.8**	**(401)**	**(401)**	**-**	**-**	**-**	**-**	**-**
Unsecured revolving credits	13	**4.3**	**(45,000)**	**(45,000)**	**-**	**-**	**-**	**-**	**-**
Unsecured term loans	13	**4.3**	**(100,200)**	**(100,200)**	**-**	**-**	**-**	**-**	**-**
			(145,201)	**(145,201)**	**-**	**-**	**-**	**-**	**-**
2005									
FIXED RATE INSTRUMENTS									
Advances to subsidiaries	10	3.8	3,620	3,620	-	-	-	-	-
Advances from subsidiaries	15	3.1	(13,276)	(13,276)	-	-	-	-	-
			(9,656)	(9,656)	-	-	-	-	-
FLOATING RATE INSTRUMENTS									
Unsecured bank overdrafts	13	6.3	(4)	(4)	-	-	-	-	-
Unsecured revolving credits	13	3.8	(30,000)	(30,000)	-	-	-	-	-
Unsecured term loans	13	3.8	(35,320)	(35,320)	-	-	-	-	-
			(65,324)	(65,324)	-	-	-	-	-

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:

		2006		2005	
	Note	**CARRYING AMOUNT RM'000**	**FAIR VALUE RM'000**	**CARRYING AMOUNT** RM'000	**FAIR VALUE** RM'000
GROUP					
Loans to associates (net of allowance for doubtful debts)	6	**67,080**	**67,080**	67,515	67,515
Unsecured term loans	13	**94,401**	**94,401**	44,515	44,515
COMPANY					
Unsecured term loans	13	**86,700**	**86,700**	28,420	28,420

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**	
	2006	2005	**2006**	2005
Long-term borrowings	**4.3%**	3.8%	**4.3%**	3.8%

24. CAPITAL COMMITMENTS

	GROUP		COMPANY	
	2006	2005	**2006**	2005
	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	**6,755**	3,389	**5,599**	2,677
Authorised but not contracted for:				
– within one year	**150,211**	119,144	**10,220**	90,358
	156,966	122,533	**15,819**	93,035

25. CONTINGENT LIABILITIES (Unsecured)

COMPANY

The Company had issued a Corporate Guarantee for an amount up to USD6.5 million to The Bank of Tokyo-Mitsubishi UFJ, Ltd, Labuan ("UFJ Bank") for the revolving credit facility of USD6.5 million (2005 – USD6.5 million) granted to a subsidiary, Madarac Corporation.

In September 2006, the revolving credit facility and the outstanding borrowings with the UFJ Bank were converted from US Dollars to Hong Kong Dollars (HKD). Accordingly, the corporate guarantee provided by the Company to UFJ Bank was converted to HKD50.6 million (equivalent to USD6.5 million). As at 31 December 2006, the said facility utilised was HKD40,177,000 (2005 – USD5,040,000).

26. RELATED PARTIES

Identity of 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.

The Group has a related party relationship with its associates (Note 6), its holding company, subsidiaries of its holding company (Notes 10 and 15) and corporations in which certain Directors have indirect financial interests.

Significant transactions and balances with related corporations are as follows:

