SHANGRI-LA ASIA LIMITED

(Incorporated in Bermuda with limited liability)

香格里拉(亞洲)有限公司

2001

INTERIM REPORT 2001

二零零一年中期報告

CORPORATE INFORMATION

As at 24 August 2001

Board of Directors

Executive Directors
Mr YE Longfei
(Chairman)
Mr KUOK Khoon Ho
(Deputy Chairman and Managing Director)
Mr Thaddeus Thomas BECZAK
Mr Tomas Campos ZITA, JR.
Mr Giovanni ANGELINI
Mr John Louis SEGRETI
Mr YOUNG Chun Hui

Non-Executive Directors
Madam KUOK Oon Kwong
Mr John David HAYDEN
Mr HO Kian Guan
Mr Eoghan Murray McMILLAN*
Mr QUEK Poh Huat*
Mr HO Kian Cheong
(Alternate to Mr HO Kian Guan)
* *Independent Non-Executive Directors*

Remuneration Committee

Mr YE Longfei
(Chairman)
Mr KUOK Khoon Ho
Mr Thaddeus Thomas BECZAK
Mr Eoghan Murray McMILLAN
Mr QUEK Poh Huat

Audit Committee

Mr Eoghan Murray McMILLAN
(Chairman)
Mr HO Kian Guan
Mr QUEK Poh Huat

Company Secretary

Ms KO Sau Lai

Auditors

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

Head Office and Principal Place of Business

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

Branch Share Registrars in Hong Kong

Abacus Share Registrars Limited
#Room 2401
Prince's Building
Central
Hong Kong

Effective 10 September 2001,
the address will be changed to
5th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

Website Address

http://www.irasia.com/listco/hk/shangrila

The Directors of Shangri-La Asia Limited (the "Company") are pleased to announce the unaudited interim results of the Company and its subsidiaries (the "Group"), and associated companies for the six months ended 30 June 2001. These results have been reviewed by the Company's auditors, PricewaterhouseCoopers, in accordance with the Hong Kong Statement of Auditing Standards SAS 700 "Engagements to Review Interim Financial Reports" and by the Audit Committee of the Board of Directors. The review report of the auditors is attached.

The consolidated profit attributable to shareholders for the six months ended 30 June 2001 was US$30.5 million (US1.36 cents per share) compared to US$30.3 million after restatement due to change in accounting policies (US1.37 cents per share) in the same period last year.

The consolidated net asset value stood at US$2,974 million (US$1.33 per share) as at 30 June 2001 compared to US$2,966 million after restatement (US$1.34 per share) as at 31 December 2000 and the Group's net borrowings to shareholders' equity ratio was 34.2% as at 30 June 2001 compared to 34.1% after restatement as at 31 December 2000.

The Directors have declared an interim dividend of **HK 7 cents** per share for 2001 (2000: HK 7 cents per share).

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	For the six months ended 30 June Unaudited 2001 *US$'000*	 Restated 2000 *US$'000*
Turnover		**310,492**	337,385
Cost of sales		**(122,271)**	(131,935)
Gross profit		**188,221**	205,450
Other revenues		**12,612**	7,477
Marketing expenses		**(11,889)**	(12,764)
Administrative expenses		**(26,516)**	(28,799)
Other operating expenses		**(89,342)**	(89,905)
Operating profit	*3*	**73,086**	81,459
Finance costs		**(38,161)**	(43,334)
Share of results of associated companies		**21,347**	17,861
Profit before taxation		**56,272**	55,986
Taxation	*4*	**(19,055)**	(17,753)
Profit after taxation		**37,217**	38,233
Minority interests		**(6,723)**	(7,983)
Profit attributable to shareholders		**30,494**	30,250
Interim dividend		**20,143**	19,886
Basic earnings per share	*5*	**US 1.36 cents**	US 1.37 cents
Diluted earnings per share	*5*	**N/A**	N/A

CONSOLIDATED BALANCE SHEET

	Note	**Unaudited As at 30 June 2001** **US$'000**	Restated As at 31 December 2000 US$'000
Fixed assets		**3,613,366**	3,657,033
Negative goodwill		**(231,305)**	(210,425)
Associated companies		**944,572**	930,826
Long term investments		**2,883**	2,918
Current assets			
Inventories		**17,497**	18,113
Accounts receivable, prepayments and deposits	*6*	**60,485**	63,669
Due from associated companies		**3,251**	1,915
Due from minority shareholders		**15,586**	15,537
Other investments		**131,311**	149,342
Cash and bank balances		**168,625**	179,809
		396,755	428,385
Current liabilities			
Accounts payable and accruals	*7*	**125,077**	143,973
Due to minority shareholders		**4,387**	12,628
Taxation		**15,973**	15,861
Bank loans and overdrafts		**104,621**	128,063
		250,058	300,525
Net current assets		**146,697**	127,860
		4,476,213	4,508,212
Financed by:			
Share capital		**290,211**	286,270
Reserves	*8*	**2,276,480**	2,279,689
Retained profits	*9*	**387,121**	377,012
Proposed dividend		**20,143**	23,038
		2,973,955	2,966,009
Minority interests and loans		**410,827**	472,147
Bank loans		**1,081,478**	1,062,043
Deferred taxation		**9,953**	8,013
		4,476,213	4,508,212

CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	Unaudited	Unaudited
	2001	2000
	US$'000	*US$'000*
Net cash inflow from operating activities	**85,503**	101,915
Net cash outflow from returns on investments and servicing of finance	**(63,449)**	(56,010)
Total tax paid	**(9,503)**	(10,906)
Net cash (outflow) / inflow from investing activities	**(17,411)**	20,020
Net cash (outflow) / inflow before financing	**(4,860)**	55,019
Net cash outflow from financing	**(2,321)**	(24,412)
(Decrease) / increase in cash and cash equivalents	**(7,181)**	30,607
Cash and cash equivalents at 1 January	**174,672**	109,017
Cash and cash equivalents at 30 June	**167,491**	139,624

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

		For the six months ended 30 June	
		Unaudited	Restated
		2001	2000
	Note	***US$'000***	*US$'000*
Exchange differences arising on translation of subsidiaries and associated companies	*10*	**(32,643)**	(28,106)
Total losses not recognised in the profit and loss account		**(32,643)**	(28,106)
Profit attributable to shareholders		**30,494**	30,250
Total recognised (losses) / gains		**(2,149)**	2,144
Cumulative effect of change in accounting policies to the opening balances of retained profits and reserves at 1 January 2001		–	(349,011)

NOTES TO THE CONSOLIDATED ACCOUNTS

1. Principal accounting policies and basis of presentation

The unaudited consolidated condensed accounts have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" and on a basis consistent with the principal accounting policies and methods of computation adopted in the 2000 annual report except that the Group has changed certain of its accounting policies following its adoption of the following new SSAPs which became effective during the year. Certain comparative figures have also been restated to conform with the current period presentation.

(a) SSAP 9 (revised) "Events After the Balance Sheet Date"

In accordance with SSAP 9 (revised), dividends proposed after the balance sheet date should not be recognised as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the proposed final dividend amounting to US$23,038,000 previously disclosed as a current liability as at 31 December 2000 has been restated and shown under shareholders' funds.

(b) SSAP 29 "Intangible Assets"

In accordance with SSAP 29, the premium paid under a business acquisition in the year 1997, which was previously recorded as Intellectual Property Rights and disclosed as intangible assets, has now been reclassified as goodwill arising from that acquisition and is subject to annual amortisation (see note 1(c) below). This change in accounting policy has been applied retrospectively.

(c) SSAP 30 "Business Combinations"

In accordance with SSAP 30, positive goodwill and negative goodwill arising from acquisitions is recognised as intangible assets in the balance sheet and is amortised to the profit and loss account on a straight line basis over a period of 15 years from the date of the respective acquisition instead of being directly charged (credited) to the capital reserve account at the time of the acquisition as adopted by the Group previously. This change in accounting policy has been applied retrospectively.

(d) SSAP 26 "Segment Reporting"

In note 2 to these condensed interim accounts, the Group has disclosed segment revenue and results as defined under SSAP 26. The Group has determined that geographical segments by location of assets will be presented as the primary reporting format and by line of business as the secondary reporting format. Comparative information has been given.

Inter-segment pricing is based on terms similar to those applicable to other external parties.

Segment revenue, expense and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment and are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process.

Summarised financial effects of the prior year adjustments due to the change in accounting policies are disclosed in notes 8 and 9.

2. Segmental reporting

An analysis of the Group's revenue and results for the period by geographical segments by location of assets is as follows:

Segment revenue and results (US$ million)
For the six months ended 30 June 2001

	The People's Republic of China								
	Hong Kong	Mainland China	Philippines	Singapore	Thailand	Malaysia	Other	Elimination	Group
Turnover									
External sales	79.8	82.3	41.4	45.0	18.0	36.3	7.7	–	310.5
Inter-segment sales	11.9	–	–	–	–	–	–	(11.9)	–
Total	91.7	82.3	41.4	45.0	18.0	36.3	7.7	(11.9)	310.5
Segment result									
Total segment	27.8	16.5	12.2	11.8	7.6	6.0	(0.6)	–	81.3
Inter-segment	(9.5)	4.0	2.3	1.1	0.9	1.0	0.2	–	–
	18.3	20.5	14.5	12.9	8.5	7.0	(0.4)	–	81.3
Interest income									4.3
Dividend income									2.1
Net realised gain on other investments									0.7
Net unrealised loss on other investments									(14.3)
Unallocated corporate expenses									(3.3)
Amortisation of negative goodwill									8.3
Provision for deficit on valuation of the Shangri-La Hotel, Jakarta									(6.0)
Operating profit									73.1
Finance costs									(38.2)
Share of results of associated companies	–	21.3	–	1.1	–	0.2	(1.2)	–	21.4
Taxation									(19.1)
Minority interests									(6.7)
Profit attributable to shareholders									30.5

