



On behalf of the Board of Directors, I present the eleventh Annual Report of Shangri-La Asia Limited.

GENERAL

The Group faced an unprecedented business situation in the first half of 2003. The outbreak of Severe Acute Respiratory Syndrome ("SARS") in late March 2003 led to a steep decline in travel volumes and hotel occupancies throughout most of the Asian region and had a material adverse effect on the Group's financial condition and operations for the first half of the year. The Group's operations in Asia, particularly occupancies, were adversely affected especially in the core markets of Hong Kong, Mainland China and Singapore. In response to this situation, management took immediate actions to minimise expenditures especially salaries, wages and discretionary costs, conserve cash resources and maintain sufficient banking facilities to fund capital commitments and working capital needs. With the progressive lifting of travel warnings issued by the World Health Organization in June 2003, air-travel volumes and hotel occupancies have recovered.

RESULTS

The consolidated profit attributable to shareholders for the year ended 31 December 2003 was US\$72.7 million (earnings per share US3.33 cents) compared to US\$63.4 million (earnings per share US2.91 cents) after restatement of profits for the year 2002.

As detailed in the Management Discussion and Analysis Section, net operating profit before non-operating items decreased from US\$94.4 million in 2002 to US\$50.5 million in 2003 largely on account of the impact of SARS. However, there was a net credit from non-operating items in 2003 of US\$22.2 million compared to a net charge of US\$31.0 million in 2002.

DIVIDENDS

The Directors recommend a final dividend of HK8 cents per share with a scrip alternative. With the interim dividend of HK6 cents per share paid in November 2003, the total dividend for 2003 is HK14 cents per share.

PROJECTS/RENOVATIONS

The Group has embarked on an extensive renovation programme for its major hotels to ensure that they are in excellent condition thus retaining their competitive advantage and preserving the integrity of the Group's brands. Major renovations at 10 hotels/resorts including Kowloon Shangri-La, Hong Kong, China World Hotel, Beijing, Shangri-La Hotel, Singapore, Shangri-La Hotel, Kuala Lumpur and Shangri-La Hotel, Bangkok have been completed in 2003. The fit-out of an additional 80 guestrooms at the Shangri-La Hotel, Qingdao has also been completed. The availability of renovated and upgraded facilities has been timed to coincide with the turn-around in business conditions in the region. The Group constantly strives to introduce new concepts. It has recently initiated the construction of state-of-the-art spa facilities in some of its hotels and resorts, and the first of these will be operational at the Shangri-La Hotel, Bangkok towards the end of May 2004.

In Mainland China, the Shangri-La Hotel, Zhongshan opened for business on 9 January 2004. The Shangri-La Hotel, Fuzhou is expected to open in late 2004 and an extension to the Pudong Shangri-La, Shanghai is expected to open in early 2005.



Chairman's Statement

The Group has also initiated planning and/or development work for new hotels to be built in Mainland China viz. Chengdu, Futian in Shenzhen, Ningbo, Xian and Guangzhou. Planning submissions for the hotel at Jingan Nanli, Shanghai are on-going. Land has also been acquired for a new hotel development in Guilin. The Group through its subsidiary in Thailand, has also commenced work on a new hotel project on its vacant land in Chiang Mai, Thailand. These new hotels are expected to progressively open for business from mid 2006 through end of 2007. By the end of 2007, it is envisaged that the number of operating hotels in which the Group has an equity interest will increase from 36 as at 31 December 2003 to 46.

MANAGEMENT CONTRACTS

In 2003, the Group signed 6 new hotel management contracts for hotels owned by third parties which included the successful rebranding of the Shangri-La Hotel, Sydney on 1 July 2003. The others are located in Cairns, New Delhi, Haikou (Mainland China), Kuala Lumpur and Doha and will open for business from late 2004 through mid 2006. In February 2004, the Group signed a management contract to operate the Traders Hotel, Suzhou in Mainland China which is expected to open in mid 2005. The Putrajaya Shangri-La, Malaysia in Kuala Lumpur and the Shangri-La Hotel, Dubai commenced operations on 4 February 2003 and 8 July 2003 respectively. Based on contracts executed to date, the number of operating hotels under management and owned by third parties will increase from 6 as at 31 December 2003 to 18 by mid 2006.