	GROUP		COMPANY	
	2006	2005	**2006**	2005
	RM'000	RM'000	**RM'000**	RM'000
Transactions with subsidiaries				
Interest income receivable or received				
– Shangri-La Hotel (KL) Sdn Bhd	**-**	-	**8**	25
– Komtar Hotel Sdn Bhd	**-**	-	**89**	81
– Pantai Dalit Beach Resort Sdn Bhd	**-**	-	**-**	6
Rental income receivable or received				
– Pantai Emas Sdn Bhd	**-**	-	**120**	120
Interest expense payable or paid				
– UBN Holdings Sdn Bhd	**-**	-	**421**	225
– Pantai Emas Sdn Bhd	**-**	-	**80**	53
Laundry service fees payable or paid				
– Pantai Emas Sdn Bhd	**-**	-	**415**	22
Transactions with associates				
Loan amounts due from				
– Traders Yangon Company Ltd	**64,743**	65,178	**-**	-
– Shangri-La Yangon Company Ltd	**2,337**	2,337	**-**	-
Transactions with subsidiaries of Shangri-La Asia Limited				
Shangri-La International Hotel Management Ltd				
– Project consultancy fees paid	**-**	23	**-**	23
– Management, marketing and reservation fees paid or payable	**8,695**	7,490	**395**	-
Shangri-La International Hotel Management Pte Ltd				
– Management fees paid or payable	**1,572**	1,355	**68**	-
Transactions with corporations in which Kuok Oon Kwong and Kuok Khoon Ho, Directors of the Company, have indirect financial interests				
Insurance premium paid or payable				
– Jerneh Insurance Bhd	**2,278**	2,142	**152**	190
Project management fees paid or payable				
– PPB Hartabina Sdn Bhd	**597**	402	**434**	332

These transactions have been entered into in the normal course of business and have been established under negotiated terms. None of the balances is secured.

27. CHANGES IN ACCOUNTING POLICIES

The Group has changed certain of its accounting policies following its adoption of the new and revised FRSs issued by the Malaysian Accounting Standards Board ("MASB") which became effective for financial periods beginning on or after 1 January 2006.

The Group adopted the following new and revised FRSs which are relevant to its operations with effect from 1 January 2006. In addition, the Group has also adopted the new interpretation to FRS 112_{2004}, Income Taxes issued by MASB on 30 October 2006.

FRS 3	Business Combinations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events After the Balance Sheet Date
FRS 112_{2004}	Income Taxes
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 140	Investment Property

Apart from the above, the Group will be adopting the revised FRSs below with effect from financial period beginning 1 January 2007. FRS 117, Leases and FRS 124, Related Party Disclosures are effective for annual periods beginning on or after 1 October 2006 and amendment to FRS 119_{2004}, Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures is effective for annual periods beginning on or after 1 January 2007. These FRSs are not expected to have a material impact on the Group's financial statements.

The MASB has also issued FRS 139, Financial Instruments: Recognition and Measurement but for which the MASB has yet to announce the effective date of this standard. The Group has not adopted FRS 139 and by virtue of the exemption in paragraph 103AB of FRS 139, the impact of applying FRS 139 on its financial statements upon first adoption of this standard as required by paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed.

On 15 August 2006, the MASB issued FRS 6, Exploration for and Evaluation of Mineral Resources which will be effective for annual periods beginning on or after 1 January 2007 and for which is not applicable to the Group. Hence, no further disclosure is warranted.

The accounting policies of the Group after the adoption of the new and revised FRSs have been summarised in Note 2 to the financial statements. The changes in accounting policies that have a significant impact on the Group's financial statements are described below. The implementation of FRS 112_{2004}, FRS 116, FRS 140 and FRS 127 have been applied retrospectively, and FRS 3 prospectively in accordance with the provisions of the new and revised accounting standards.

i. **FRS 116 – Property, Plant and Equipment**

The adoption of FRS 116 has resulted in a change in accounting policy for the Group's hotel properties, freehold and leasehold land. In accordance with the provisions of FRS 116, the underlying building and integral plant and machinery of a hotel property are now stated at cost less accumulated depreciation and impairment losses. The underlying freehold land on which hotel properties are situated is also stated at cost less impairment losses. In addition, the leasehold land of a hotel property and other leasehold land are stated at cost and amortised on a straight line basis over the period of the lease. Hotel properties are now classified as property, plant and equipment.

Prior to 1 January 2006, the underlying building and integral plant and machinery of a hotel property were stated at valuation and no depreciation was provided. Further, the underlying freehold land and leasehold land of a hotel property and other leasehold land were stated at valuation. Leasehold land was not amortised except where the remaining lease period is fifty (50) years or less.