Segment revenue and results (US$ million)
For the six months ended 30 June 2000

	Hong Kong	The People's Republic of China Mainland China	Philippines	Singapore	Thailand	Malaysia	Other	Elimination	Group
Turnover									
External sales	82.9	80.8	54.4	49.4	19.8	39.5	10.6	–	337.4
Inter-segment sales	12.3	–	–	–	–	–	–	(12.3)	–
Total	95.2	80.8	54.4	49.4	19.8	39.5	10.6	(12.3)	337.4
Segment result									
Total segment	30.5	14.1	17.5	11.4	7.9	8.4	1.5	–	91.3
Inter-segment	(9.9)	3.5	2.7	1.4	0.9	1.1	0.3	–	–
	20.6	17.6	20.2	12.8	8.8	9.5	1.8	–	91.3
Interest income									1.8
Dividend income									2.8
Net realised loss on other investments									(0.1)
Net unrealised loss on other investments									(16.2)
Unallocated corporate expenses									(2.8)
Amortisation of negative goodwill									7.4
Provision for deficit on valuation of properties									(2.7)
Operating profit									81.5
Finance costs									(43.3)
Share of results of associated companies	–	17.5	–	(0.1)	–	0.1	0.4	–	17.9
Taxation									(17.8)
Minority interests									(8.0)
Profit attributable to shareholders (as restated)									30.3

Reconciliation of profit attributable to shareholders (US$ million)
For the six months ended 30 June 2000

	Group
Profit attributable to shareholders (as restated)	30.3
Amortisation of negative goodwill due to change in accounting policy during the period	(7.4)
Adjustment to pre-opening expenses charged during the period	(2.7)
Profit attributable to shareholders (previously reported)	20.2

Note : As a result of the change in accounting policy for pre-opening expenses in the second half of year 2000, the Group charged US$60,000 pre-opening expenses during the six months ended 30 June 2000 instead of US$2,748,000 which would have been amortised under the old policy.

An analysis of the Group's turnover for the period by business segments is as follows:

	For the six months ended 30 June	
	2001	2000
	US$ million	*US$ million*
Hotel operation		
– Room rentals	**152.3**	162.1
– Food and beverage	**119.8**	131.4
– Rendering of ancillary services	**26.6**	30.4
Hotel management	**4.5**	5.5
Property rentals	**7.3**	8.0
	310.5	337.4

3. Operating profit

	For the six months ended 30 June	
	Unaudited	Restated
	2001	2000
	US$'000	*US$'000*
Operating profit is stated after charging / (crediting):		
Cost of inventories sold	**36,852**	43,479
Depreciation	**26,787**	29,958
Amortisation of negative goodwill	**(8,345)**	(7,371)
Net realised (gain) / loss on other investments	**(718)**	152
Net unrealised loss on other investments	**14,319**	16,180
Dividend income from other investments	**(2,124)**	(2,767)

4. Taxation

	For the six months ended 30 June	
	2001	2000
	US$'000	*US$'000*
Hong Kong profits tax		
– Provision for the period	**3,540**	3,786
– Deferred	**(26)**	(256)
Taxation outside Hong Kong		
– Provision for the period	**8,326**	9,859
– Deferred	**2,134**	752
Share of taxation attributable to associated companies	**5,081**	3,612
	19,055	17,753

(a) Hong Kong profits tax is provided at 16% (2000: 16%) on the estimated assessable profits of group companies operating in Hong Kong.

(b) Taxation outside Hong Kong includes withholding tax paid on dividends from a subsidiary and tax provided at the prevailing rates on the estimated assessable profits of group companies operating outside Hong Kong.

(c) Taxation attributable to associated companies represents share of overseas tax provided at the prevailing rates on the estimated assessable profits.

(d) Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profits as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or asset is expected to be payable or recoverable in the foreseeable future.

5. Earnings per share

(a) Basic earnings per share of US1.36 cents (2000 as restated: US1.37 cents) is calculated based on the profit attributable to shareholders of US$30,494,000 (2000 as restated: US$30,250,000) and the weighted average number of 2,235,818,182 shares (2000: 2,216,037,186 shares) in issue during the period.

(b) Diluted earnings per share is the same as the basic earnings per share as there is no dilution effect arising from the share options granted by the Company.

6. Accounts receivable, prepayments and deposits

The age analysis of trade debtors as at 30 June 2001 was as follows:

	US$ million
0-3 months	28.5
4-6 months	1.2
over 6 months	0.5
	30.2

The Group has a defined credit policy. The general credit term is 30 days.

