Management Discussion & Analysis

1. CORPORATE REORGANISATION – AN UPDATE

After the corporate reorganisation in late 1999, the Company submitted a delisting proposal to Shangri-La Hotel Limited, Singapore ("SHL"), pursuant to which the Company made a conditional voluntary delisting exit offer to the remaining shareholders of SHL on 2 February 2001 to acquire their shares in exchange for shares in the Company. As at the close of the offer period on 22 February 2001, the Company received valid acceptances in respect of 15,967,492 SHL shares and thus increased its interest in SHL by 9.61% to 99.11%. SHL was delisted from the Singapore Exchange Securities Trading Limited on 23 February 2001.

2. OPERATIONS REVIEW

(a) Revenue

For the year ended 31 December

Combined Revenue by Trade

	2000 *US$ million*	%	1999 *US$ million*	%	% *Change*
Hotels*	**875.8**	79%	638.7	83%	37%
Properties	**235.3**	21%	133.8	17%	76%
Total	**1,111.1**	100%	772.5	100%	44%

*	*includes revenues of the hotel management company.*

Combined Revenue by Geographical Area

	2000 *US$ million*	%	1999 *US$ million*	%	% *Change*
The People's Republic of China					
*Hong Kong**	**171.4**	15%	153.1	20%	12%
Mainland China	**541.7**	49%	397.9	52%	36%
The Philippines	**102.0**	9%	106.8	14%	(4%)
Singapore@	**132.5**	12%	41.6	5%	219%
Malaysia@	**82.6**	7%	14.6	2%	466%
Thailand@	**38.8**	4%	11.0	1%	253%
Fiji	**11.2**	1%	22.8	3%	(51%)
Indonesia	**25.9**	2%	23.2	3%	12%
Myanmar@	**5.0**	1%	1.5	0%	233%
Total	**1,111.1**	100%	772.5	100%	44%

*	*includes revenues of the hotel management company.*

@	*In respect of hotels and properties acquired by the Company in late 1999, revenues for 1999 only consider post acquisition revenues. The % change is to be read in this context.*

Management Discussion & Analysis

Breakdown of Turnover
For the year ended 31 December

	SUBSIDIARIES			ASSOCIATED COMPANIES		
	2000	1999	%	**2000**	1999	%
	US$ Million	*US$ Million*	*Change*	***US$ Million***	*US$ Million*	*Change*
Hotels						
The People's Republic of China						
Hong Kong	**161.5**	140.4	15%	**–**	–	N/A
Mainland China	**171.0**	143.9	19%	**159.5**	128.0	25%
The Philippines	**102.0**	106.8	(4%)	**–**	–	N/A
Indonesia	**–**	–	N/A	**25.9**	23.2	12%
Fiji	**11.2**	22.8	(51%)	**–**	–	N/A
Hotel Management[1]	**9.9**	12.7	(22%)	**–**	–	N/A
Sub-total:	**455.6**	426.6	7%	**185.4**	151.2	23%
Singapore[2]	**91.8**	27.7	231%	**24.5**	7.8	214%
Malaysia[2]	**75.4**	11.7	544%	**–**	1.3	NM
Thailand[2]	**38.1**	10.9	250%	**–**	–	N/A
Myanmar[2]	**5.0**	0.9	456%	**–**	0.6	NM
Sub-total:	**210.3**	51.2	311%	**24.5**	9.7	153%
Hotels Sub-total:	**665.9**	477.8	39%	**209.9**	160.9	30%
Properties						
The People's Republic of China						
Mainland China	**4.0**	3.4	18%	**207.2**	122.6	69%
Singapore[2]	**8.6**	3.6	139%	**7.6**	2.5	204%
Malaysia[2]	**4.5**	0.9	400%	**2.7**	0.7	286%
Thailand[2]	**0.7**	0.1	600%	**–**	–	N/A
Properties Sub-total:	**17.8**	8.0	123%	**217.5**	125.8	73%
Total:	**683.7**	485.8	41%	**427.4**	286.7	49%

Notes: 1. Revenue of the hotel management group is stated after elimination of revenue earned from fellow subsidiaries.
2. Acquisition made only in second half of 1999.

NM: Not Meaningful
N/A: Not Applicable

Management Discussion & Analysis

Combined Revenue

Hotels

The People's Republic of China

Hong Kong

The two hotels in Hong Kong experienced a good rebound in business with combined revenues increasing by 15% in 2000 to US$161.5 million. Overall, Revenue per Available Room ("RevPAR") for the two hotels increased by 22%, of which occupancy growth contributed 13.9%. The hotels are expected to post a healthy increase in RevPAR for 2001.