Effect of adopting FRS 116

The adoption of FRS 116 resulted in a decrease in the Group's and the Company's total equity attributable to shareholders of the Company at 1 January 2005 by RM499,591,000 and RM137,819,000 respectively.

	2006 RM'000	2005 RM'000
GROUP		
Consolidated balance sheet		
Hotel properties		
– Decrease in hotel properties	**(466,897)**	(452,010)
– Reclassification to property, plant and equipment	**(433,529)**	(448,416)
Property, plant and equipment		
– Decrease in property, plant and equipment	**(154,416)**	(154,438)
– Reclassification from hotel properties	**433,529**	448,416
Increase in deferred tax assets	**9,383**	8,648
Increase in tax recoverable	**4,989**	4,989
Decrease in total assets	**(606,941)**	(592,811)
Asset revaluation reserve		
– Decrease in asset revaluation reserve	**(208,985)**	(208,985)
– Transfer to capital reserve	**(205,869)**	(205,869)
Capital reserve		
– Transfer from asset revaluation reserve	**205,869**	205,869
Decrease in retained earnings	**(313,862)**	(302,984)
Decrease in total equity attributable to shareholders of the Company	**(522,847)**	(511,969)
Decrease in minority interests	**(22,889)**	(22,081)
Decrease in total equity	**(545,736)**	(534,050)
Decrease in deferred tax liabilities	**(61,426)**	(58,982)
Increase in current tax liabilities	**221**	221
Decrease in total equity and liabilities	**(606,941)**	(592,811)

NOTES TO THE FINANCIAL STATEMENTS
31 December 2006

27. CHANGES IN ACCOUNTING POLICIES (Cont'd)

	2006 RM'000	2005 RM'000
GROUP (Cont'd)		
Consolidated income statement		
Decrease in operating profit	**(14,865)**	(15,193)
Decrease in profit before tax	**(14,865)**	(15,428)
Decrease in tax expense	**3,179**	2,060
Decrease in profit for the year	**(11,686)**	(13,368)
Decrease in profit attributable to:		
Shareholders of the Company	**(10,878)**	(12,378)
Minority interests	**(808)**	(990)
Decrease in basic earnings per ordinary share	**(2.47 sen)**	(2.81 sen)
COMPANY		
Balance sheet		
Hotel properties		
– Decrease in hotel properties	**(154,432)**	(153,031)
– Reclassification to property, plant and equipment	**(35,604)**	(37,005)
Property, plant and equipment		
– Decrease in property, plant and equipment	**(15)**	(15)
– Reclassification from hotel properties	**35,604**	37,005
Increase in tax recoverable	**3,294**	3,294
Decrease in total assets	**(151,153)**	(149,752)
Asset revaluation reserve		
– Decrease in asset revaluation reserve	**(98,535)**	(98,535)
Decrease in retained earnings	**(42,053)**	(41,030)
Decrease in total equity attributable to shareholders of the Company/total equity	**(140,588)**	(139,565)
Decrease in deferred tax liabilities	**(10,565)**	(10,187)
Decrease in total equity and liabilities	**(151,153)**	(149,752)
Income statement		
Decrease in operating profit	**(1,401)**	(1,746)
Decrease in profit before tax	**(1,401)**	(1,746)
Decrease in tax expense	**378**	-
Decrease in profit for the year	**(1,023)**	(1,746)

ii. FRS 140 – Investment Property

In line with FRS 140, the Group's investment properties continue to be stated at fair value. The changes in fair values of investment properties are now recognised directly in the income statement. Prior to 1 January 2006, such changes, if considered by the Directors to be other than temporary, were incorporated in the financial statements through the Asset Revaluation Reserve. Any deficit would be set off against the Asset Revaluation Reserve. If the reserve was insufficient to cover a deficit on an individual basis, the excess of the deficit was charged to the income statement.

