

Chairman's Statement

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

General

The Group's hotels in the region experienced a good turnaround in revenues and profits following recovery of business and leisure travel in the region after the outbreak of Severe Acute Respiratory Syndrome (SARS) in March 2003. Yields of the Group's hotels measured in terms of the weighted average room yield (RevPAR) increased by 40% relative to 2003 and 26% relative to 2002. This had a very favourable impact on the Group's operating profits for the year which are the highest in its twelve year history. With most of the Group's flagship hotels having recently completed extensive renovations, they are well positioned to benefit from the resurgence in demand.

The Group's investment properties have generally performed quite satisfactorily and recorded improvement in yields relative to 2003.

Results

The consolidated profit attributable to shareholders for the year ended 31 December 2004 was US\$141.5 million (earnings per share US6.04 cents) compared to US\$72.7 million (earnings per share US3.33 cents) for the year 2003.

As detailed in the Management Discussion and Analysis Section, net operating profit before non-operating items increased from US\$50.5 million in 2003 to US\$134.7 million in 2004 on the back of strong

performance by the Group's hotels. In addition, there was a net credit from non-operating items in 2004 of US\$6.8 million compared to US\$22.2 million in 2003.

Dividends

The Directors recommend a final dividend of HK10 cents per share. With the interim dividend of HK9 cents per share paid in December 2004, the total dividend for 2004 is HK19 cents per share.

Projects/Renovations

During the year, major renovations were completed at the Shangri-La Hotel, Beijing, while they were on-going at the Island Shangri-La, Hong Kong, Shangri-La's Fijian Resort, Yanuca Island and the Shangri-La Hotel, Jakarta. These renovations are expected to complete between April through December 2005.

The Shangri-La Hotel, Fuzhou in Mainland China soft-opened on 25 January 2005 and the extension to the Pudong Shangri-La, Shanghai is expected to open in July 2005.

Development work is on-going for the Group's hotel projects in Chengdu, Futian, Ningbo, Xian, Guangzhou, Wenzhou and an extension to the Shangri-La Hotel, Qingdao (all in Mainland China) and Chiangmai (Thailand). Development work will shortly be initiated in respect of hotel projects in Guilin, Huhhot and Baotou in Mainland China and Ulaanbaatar in the Republic of Mongolia. These new hotels are expected to progressively open for business from mid 2006 through end 2008.



*Traders Hotel, Dubai
– Premier Room*

In February 2005, the Group entered into an agreement to lease premises to fit-out a 195 room deluxe hotel in a prime piece of real estate to be developed in London. This hotel is slated for completion in 2009 and marks the entry of the Group's signature hospitality product in a major European capital.

Management Contracts

In 2004, the Group signed seven new hotel management contracts for hotels owned by third parties. These include a Traders hotel in Media City, Dubai, a Shangri-La hotel on the Palm Island in Dubai, the Shangri-La hotel in Dongguan, a Traders hotel in Urumqi and a Shangri-La hotel in Suzhou (all in Mainland China), a Shangri-La hotel in Vancouver and a Traders hotel in Chennai, India. The Group has also successfully rebranded a hotel in Australia as the Shangri-La Hotel, the Marina, Cairns.

During the year, the Traders Hotel, Dubai commenced operation. The Traders Fudu Hotel, Changzhou (Mainland China) opened for business on 3 January 2005.

In March 2005, the Group signed hotel management contracts for three new hotels in Bangalore, the technology capital of India.

Based on contracts executed to date, the number of operating hotels under management and owned by third parties will increase from 8 as at 31 December 2004 to 27 by 2009.

Corporate Debt & Financial Conditions

Taking advantage of the liquidity in the financial market and the favourable conditions in the stock market, 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) in March 2004 with net proceeds of approximately US\$196.4 million, immediately following the issuance of new shares in February 2004 which generated proceeds of approximately HK\$1,360 million. Unless previously redeemed, converted or purchased and cancelled, these bonds will be redeemed at 114.633 percent of their principal amount on the maturity date. These proceeds provided funding for the acquisition of new land for future development and for financing the development of new hotels for the next 3 years.

The Group has also successfully negotiated for the reduction of the interest margin for some of its unsecured bilateral Hong Kong dollars loan agreements with individual banks.

Also taking advantage of the current liquidity and strong competitive environment in the banking system and with a view to address its capital commitment requirements for new projects, the Group has executed 5 unsecured bilateral dual-currency loan agreements with individual banks in March 2005 in a total amount equivalent to US\$524.1 million. These loans have a maturity of 5 years and their all-inclusive cost is 37 basis points over LIBOR or HIBOR at the option of the Group. This gives the Group the flexibility for shifting the denominated currency from time to time in view of the financial

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market condition. These new loans have also served to push out loan maturities and reduced the loan interest margin.

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

Prospects

With a generally improved business environment both regionally and globally, the Group's hotels have experienced an impressive turnaround in revenues and profits. Barring unforeseen circumstances, the momentum is expected to continue through 2005 and in the medium term. On the supply side, the Group's hotels do not envisage significant additions to rooms supply in their competitive set which could destabilise their business.

Given the economic fundamentals of Mainland China, it remains the primary focus of the Group's investment activities in the hotel sector. The growing brand awareness of the Group's hotels both regionally and globally is facilitating entry by way of management contracts in strategic markets such as Europe, North America, India and the Middle East. Apart from underpinning brand strength, these contracts also serve to improve return on equity to shareholders which remains the Group's primary objective.

Directors

Mr Timothy David Dattels was appointed as an Independent Non-Executive Director of the Company on 1 February 2004. Mr Dattels is currently a Managing Director for Newbridge Capital, LLC, the Asian investment vehicle for Texas Pacific Group.

Mr Ho Kian Cheong resigned as Alternate Director to Mr Ho Kian Guan on 29 October 2004 and Mr Ho Kian Hock was appointed in his stead with effect from 4 November 2004.

On behalf of the Board, I would like to thank Mr Ho Kian Cheong for his past services to the Company and to welcome Messrs Timothy David Dattels and Ho Kian Hock to the Board.

Acknowledgement

The Group has had its best ever financial results this year. For this, on behalf of the Board, I would like to thank the management team and all our staff members for a job well done.



KUOK Khoon Loong, Edward

Chairman

Hong Kong, 31 March 2005



Shangri-La's Rasa Sentosa Resort, Singapore – Swimming Pool