7. Accounts payable and accruals

The age analysis of trade creditors as at 30 June 2001 was as follows:

	US$ million
Accounts payable in the next:	
0-3 months	19.2
4-6 months	0.5
over 6 months	1.6
	21.3

8. Reserves

	Share premium	Capital redemption reserve	Hotel properties revaluation reserve	Share of revaluation reserves in associated companies Hotel properties	Share of revaluation reserves in associated companies Investment properties	Exchange fluctuation reserve	Capital reserve	Other reserve	Contributed surplus	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 31 December 2000										
– as previously reported	583,181	1,429	613,556	98,158	175,646	(153,654)	997,746	459	359,424	2,675,945
– effect of change in accounting policy	–	–	–	–	–	–	(396,256)	–	–	(396,256)
– as restated	583,181	1,429	613,556	98,158	175,646	(153,654)	601,490	459	359,424	2,279,689
Arising from issue of shares	–	–	–	–	–	–	–	–	30,576	30,576
Arising from repurchase of shares	(1,384)	242	–	–	–	–	–	–	–	(1,142)
Other movements	–	–	–	–	–	(32,643)	–	–	–	(32,643)
At 30 June 2001	**581,797**	**1,671**	**613,556**	**98,158**	**175,646**	**(186,297)**	**601,490**	**459**	**390,000**	**2,276,480**

Effect of change in accounting policy to capital reserve:

(Dr) / Cr	**30 June 2001** ***US$'000***	31 December 2000 *US$'000*
At beginning of period/year		
– As previously reported	**997,746**	996,469
– Effect of adopting SSAP 30	**(396,256)**	(394,811)
– As restated	**601,490**	601,658
Other movement for the period/year		
– As previously reported	**–**	1,445
– Effect of adopting SSAP 30	**–**	(1,445)
– As restated	**–**	–
Deficit on valuation	**–**	(168)
	601,490	601,490

9. Retained profits

(Dr) / Cr	**30 June 2001** **US$'000**	31 December 2000 US$'000
At beginning of period/year		
– As previously reported	**352,805**	319,046
– Effect of adopting SSAP 9 (revised)	**23,038**	22,727
– Effect of adopting SSAP 30	**24,207**	9,465
– As restated	**400,050**	351,238
Final dividend for the previous year paid	**(23,038)**	(22,727)
Profit for the period/year		
– As previously reported	**30,494**	77,035
– Effect of adopting SSAP 30	**–**	14,742
– As restated	**30,494**	91,777
2000 interim dividend paid	**–**	(19,886)
Transfer to capital redemption reserve	**(242)**	(352)
At end of period / year	**407,264**	400,050
2000 final dividend proposed	**–**	(23,038)
2001 interim dividend proposed	**(20,143)**	–
	387,121	377,012

10. Exchange differences arising on translation

The amount of US$32,643,000 represents the movement of the exchange fluctuation reserve during the period. The accounts of overseas subsidiaries and associated companies are translated into United States dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising on such translation are taken directly to the exchange fluctuation reserve.

The Group has an economic hedge in terms of currency exposure to the extent that a substantial portion of its hotels' room revenues in Mainland China, the Philippines, Thailand and Indonesia and investment property revenues in Mainland China are derived in United States dollars. Moreover, these and the other hotel revenues in these countries (except Thailand and Malaysia where exchange controls apply) are also immediately converted into United States dollars upon realisation, to the maximum extent possible. The hotels and properties in Hong Kong and Singapore derive their revenues in local currencies.

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

11. Related Party Transactions

During the period, the Group received hotel management and related services and royalty fees totalling US$539,000 (2000: US$586,000) and US$2,512,000 (2000: US$3,021,000) from certain companies within the Kuok Group and associated companies of the Group respectively. The fees are charged by the Group at either a fixed amount or a certain percentage of gross operating revenue/profit of the relevant companies.

Save as mentioned above, there is no other disclosure required to be made under SSAP 25.

12. Acquisition

As at the close of the delisting exit offer to the remaining shareholders of Shangri-La Hotel Limited, Singapore ("SHL") on 22 February 2001, the Company acquired a further 9.61% of the share capital of SHL from unrelated shareholders and thus increased its interest in SHL to 99.11%. SHL is one of the principal subsidiaries of the Group and is engaged in investment holding, hotel ownership and operation, and leasing of residential and serviced apartments. The total consideration was US$34.6 million including the issuance of 32,349,764 new shares by the Company and cash payment of associated acquisition costs. The fair value of the net identifiable assets relating to the 9.61% share of SHL at the date of acquisition was US$63.8 million. The resulting negative goodwill of US$29.2 million is being amortised on a straight line basis over 15 years.

13. Contingent liabilities and charges over assets

There have been no material changes in contingent liabilities or charges over assets of the Group since 31 December 2000.

OPERATIONS REVIEW

Revenues

Hotels

In general, hotels in the region experienced a gradual weakening in demand due mainly to the continuing political uncertainties in some of the regional economies, the economic slow-down in the United States of America and Europe, the recession in Japan and the adverse impact of these problems on the ASEAN economies.

The Group's hotels in Hong Kong experienced flat yields compared to the same period last year. While weighted average transient room rates increased by 12% to US$204, the weighted average occupancies declined by 8 percentage points to 71%. Overall yields are expected to register marginal declines in the second half of this year.

The weighted average yields of the Group's hotels in the other cities in Mainland China increased by 7%. The weighted average transient rates increased by 18% while the weighted average occupancies declined by 4 percentage points to 62%. Noteworthy increases in yields were registered by the Shangri-La Hotel, Changchun (21%), the Pudong Shangri-La, Shanghai (20%) and the Kerry Centre Hotel, Beijing (33%). Hotels on the whole are expecting to register modest increases in their yields in the second half of the year.