Effect of adopting FRS 140

The adoption of FRS 140 resulted in an increase in the Group's total equity attributable to shareholders of the Company at 1 January 2005 by RM44,888,000. There is no financial impact on the profit for the years ended 31 December 2006 and 31 December 2005.

	2006 RM'000	2005 RM'000
GROUP		
Consolidated balance sheet		
Investment properties		
– Increase in investment properties	**47,261**	47,261
– Reclassification from property, plant and equipment	**2,174**	2,174
Property, plant and equipment		
– Reclassification to investment properties	**(2,174)**	(2,174)
Increase in total assets	**47,261**	47,261
Increase in retained earnings	**44,888**	44,888
Increase in total equity attributable to shareholders of the Company	**44,888**	44,888
Increase in deferred tax liabilities	**2,373**	2,373
Increase in total equity and liabilities	**47,261**	47,261

iii. FRS 3 – Business Combinations

In accordance with FRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the income statement as it arises. Prior to 1 January 2006, this was shown as a separate item on the face of the Group's consolidated balance sheet and was stated at cost.

The change in accounting policy has been applied prospectively in accordance with the transitional provisions of FRS 3, whereby the negative goodwill as at 31 December 2005 of RM2,874,000 was derecognised at 1 January 2006 with a corresponding adjustment to the Group's opening accumulated losses as at that date.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2006

27. CHANGES IN ACCOUNTING POLICIES (Cont'd)

iv. FRS 112_{2004} – Income Taxes

On 30 October 2006, MASB issued a new interpretive guidance on FRS 112_{2004}, which necessitated a reversal of deferred tax assets relating to unutilised investment tax allowance of a subsidiary, amounting to RM18,944,000. Of the RM18,944,000, RM14,208,000 was applied against the Group's retained earnings and RM4,736,000 against minority interests as at 31 December 2005. The said reversal has no impact on the Group's income statement for the years ended 31 December 2006 and 31 December 2005.

v. FRS 101 – Presentation of Financial Statements

The adoption of FRS 101 has affected the presentation of minority interests and share of results after tax of associates in the income statement, balance sheet and statement of changes in equity.

In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the period. Share of results after tax of associates is now reported as single line item above consolidated profit before tax.

In the consolidated balance sheet, minority interests are now presented within total equity. Consequently, the movement of minority interests is now shown in the consolidated statement of changes in equity.

The current year's presentation of the financial statements of the Group and the Company is prepared in accordance with the requirements of FRS 101 and the comparatives have been restated to conform with the current year's presentation. The Group's Merger reserve, Capital reserve and Other reserves have been transferred to retained earnings in 2006. This is in line with FRS 101.

vi. FRS 127 – Consolidated and Separate Financial Statements

Prior to 1 January 2006, the cost of investments in certain subsidiaries of the Company was stated at valuation. In accordance with the provisions of FRS 127, investments in subsidiaries are now stated at cost less impairment losses. The adoption of FRS 127 has resulted in a decrease in total equity attributable to shareholders of the Company at 1 January 2005 by RM132,215,000.

	2006 RM'000	2005 RM'000
COMPANY		
Balance sheet		
Decrease in investments in subsidiaries	**(132,215)**	(132,215)
Decrease in total assets	**(132,215)**	(132,215)
Asset revaluation reserve		
– Decrease in asset revaluation reserve	**(18,502)**	(18,502)
Capital reserve		
– Decrease in capital reserve	**(113,713)**	(113,713)
Decrease in total equity attributable to shareholders of the Company/total equity	**(132,215)**	(132,215)

28. COMPARATIVE FIGURES

Certain comparative figures have been reclassified/restated as a result of changes in accounting policies as stated in Note 27 and to conform with the presentation requirements of FRS 101.

