



# CHAIRMAN'S STATEMENT



FACADE  
PUTRAJAYA SHANGRI-LA, MALAYSIA

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

### GENERAL

The Group's hotels in the region continued to build on the growth momentum they experienced in 2004. Despite the devastating effects of the tsunami that hit the South East Asian region in December 2004, the hotel industry has shown remarkable resilience.

Commercial travel remained buoyant given the overall robustness of both the regional as well as the global economies. Yields of the Group's hotels registered a 16% year-on-year increase. The Group's profits for the year are the highest achieved in its history.

The Group's investment properties have also generally performed well in terms of yield improvement and profitability.

### RESULTS

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2005 was US\$151.0 million (earnings per share US\$6.14 cents) compared to US\$113.5 million (earnings per share US\$4.85 cents) for the year 2004, based on restated results.

The Hong Kong Institute of Certified Public Accountants has issued new/revised Hong Kong Financial Reporting Standards (the "new HKFRS") to converge with the International Financial Reporting Standards. The financial statements have been drawn up in conformity with the applicable new HKFRS and the results for 2004 have been restated as prescribed by these new standards.

As detailed in the Management Discussion and Analysis Section, net operating profit before non-operating items increased from US\$79.0 million in 2004 to US\$108.4 million in 2005 supported by strong operating performance by the Group's hotels and investment properties. In addition, there was a net credit from non-operating items in 2005 of US\$42.6 million compared to US\$34.5 million in 2004.

### DIVIDENDS

The Directors recommend a final dividend of HK10 cents per share. With the interim dividend of HK10 cents per share paid in October 2005, the total dividend for 2005 is HK20 cents per share.

### DEVELOPMENT PROGRAMMES

Development work on the Group's hotel projects both within and outside Mainland China is progressing satisfactorily. There are 10 hotel projects currently underway in Mainland China (including a 190 rooms extension to the Shangri-La Hotel, Qingdao). These are expected to open for business progressively between late 2006 through mid 2008. In addition, the Group has commenced development work at its resorts in Chiangmai (Thailand), Boracay (Philippines) and the Maldives. These will open for business between mid 2007 through early 2008.

In July 2005, the Group successfully commissioned the 375 rooms extension to the Pudong Shangri-La, Shanghai.

The Group has made its foray into Europe by entering into an operating lease agreement in February 2005 for a 195 deluxe rooms Shangri-La hotel at the London Bridge Tower, an iconic 310 metre tall tower. The hotel is scheduled to open in 2010.

More recently, in January 2006, the Group acquired the entire interest in the historic palace of Prince Roland Bonaparte which it plans to convert into a 140 deluxe rooms Shangri-La Hotel, Paris by late 2008.

### MANAGEMENT CONTRACTS

The Group has embarked on a rapid pace of expansion by also entering into management contracts for third-party-owned hotels that do not require capital commitment. Four new hotels opened for business in 2005 and the total number of operating hotels under management contracts increased to 11 with 3,614 rooms, after excluding the Shangri-La Dingshan, Nanjing the management contract in respect of which was terminated in January 2006.

In addition, the Group has contracts on hand for development of 15 new hotels as at the date of the report. These represent an inventory of 6,009 rooms. The development projects are located in Macau (2 hotels), Doha (Qatar), Kuala Lumpur, Vancouver, Chicago, Las Vegas, Seychelles, Bangalore (India) (3 hotels), Suzhou, Dongguan, Sunny Bay – Sanya, and Urumqi (all in Mainland China).

The Group continues to review proposals it receives for management opportunities and intends to secure contracts in locations/cities which it considers to be of long-term strategic interest.

### CORPORATE DEBT & FINANCIAL CONDITIONS

Taking advantage of the liquidity in the banking system and with a view to address its capital commitment requirements, the Group executed 8 unsecured bilateral Hong Kong dollars/US dollars dual currency corporate loan agreements with individual banks in 2005 in a total amount of equivalent US\$744.5 million. These loans have a maturity of 5 years with an all-inclusive cost of 37 basis points over HIBOR/LIBOR. These loans give the Group the flexibility for shifting the currency of its borrowings from time to time considering financial market conditions. These new loans have also served to push out loan maturities and reduced the loan interest margin. With these facilities in place, the Group prepaid HK\$2,080 million borrowings under loan agreements which carried a higher interest rate. Following the exercise of the conversion right by some of the convertible bonds holders, the outstanding aggregate principal amount of the zero coupon guaranteed convertible bonds due March 2009 with an initial conversion price of HK\$9.25 per share of the Company (subject to adjustment) reduced to US\$61 million as at 31 December 2005.

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

## PROSPECTS

The operating performance of the Group's hotels and investment properties during the year has been encouraging. The weighted average RevPAR of the Group's hotels increased by 16% year on year on the back of improving average room rates. The pricing momentum witnessed in 2005 has been maintained in the first quarter of 2006. This expected to favourably impact operating profit margins.

Mainland China's economic fundamentals continue to be sound and the progressive relaxation of travel restrictions, coupled with rising urban incomes, is helping to create a boom in domestic and outbound travel. The Group's plans for expansion are therefore timed to capitalise fully on Mainland China's economic advancement. With a view to further diversifying its portfolio, improving the global awareness of the Group's brand name and improving returns to shareholders, the Group is also expanding into new markets in South Asia, the Middle East and more recently into gateway cities of Europe and North America. Barring any major adverse developments in the global or regional economic situation, the Group remain optimistic about its financial performance in 2006.

## ACKNOWLEDGEMENT

On behalf of the Board, I would like to thank the management team and all our staff members for their commitment and effort which has helped the Group achieve commendable financial results for the year.



**KUOK Khoon Loong, Edward**

*Chairman*

Hong Kong, 4 April 2006



CHINA SUITE BEDROOM  
CHINA WORLD HOTEL, BEIJING