The political problems experienced in the Philippines and the depreciating peso adversely affected the performance of the Group's hotels in that country. Weighted average yields declined by 13%. The Makati Shangri-La, Manila is undergoing major renovations to its rooms. The renovation programme is expected to end in July 2002. Rooms that have been renovated are experiencing good demand at higher average rates.

The Group's hotels in Singapore registered a 7% weighted average decline in yields. While the weighted average transient rates showed a modest increase of 3%, the weighted average occupancies declined by 9 percentage points to 72%. Yields for the second half of the year are expected to register identical declines, given the fact that the economy is technically in recession. Room renovations at the Shangri-La's Rasa Sentosa Resort have been completed and the product has been well received.

The Group's hotels in Malaysia experienced a modest 2% increase in yields. Consistent with the experience of other hotels in the Group around the region, the weighted average transient rates increased by 12% while weighted average occupancies declined by 10 percentage points to 64%. With the renovation programme at the Shangri-La's Golden Sands Resort in Penang recently completed, it is expected that room occupancies at this resort will increase dramatically. On the other hand, a phased renovation of rooms, public areas and food & beverage outlets at the Shangri-La Hotel, Kuala Lumpur is scheduled to commence in September and is expected to last for 15 months.

The Shangri-La Hotel, Bangkok registered a 5% decline in yields. Though the Thai Baht weakened relative to the US dollar by approximately 8% in the first six months, the achieved average transient rate declined by only 1% because of the hotel's policy of quoting its room rates in US dollars for a substantial portion of its room revenues. Room occupancies declined by 3 percentage points to 64%.

The Shangri-La Hotel, Jakarta experienced an industrial relations problem which began in December 2000 when some employees belonging to the employees union illegally occupied the hotel premises. The problem was finally resolved and the hotel re-opened for business on 17 March 2001. However, the continuing political uncertainties in Indonesia have depressed business at all the hotels in Jakarta. The hotel recorded an average occupancy of 14% for the first half of this year, in view of the closure. Occupancies are currently averaging 28%. The achieved average rate for this period declined by 2% to US$108. The turnaround in the performance of the hotel is dependent on the resolution of the major political and economic issues confronting the country.

The Group's hotels in Fiji suffered a decline in weighted average yields by 39% largely on account of an erosion in average transient rates which registered a weighted average decline of 29%. Weighted average occupancies stood at 52%. Effective July, however, business has returned to the hotel after a period of very poor occupancy caused by the coup in Fiji in April 2000. Occupancies at the Fijian are currently around 85%. If the political situation remains stable, the second half of this year will witness a good turnaround in business performance.

The Traders Hotel, Yangon which continues to face a lacklustre market due to the political problems of the country, registered a 6% decline in yield as explained earlier.

Investment Properties

The Group's principal investment properties are located in Mainland China. In general, yields at the properties have increased. Rent renewals, particularly in Beijing, are taking place at 30% above the expiring lease rental. Occupancies in the principal cities of Beijing and Shanghai for office and commercial space are in excess of 95% and 70%, respectively. Demand for leases continues to remain very strong and with improved absorption of available supply, it is envisaged that yields will continue to move up quickly.

The yields of the Group's investment properties in Singapore registered an average decline of 7%, given the weakness in the local economy. Nevertheless, average occupancies were high ranging between 80% to 94%. Demand for the office property in Bangkok remained weak, with yields declining by 49%. The investment properties in Kuala Lumpur also experienced decline in yields ranging between 11% for serviced apartments and 22% for offices.

Hotel Management

The hotel management business of the Group registered a 5% fall in its revenues before consolidation adjustments, largely due to the decline in revenues of the hotels in its portfolio as explained earlier.

Consolidated Profits

Consolidated profits attributable to shareholders was largely unchanged at US$30.5 million compared to US$30.3 million in the same period last year. The current period's profit incorporates the effects of the following major items:

(a) Interest and finance charges (net of interest income) of US$33.9 million before adjustment for minority interests (US$33.7 million after minority interests) compared to US$41.5 million (US$39.9 million after minority interests) in the same period last year.

(b) Provision for net unrealised loss on investments of US$14.3 million before adjustment for minority interests (US$13.5 million after minority interests) compared to US$16.2 million (US$14.6 million after minority interests) in the same period last year.

(c) A net credit arising from the amortisation of negative goodwill of US$8.3 million compared to US$7.4 million (after restatement) for the same period last year.

(d) A provision for expected diminution in the value of the Shangri-La Hotel, Jakarta of US$6.0 million compared to a similar provision of US$2.7 million.

CORPORATE DEBT AND FINANCIAL CONDITIONS

During the period under review, the subsidiaries of the Group that were holding 80,140,577 equity shares in the Company listed on The Stock Exchange of Hong Kong Limited continued to hold these shares in order not to further negatively impact the depressed market. The aggregate value of these shares as at 30 June 2001 amounted to US$70.4 million and formed part of the portfolio of marketable securities of these hotels with a market value of US$131.3 million. The Group intends to sell these investments in an orderly manner, subject to satisfactory market conditions.