	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	**580,403**	288,599	**49,735**	12,745
Hotel properties	**-**	900,426	**-**	190,036
Investment properties	**262,500**	213,065	**-**	-
Investments in subsidiaries	**-**	-	**459,188**	591,403
Deferred tax assets	**735**	11,031	**-**	-
Tax recoverable	**14,109**	9,120	**8,509**	5,215
Deferred tax liabilities	**15,441**	72,050	**2,686**	12,873
Current tax liabilities	**971**	750	**-**	-
Total equity	**701,607**	1,209,713	**653,469**	925,249
Income statements				
Other operating expenses	**67,173**	51,980	**7,993**	6,247
Operating profit	**52,646**	67,839	**56,869**	58,615
Profit before tax	**44,673**	60,101	**54,451**	56,197
Tax expense	**5,413**	7,473	**-**	-
Profit for the year	**39,260**	52,628	**43,557**	45,303
Basic earnings per ordinary share (sen)	**8.5**	11.3	**-**	-
Statements of changes in equity				
(Accumulated losses)/Retained earnings at 1 January 2005	**(47,729)**	212,197	**57,049**	96,333
(Accumulated losses)/Retained earnings at 31 December 2005	**(34,163)**	238,141	**76,846**	117,876

Following the adoption of FRS 101, minority interests were reclassified into equity, likewise in arriving at profit for the year minority interests were not deducted.

GROUP PROPERTIES

as at 31 December 2006

REGISTERED OWNER	DESCRIPTION/LOCATION	TENURE	AGE OF BUILDINGS (YEARS)	LAND AREA (SQ. METRES)	NET BOOK VALUE AT 31.12.2006 (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**	**21**	**16,229**	**149,012**
Komtar Hotel Sdn Bhd	**Traders Hotel Penang** 17-storey, 444 room hotel located at Magazine Road 10300 Penang	**Leasehold** (Expires 2082)	**20**	**4,800**	**33,749**
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**	**33**	**58,798**	**73,352**
	Land Lot 402, Section 2 Town of Batu Feringgi North East District, Penang	**Leasehold** (Expires 2034)	**-**	**2,973**	
	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**	**713**
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 2006

REGISTERED OWNER	DESCRIPTION/LOCATION	TENURE	AGE OF BUILDINGS (YEARS)	LAND AREA (SQ. METRES)	NET BOOK VALUE AT 31.12.2006 (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**	**28**	**19,359**	**29,431**
	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)	**16**	**3,737**	**441**
UBN Tower Sdn Bhd	**UBN Tower*** 36-storey commercial/office complex located at 10 Jalan P. Ramlee 50250 Kuala Lumpur	**Freehold**	**21**	**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**	**21**	**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 31.12.2006 on an open market basis for existing use. Please refer to Note 4 of the Financial Statements set out on page 73 for further details.

GROUP PROPERTIES
as at 31 December 2006

REGISTERED OWNER	DESCRIPTION/LOCATION	TENURE	AGE OF BUILDINGS (YEARS)	LAND AREA (SQ. METRES)	NET BOOK VALUE AT 31.12.2006 (RM'000)
Pantai Dalit Beach Resort Sdn Bhd	**Shangri-La's Rasa Ria Resort** 330 room resort comprising 2 inter-connected low-rise blocks of 4 storeys each and 6 inter-connected low-rise blocks of 6 storeys each located at Pantai Dalit 89208 Tuaran, Sabah	**Leasehold** (Expires 2090)	**10**	**67,999**	**67,565**
	Land Undeveloped lands for future development located at Pantai Dalit 89208 Tuaran, Sabah	**Leasehold** (Expires 2090)	**-**	**880,981**	**3,898**
	Lands 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)	**-**	**736,984**	
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)	**9**	**668,985**	**35,137**