CORPORATE DEBT AND FINANCIAL CONDITIONS

Taking advantage of the liquidity in the banking system and with a view to address its capital commitment requirements, the Group executed 7 unsecured bilateral Hong Kong dollars loan agreements with individual banks in the second half of 2003 in a total amount of HK\$2,600 million. These loans have a maturity of 5 years and their all-inclusive cost ranged between 50 to 55 basis points over HIBOR.

In February 2004, the Company, under an arrangement involving placement of existing shares and subscription top-up for new shares, issued 183,832,000 new shares at HK\$7.4 per share to certain companies within the Kuok Group. The net proceeds from such issue were approximately HK\$1,360 million. Immediately after such issue, the Group's net borrowings to shareholders' equity ratio reduced from 40.6% as at 31 December 2003 to 31.6%.

In March 2004, the Group issued zero coupon guaranteed convertible bonds due March 2009 in the aggregate principal amount of US\$200 million with an initial conversion price of HK\$9.25 per share of the Company (subject to adjustment). Unless previously redeemed, converted or purchased and cancelled, these bonds will be redeemed at 114.633 per cent. of their principal amount on the maturity date. The net proceeds from such issue amounted to approximately US\$196.4 million.

Pending use of all these proceeds to finance the development of new hotels, primarily in Mainland China, such proceeds have been temporarily used principally to reduce the indebtedness of the Group or placed in short term deposits to minimise interest costs.

The Group has adequate cash resources to fund its development programmes.



PROSPECTS

Asia and in particular Mainland China has been the primary focus of the Group's business. However, the Group believes the presence in key markets which serve its hotels in Asia will reinforce its competitive position and improve the overall global awareness of its brands. To this end, it has actively pursued and successfully concluded management contract opportunities in Australia, South Asia (Maldives and India) and the Middle East. It also continues to prospect for suitable opportunities in key gateway cities in Europe and North America. The Group views these opportunities with strategic interest in not only underpinning the brand but also improving return on investments for shareholders.

Nevertheless, Mainland China will continue to be the primary choice for the Group's investments in hotels given the strong fundamentals of high annual GDP growth rates, growing disposable incomes, a very high year on year growth in domestic travel (by 10%) and international travel (by 8%). The Group is supplementing its investment plans by also seeking management contract opportunities which do not involve any equity commitment. The Group expects that this approach will help it to rapidly extend its network of hotels and maintain its brand dominance in a very important market. Further, as increasing numbers of Mainland Chinese travel overseas, the Group's hotels elsewhere in the region will also stand to benefit.

DIRECTORS

Mr KUOK Khoon Ho and Mr John David HAYDEN resigned from the Board on 1 February 2004.

Mr Kuok was appointed as an executive Director and Managing Director of the Company in September 1997 and was appointed as Deputy Chairman of the Company from October 2000 till August 2002. He remained as an executive Director of the Company thereafter.

Mr Hayden was appointed an executive Director of the Company in December 1997 till June 1999 following his retirement from the position of Managing Director and Chief Executive Officer of Shangri-La International Hotel Management Limited, the hotel management arm of the Group. He acted as a non-executive Director of the Company thereafter.

On behalf of the Board, I would like to thank Mr Kuok and Mr Hayden for their invaluable guidance and contributions to the Group.

ACKNOWLEDGEMENT

The Group has successfully managed to overcome the unprecedented challenges caused by the outbreak of SARS in the Asian region. On behalf of the Board, I would like to deeply acknowledge the sacrifices made by the management and staff of the Group during a very difficult period, and thank them for their loyalty, hard work, dedication and professionalism.

A handwritten signature in black ink, appearing to read 'Kuok' followed by a stylized flourish.

KUOK Khoon Loong, Edward
Chairman

Hong Kong, 29 March 2004