The Company repurchased a total of 1,874,000 fully paid equity shares, all of which have been fully cancelled.

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

As at 30 June 2001, the Group's net borrowings (net of cash and bank balances of US$168.6 million) stood at US$1,017.5 million (compared to US$1,010.3 million as at 31 December 2000) and the overall gearing ratio was 34.2%.

The analysis of loans outstanding as at 30 June 2001 is as follows:

(US$ million)	Within 1 year	In the 2nd year	In the 3rd to 5th year	After 5 years	Total
	Maturities of Bank Loans and Overdrafts Contracted as at 30 June 2001		**Repayment**		
Unsecured					
Corporate bank loans	–	500.0	490.0	–	990.0
Project bank loans and overdrafts	75.8	59.7	14.7	3.1	153.3
	75.8	559.7	504.7	3.1	1,143.3
Secured					
Project bank loans and overdrafts	28.8	9.6	4.4	–	42.8
	104.6	569.3	509.1	3.1	1,186.1
Cash and bank balances					(168.6)
Net borrowings					1,017.5
Marketable securities					(131.3)
Net Debt					886.2
Undrawn but Committed facilities (bank loans and overdrafts)	77.4	–	116.1	–	193.5

The currency-mix of the bank loans and cash and bank balances as at 30 June 2001 is as follows:

	Loans and Overdrafts *US$ million*	**Cash and Bank Balances** *US$ million*
In US dollars	719.3	129.6
In Singapore dollars	138.3	2.6
In Hong Kong dollars	300.0	6.5
In Malaysian Ringgit	15.2	4.6
In Renminbi	13.3	12.2
In Thai Baht	–	9.6
In Philippine Pesos	–	1.2
In Fiji dollars	–	1.5
In other currencies	–	0.8
	1,186.1	168.6

The loans in US and Hong Kong dollars and in Malaysian Ringgit are at variable rates of interest at spreads over LIBOR, HIBOR and Cost of Funds (for Malaysia), respectively. The majority of the loans in Singapore dollars are at fixed interest rates. The loans in Renminbi are at rates specified by The People's Bank of China from time to time.

TREASURY POLICIES

The treasury policies followed by the Group aim to:

(a) Minimise interest costs. This is accomplished in the loan negotiation process and in ensuring that surplus funds from operations are made available to the corporate treasury to reduce the debt exposure. The Group has also obtained a forward cover on interest rates on US$300 million and HK$1 billion for a period of six months to protect itself against any adverse movement of interest rates.

(b) Minimise currency exposure. The Group attempts to align the currencies of its loan portfolio with the currency mix of the Group's investments in various countries and the currencies of its revenue streams. The Group continues to look for additional sources of funding in Renminbi to match its investments in Mainland China. The Group has also entered into currency swap contracts between Hong Kong dollars and US dollars for US$200 million for the purpose of hedging against the Group's US dollar loans. On maturity of these contracts in 2002, the Company will buy US$200 million upon payment of HK$1,557,265,000. The Group has not felt it appropriate to substantially hedge against currency risks through forward exchange contracts on a consideration of the currency risks involved and the cost of obtaining such a cover.

INVESTMENTS

As at 30 June 2001, the investment portfolio of the Group was valued at US$131.3 million. In arriving at this valuation, the Group provided for net unrealised losses on this portfolio (after minority interests) in an amount of US$13.5 million. These investments have generated US$2.1 million of dividend income during the period.

The Group recognises that these investments represent a source of additional liquidity and plans to dispose of them subject to market conditions being favourable.

NEW PROJECTS AND RENOVATION PROGRAMMES

As mentioned in the Annual Report for the year 2000, the Group has initiated work on new hotel projects in Shanghai and Fuzhou. It also intends to add to the guestrooms and facilities at the Pudong Shangri-La, Shanghai. Incremental costs to implement these projects, which are estimated at US$400 million, will be spread over a 42-month period. These projects will be funded partly by locally contracted project loans and partly from corporate funding sources.

During the first half of this year, renovations of guest rooms have been completed at the Shangri-La's Rasa Sentosa Resort, Singapore and the Shangri-La's Golden Sands Resort in Penang. Renovations are on-going at the Makati Shangri-La in Manila and the Shangri-La Hotel, Bangkok. Renovations at the Shangri-La Hotel, Kuala Lumpur, Kowloon Shangri-La and China World Hotel, Beijing are expected to commence in the second half of this year. Estimated expenditure on renovations of US$130 million will be largely financed by operating cash flows of the business units supplemented by locally contracted short term debt, where appropriate. Renovations are usually spread over an 18-month period to minimise inconvenience to guests.

The Group took over the management of the Dingshan Garden Hotel in Nanjing, Mainland China effective 8 July 2001. The hotel is currently operating with 246 rooms, 120 apartments/villas and complementary hotel facilities. Another 309 rooms will be opened for business in 2002.