SHAREHOLDING STATISTICS
as at 31 March 2007

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	87	1.01	2,154	0.00
100 – 1,000	3,452	40.00	3,355,534	0.76
1,001 – 10,000	4,269	49.46	17,080,951	3.88
10,001 – 100,000	709	8.21	19,884,068	4.52
100,001 to less than 5% of issued shares	112	1.30	71,614,700	16.28
5% and above of issued shares	2	0.02	328,062,593	74.56
	8,631	100.00	440,000,000	100.00

SUBSTANTIAL SHAREHOLDERS

	Direct Interest	Deemed Interest	
Name of Substantial Shareholders	**No. of Shares**	**No. of Shares**	**% of Issued Capital**
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
Ikatan Perkasa Sdn Bhd	95,824,752	-	21.78
Landmarks Berhad	-	117,124,012	26.62
Zimulia Sdn Bhd	-	117,124,012	26.62
North Symphony Sdn Bhd	-	117,124,012	26.62
Lee Tuck Fook	-	117,124,012	26.62
Datuk Zakaria bin Abdul Hamid	-	117,124,012	26.62
Phoenix Spectrum Sdn Bhd	-	117,124,012	26.62
Genting Berhad	-	117,124,012	26.62

SHAREHOLDING STATISTICS
as at 31 March 2007

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 2007 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' Hj Ayoub bin Dato' Hj Ismail	-	-	-
Dato' Haris Onn bin Hussein	-	-	-
Dato' Seri Ismail Farouk Abdullah	200,000	-	0.05
Kuok Khoon Ho	-	10,000	negligible
Tan Sri Dato' Mohd Amin bin Osman	-	-	-
Datuk Supperamaniam a/l Manickam	-	-	-
Dato' Dr Tan Tat Wai	-	-	-
Tan Yew Jin	5,000	20,000	0.01
Teo Yee Yen Gabriel	-	-	-
Alternate Director			
Sulip R. Menon	-	-	-

(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	151,379	162,610	0.01
Rozina Mohd Amin	-	-	-
Dato' Hj Ayoub bin Dato' Hj Ismail	-	-	-
Dato' Haris Onn bin Hussein	-	-	-
Dato' Seri Ismail Farouk Abdullah	-	-	-
Kuok Khoon Ho	636,768	162,610	0.03
Tan Sri Dato' Mohd Amin bin Osman	15,900	-	negligible
Datuk Supperamaniam a/l Manickam	-	-	-
Dato' Dr Tan Tat Wai	-	-	-
Tan Yew Jin	111,560	-	negligible
Teo Yee Yen Gabriel	-	-	-
Alternate Director			
Sulip R. Menon	-	-	-