PROPOSED ACQUISITIONS BY SUBSIDIARIES

Orange Grove Holdings Pte. Ltd., a wholly owned subsidiary of SHL, entered into agreements on 18 July 2001 to acquire equity interests of 40% in Tanjong Aru Hotel Sdn. Bhd. ("TAH") from PPB Group Bhd. and Kuok Brothers Sdn. Bhd. and 25% in Pantai Dalit Beach Resort Sdn. Bhd. ("PDBR") from PPB Group Bhd. TAH and PDBR own the Shangri-La's Tanjung Aru Resort, the Shangri-La's Rasa Ria Resort and the Dalit Bay Golf & Country Club respectively, all of which are managed by the Group.

The consideration for these acquisitions amounting to RM90.11 million (US$23.71 million) will be paid in cash from funds available with SHL and its subsidiaries. The acquisitions are at discounts to the adjusted net asset values of these companies as determined by an independent appraisal of the fixed assets as at 15 July 2001. These acquisitions which are expected to be accretive to earnings, conform to the Group's objective to maximise the ownership of hotel assets within the Group.

The acquisitions are subject to, inter alia, receipt of appropriate regulatory approvals in Malaysia.

PROSPECTS

Though the year began with hotels experiencing a good improvement in yields, the momentum slowed in the ensuing few months with the problems faced in the major economies of the United States of America, Europe and Japan, and the continuing political uncertainties in Indonesia, Fiji and the Philippines. It is envisaged that the negative sentiment triggered by these developments will dampen business travel and spending also in the second half of this year. However, Mainland China still holds out some cause for optimism, given the size of its domestic economy and its focus on the domestic economy as an engine for growth. The country's imminent entry into the World Trade Organisation is expected to provide a fresh impetus to foreign business travel into China. The Group's investment properties in China are already experiencing yield increases. These are expected to gather further momentum.

The Group benefited from a significant reduction in interest costs in the first half of this year. Given the favourable movement in interest rates and the fact that 86% of the Group's debt is at variable interest rates, reduction in interest and finance charges in the second half of this year is expected to continue.

The overall prospects for the Group's financial performance in the near term appear to be tracking those of the regional economies that it operates in. In this regard, Mainland China, offers some cause for optimism. In the medium term, however, the Group is reasonably confident about the prospects for a turnaround in the regional economies and for a corresponding improvement in its business.

PERSONNEL

As at 30 June 2001, the Company and its subsidiaries had approximately 16,700 employees. Salaries of employees are maintained at competitive levels under which bonuses are based on an evaluation of efforts and the financial performance of the business units with reference to goals set. Other benefits include provident fund, insurance and medical cover, housing and an Executive Share Option Scheme adopted by the Company on 16 December 1997 (the "Option Scheme"). The Group has extensive training programmes to improve service skills of its line staff and professional skills of other employees. Its in-house training programmes emphasise service attitudes, organizational values and job enrichment. In-house training is supplemented by retaining outside professional training agencies.

SHARE OPTION SCHEME

In terms of the Option Scheme, subsequent to 31 December 2000, the Directors have granted additional options on 5,340,000 shares to eligible executives of the Group at a subscription price of HK$7.94 per share. The exercise of these new options is governed by a two-year vesting scale. According to the terms of the Option Scheme, options on 4,650,000 shares have so far lapsed. As of this date, the options outstanding aggregate to 27,910,000 shares.

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

As at 30 June 2001, the Directors had the following interests in the shares or debentures of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) (the "Associated Corporations") as recorded in the register required to be kept under Section 29 of the SDI Ordinance:

The Company

Name of Director	Number of ordinary shares	*Notes*
Mr YE Longfei	Nil	–
Mr KUOK Khoon Ho	3,456	1
	379,167	2
Mr Thaddeus Thomas BECZAK	364,000	1
Mr Tomas Campos ZITA, JR.	2,000	1
Mr Giovanni ANGELINI	100,000	1
Mr John Louis SEGRETI	Nil	–
Mr YOUNG Chun Hui	66,000	1
Madam KUOK Oon Kwong	151,379	1
	192,011	3
Mr John David HAYDEN	Nil	–
Mr HO Kian Guan	167,475	1
	126,755,718	2
Mr Eoghan Murray McMILLAN	Nil	–
Mr QUEK Poh Huat	Nil	–
Mr HO Kian Cheong	24,514	1
(Alternate to Mr HO Kian Guan)	124,046,553	2

Notes:

1. Personal interests held by the relevant Directors.

2. Deemed corporate interests held through companies controlled by the relevant Directors.

3. Family interest held by the spouse of the relevant Director.

Save as mentioned above, as at 30 June 2001, none of the Directors had any other interest in the shares or debentures of the Company or any of its Associated Corporations which had been entered in the register kept by the Company pursuant to Section 29 of the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the Option Scheme, the Directors may, at their discretion, grant to executive Directors and key employees of the Company and its subsidiaries options to subscribe for shares in the capital of the Company, subject to terms and conditions stipulated therein.