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 2007

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. Mayban Trustees Berhad for Ikatan Perkasa Sdn Bhd	95,824,752	21.78
3. Mayban Trustees Berhad for Fokus Asas Sdn Bhd	13,130,173	2.98
4. UOBM Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Fokus Asas Sdn Bhd	8,000,000	1.82
5. Malaysia Nominees (Tempatan) Sdn Bhd for Great Eastern Life Assurance (Malaysia) Berhad (Par 2)	3,781,000	0.86
6. Ophir Holdings Berhad	3,300,000	0.75
7. Alliancegroup Nominees (Tempatan) Sdn Bhd PHEIM Asset Management Sdn Bhd for Employees Provident Fund Board	2,808,600	0.64
8. Permodalan Nasional Berhad	2,160,000	0.49
9. HSBC Nominees (Asing) Sdn Bhd Exempt AN for Morgan Stanley & Co. International Limited	1,615,000	0.37
10. HSBC Nominees (Asing) Sdn Bhd BNY Brussels for Greatlink Asean Growth Fund	1,561,500	0.35
11. Lembaga Tabung Angkatan Tentera	1,510,000	0.34
12. Citigroup Nominees (Asing) Sdn Bhd Citibank Singapore Global Window for Savers Malaysia Fund	1,400,000	0.32
13. Cartaban Nominees (Asing) Sdn Bhd State Street London Fund AHY3 for AIG New Asia Capital Opportunities Fund	1,231,800	0.28
14. Key Development Sdn Bhd	1,140,000	0.26
15. Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Kon Cze Yan @ Koon Cze Yan	1,135,500	0.26
16. Ying Holding Sdn Bhd	972,000	0.22
17. M & A Nominee (Asing) Sdn Bhd UOB Kay Hian Private Limited for Como Holdings Inc.	965,600	0.22
18. Migan Sdn Bhd	964,000	0.22
19. HSBC Nominees (Asing) Sdn Bhd Exempt AN for The Hongkong and Shanghai Banking Corporation Limited	938,800	0.21
20. Malaysia Nominees (Asing) Sdn Bhd British and Malayan Trustees Limited for Lion Capital Singapore/Malaysia Fund	894,100	0.20
21. UOBM Nominees (Asing) Sdn Bhd Exempt AN for Natexis Bleichroeder Inc.	800,000	0.18
22. Citigroup Nominees (Asing) Sdn Bhd CBNY for DFA Emerging Markets Fund	706,000	0.16
23. Lim Kian Huat	646,900	0.15
24. Gan Tee Kian	626,000	0.14
25. W. Gan Sdn Bhd	587,000	0.13
26. HSBC Nominees (Asing) Sdn Bhd BBH and Co. Boston for GMO Emerging Illiquid Fund, L.P.	572,900	0.13
27. HSBC Nominees (Asing) Sdn Bhd BBH and Co. Boston for GMO Emerging Markets Fund	566,700	0.13
28. G.T.Y. Holdings Sdn Bhd	566,000	0.13
29. Bidor Tahan Estates Sdn Bhd	516,000	0.12
30. Kenanga Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Ting Sing Ning	480,000	0.11
	381,638,166	86.73

NOTICE OF ANNUAL GENERAL MEETING

To: All Shareholders

NOTICE IS HEREBY GIVEN that the Thirty-Sixth 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 Monday, 21 May 2007 at 10.00 a.m. for the following purposes:

1. To receive and adopt the Directors' Report and Audited Financial Statements for the year ended 31 December 2006 and the Auditors' Report thereon. **Resolution 1**
2. To approve the payment of a Final dividend of 5% less tax of 27% for the year ended 31 December 2006 as recommended by the Directors. **Resolution 2**
3. To approve the payment of Directors' fees for the year ended 31 December 2006. **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. Dato' Hj Ayoub bin Dato' Hj Ismail **Resolution 4**
   ii. Dato' Haris Onn bin Hussein **Resolution 5**
   iii. Tan Yew Jin **Resolution 6**
   iv. Teo Yee Yen Gabriel **Resolution 7**
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. Tan Sri A. Razak bin Ramli **Resolution 8**
   ii. Kuok Khoon Ho **Resolution 9**
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. **Resolution 10**
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. **Resolution 11**
8. To transact any other business for which due notice shall have been given.

By Order of the Board

ROZINA MOHD AMIN
Company Secretary

Kuala Lumpur
27 April 2007

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 Monday, 25 June 2007 to shareholders whose names appear in the Record of Depositors on Thursday, 31 May 2007.

STATEMENT ACCOMPANYING THE NOTICE OF ANNUAL GENERAL MEETING

Directors who are seeking election at the Thirty-Sixth 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.

- Dato' Hj Ayoub bin Dato' Hj Ismail
- Dato' Haris Onn bin Hussein
- Tan Yew Jin
- Teo Yee Yen Gabriel

The profiles of the above Directors are set out on pages 28 to 31 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-Sixth Annual General Meeting of the Company to be held at Sabah Room, B2 Level, Shangri-La Hotel Kuala Lumpur on Monday, 21 May 2007 at 10.00 a.m. and at any adjournment thereof in the following manner:

		For	Against
Resolution 1	Adoption of Reports and Financial Statements		
Resolution 2	Approval of Final Dividend		
Resolution 3	Approval of Directors' Fees		
Resolution 4	Election of Dato' Hj Ayoub bin Dato' Hj Ismail retiring pursuant to Article 76		
Resolution 5	Election of Dato' Haris Onn bin Hussein retiring pursuant to Article 76		
Resolution 6	Election of Tan Yew Jin retiring pursuant to Article 76		
Resolution 7	Election of Teo Yee Yen Gabriel retiring pursuant to Article 76		
Resolution 8	Re-election of Tan Sri A. Razak bin Ramli retiring pursuant to Article 95		
Resolution 9	Re-election of Kuok Khoon Ho retiring pursuant to Article 95		
Resolution 10	Re-appointment of Tan Sri Dato' Mohd Amin bin Osman as a Director pursuant to Section 129(6) of the Companies Act, 1965		
Resolution 11	Re-appointment of Messrs KPMG as Auditors		

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 ______________________ 2007 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) 791 188
Fax : (+60-88) 792 128
E-Mail : dalitbay@tmnet.com.my

The *rebirth* *of* Shangri-La's Rasa Sayang Resort & Spa, Penang

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.

The Rasa Sayang Resort has been winning the hearts of its guests since it first opened in September 1973. As part of its commitment to its illustrious name and global reputation, as well as to remain ahead of the changing market trends, this iconic resort recently underwent a major redevelopment programme. The grand lady of Penang now emerges more exquisite than ever before, to set the defining standard in luxury resorts yet again.

CORPORATE STRUCTURE

SHANGRI-LA HOTELS (MALAYSIA) BERHAD

Hotels & Resorts

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

Investment Holding & Others

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

Investment Properties

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

1 Held via Pantai Dalit Beach Resort Sdn Bhd
2 Incorporated in British Virgin Islands
3 Incorporated in Union of Myanmar

FINANCIAL CALENDAR

YEAR 2006

18 MAY
Announcement of Unaudited Consolidated Results
for the 1st Quarter ended 31.3.2006

23 AUGUST
Announcement of Unaudited Consolidated Results
for the 2nd Quarter ended 30.6.2006

27 OCTOBER
2006 Interim Dividend Entitlement Date

1 NOVEMBER
Announcement of Unaudited Consolidated Results
for the 3rd Quarter ended 30.9.2006

17 NOVEMBER
2006 Interim Dividend Payment Date

31 DECEMBER
Financial Year End

YEAR 2007

28 FEBRUARY
Announcement of Audited Consolidated Results
for the 4th Quarter and Financial year ended 31.12.2006

27 APRIL
Issue of 2006 Annual Report

21 MAY
2007 Annual General Meeting to be held

21 MAY
Announcement of Unaudited Consolidated Results
for the 1st Quarter ended 31.3.2007

31 MAY
Entitlement Date for the proposed 2006 Final Dividend

25 JUNE
Payment Date for the proposed 2006 Final Dividend

CORPORATE STRUCTURE

SHANGRI-LA HOTELS (MALAYSIA) BERHAD

Hotels & Resorts

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

Investment Holding & Others

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

Investment Properties

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

1 Held via Pantai Dalit Beach Resort Sdn Bhd
2 Incorporated in British Virgin Islands
3 Incorporated in Union of Myanmar

FINANCIAL CALENDAR

YEAR 2006

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Announcement of Unaudited Consolidated Results for the 1st Quarter ended 31.3.2006

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Announcement of Unaudited Consolidated Results for the 2nd Quarter ended 30.6.2006

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2006 Interim Dividend Payment Date

31 DECEMBER
Financial Year End

YEAR 2007

28 FEBRUARY
Announcement of Audited Consolidated Results for the 4th Quarter and Financial year ended 31.12.2006

27 APRIL
Issue of 2006 Annual Report

21 MAY
2007 Annual General Meeting to be held

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Payment Date for the proposed 2006 Final Dividend