As at 30 June 2001, details of options granted to the Directors of the Company were as follows:

Name of Director	**Date of Grant**	**Number of ordinary shares granted under the option**	**Exercise price per option share**	*Notes*
			HK$	
Mr YE Longfei	1 May 1998	300,000	8.00	1
	15 January 2000	400,000	8.55	2
	15 January 2001	700,000	7.94	4
Mr KUOK Khoon Ho	1 May 1998	1,200,000	8.00	1
	15 January 2000	500,000	8.55	2
	15 January 2001	300,000	7.94	4
Mr Thaddeus Thomas BECZAK	1 May 1998	1,200,000	8.00	1
	15 January 2000	500,000	8.55	2
	15 January 2001	100,000	7.94	4
Mr Tomas Campos ZITA, JR.	1 May 1998	300,000	8.00	1
	15 January 2000	400,000	8.55	2
	15 January 2001	100,000	7.94	4
Mr Giovanni ANGELINI	1 May 1998	450,000	8.00	1
	15 January 2000	550,000	8.55	2
	15 January 2001	300,000	7.94	4
Mr John Louis SEGRETI	1 May 1998	270,000	8.00	1
	15 January 2000	330,000	8.55	2
	6 April 2000	400,000	8.55	3
	15 January 2001	300,000	7.94	4
Mr YOUNG Chun Hui	1 May 1998	450,000	8.00	1
	15 January 2000	200,000	8.55	2
	15 January 2001	100,000	7.94	4
Mr John David HAYDEN	1 May 1998	1,200,000	8.00	1

Notes:

1. The share options granted on 1 May 1998 are exercisable based on an approved vesting scale from 1 May 1999 to 30 April 2008.

2. The share options granted on 15 January 2000 are exercisable based on an approved vesting scale from 15 January 2001 to 14 January 2010.

3. The share options granted on 6 April 2000 are exercisable based on an approved vesting scale from 6 April 2001 to 5 April 2010.

4. The share options granted on 15 January 2001 are exercisable based on an approved vesting scale from 15 January 2002 to 14 January 2011.

5. As at 30 June 2001, none of the above options have been exercised.

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

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2001, as far as the Directors were aware, the interests of the substantial shareholders in the shares of the Company were as follows:

Name	Number of ordinary shares
Kerry Group Limited	1,048,894,077
Kerry Holdings Limited	1,048,894,077

Notes:

1. Kerry Holdings Limited is a subsidiary of Kerry Group Limited and, accordingly, the shares in which Kerry Holdings Limited is shown to be interested are also included in the shares in which Kerry Group Limited is shown to be interested.

2. The shares in which Kerry Group Limited and Kerry Holdings Limited are shown to be interested include those shares held by the respective subsidiaries of Shangri-La Hotel Limited, Singapore and Shangri-La Hotel Public Company Limited, Thailand.

Save as mentioned above, as at 30 June 2001, the Company had not been notified of any interest amounting to 10% or more of the issued share capital of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2001, the Company repurchased a total of 1,874,000 fully paid shares on The Stock Exchange of Hong Kong Limited, all of which have been duly cancelled, as follows:

Month of repurchase	Number of shares repurchased	Total consideration	Purchase price per share	
			Highest	Lowest
		US$	*HK$*	*HK$*
January 2001	196,000	185,227	7.50	7.20
May 2001	200,000	186,724	7.30	7.20
June 2001	1,478,000	1,240,588	7.05	5.85
	1,874,000	1,612,539		

Save as disclosed herein, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities.

CODE OF BEST PRACTICE

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2001, in compliance with Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The term of office for the non-executive Directors of the Company is subject to retirement by rotation and re-election at the annual general meeting in accordance with the Bye-laws of the Company.

The Company set up an Audit Committee of the Board of Directors on 25 August 1998. All the three members of the Committee are non-executive Directors, two of them being independent. The Committee acts in accordance with written terms of reference. The current Committee members are Mr Eoghan Murray McMILLAN, Mr HO Kian Guan and Mr QUEK Poh Huat.

REGISTER OF MEMBERS

The register of members will be closed from Wednesday, 19 September 2001 to Friday, 21 September 2001, both dates inclusive. To qualify for the proposed interim dividend, all share transfers must be lodged with Abacus Share Registrars Limited at the following address for registration not later than 4:00 p.m. on Tuesday, 18 September 2001:

Before 10 September 2001	On or After 10 September 2001
Room 2401, Prince's Building, Central, Hong Kong	5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong

The interim dividend will be paid on Friday, 28 September 2001.

By Order of the Board
Shangri-La Asia Limited
YE Longfei
Chairman

Hong Kong, 24 August 2001

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong
Telephone: (852) 2289 8888
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Independent Review Report to the Board of Directors of Shangri-La Asia Limited

(Incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report of Shangri-La Asia Limited for the six months ended 30 June 2001.

Directors' responsibilities

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with SSAP 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

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

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report of Shangri-La Asia Limited for the six months ended 30 June 2001.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 August 2001