Mainland China

Combined revenues of the hotels increased by 22% over 2000, largely due to a full year's revenues from the newly opened hotels in 1999 viz. The Kerry Centre Hotel, Beijing, and Shangri-La hotels in Wuhan and Harbin. The Pudong Shangri-La, Shanghai, in its second full year of operation recorded a revenue increase of 31.9%. With the exception of the Traders Hotel, Shenyang which faced new competition, all hotels increased their RevPAR. Even the older hotels in Beijing which have been experiencing declining yields recently, were also able to register RevPAR increases ranging between 3.8% to 6.8%. Most hotels recorded increases in both occupancies and average rates.

Island Shangri-La, Hong Kong – Lobby

The Group's three sales offices in Beijing, Shanghai and Guangzhou have established themselves and are augmenting the marketing efforts of the hotels on the mainland.

The PRC nationals' increasing patronage of the Group's hotels augurs well for the Company as does the expected favourable impact of the PRC's admission into the World Trade Organization, which is generally expected to take place in 2001.

Management Discussion & Analysis

The Kerry Centre Hotel, Beijing – Exterior

Singapore

Combined revenues of the three hotels in Singapore recorded an increase of 28.4% over the corresponding numbers for 1999, with the availability of the renovated rooms at the Shangri-La Hotel, Singapore in 2000. Weighted average occupancies increased by 16% over 1999 and average transient rates were up by 10%. During the year, renovations were completed at the Garden Wing (160 rooms) of the Shangri-La Hotel, Singapore and 144 guestrooms at the Shangri-La's Rasa Sentosa Resort.

The Philippines

Combined revenues of the three hotels in the Philippines declined marginally by 4.5%, largely on account of depreciation in the value of the Peso. Weighted average occupancies remained virtually unchanged at 70.3% in 2000, while the weighted Average Transient Rates declined by 5%. While the two hotels in Manila operated in a market that was progressively weakening in the context of the local political situation, the resort in Mactan, Cebu recorded a RevPAR growth of 17%.

Malaysia

Combined revenues of the five hotels increased by 32.9% over the corresponding numbers for 1999, largely influenced by a RevPAR growth of 21%. Weighted average occupancies were 75.2%, representing a 9.5% increase over 1999. Even the hotel in Kuala Lumpur – a market characterized by excessive supply of hotel rooms – witnessed a RevPAR increase of 28%. The resorts enjoyed an average annual occupancy of 80%. Overall, Malaysia is still regarded as a good value for money destination.

Management Discussion & Analysis

Thailand

Revenues of the Shangri-La Hotel, Bangkok increased by 2.8%, over the corresponding numbers for 1999, despite a marginal decline in RevPAR by 3.7%. The hotel, which faced new competition in its market set from 1999, has been able to regain its hold and has been gaining market share. Its strategy of pursuing higher yielding business has led to a 7.4% increase in its Average Transient Rate for 2000.

Indonesia

The Shangri-La Hotel, Jakarta increased its RevPAR by 14%, mainly due to an 18% increase in its Average Transient Rate. Occupancy declined by 6.2% in a weak market resulting from the political and economic problems confronting Indonesia. On 22 December 2000, some members of the employees' union illegally occupied the hotel premises, forcing the hotel to be closed down. The hotel has since re-opened on 17 March 2001. A claim for loss under the business interruption policy has been filed with the insurers.

Shangri-La Hotel, Bangkok – Salathip, Thai restaurant

Fiji

The political turmoil experienced by Fiji since the overthrow of its government in April 2000 has severely affected the tourism industry across the country. The two Fiji hotels experienced a slump in their weighted average RevPAR by 51% with weighted average occupancies dropping by 44.7%. Once the political uncertainties are resolved, demand for the destination and for the two hotels is expected to pick-up.

Myanmar

The hotel in Yangon increased its RevPAR by 23%, entirely due to a 24.6% increase in occupancy. Demand continues to remain weak, given the poor investment and tourism inflows into Myanmar.

Investment Properties

The Group's principal investment properties are located in the PRC and these investments are held through associated companies. A substantial part of this investment portfolio is located in Beijing and Shanghai. While yields continue to decline in both these cities, the rate of decline has slowed. The declines ranged from 4% for serviced apartments in Beijing to 22% for office space in Shanghai. It is encouraging to note that lease renewals are taking place at improved rates each month. The location, quality, mix of facilities and the management enable realization of premium rentals compared to market averages. Occupancies at these facilities – especially offices and serviced apartments are consistently high, ranging from 76.4% for serviced apartments to 97.8% for office space. The entry of the PRC into the World Trade Organization, widely expected for later this year, will help improve occupancies and rates further.

The serviced apartments and long stay residences in Singapore continue to experience very high occupancies and yields. The Tanglin Mall continues to enjoy near full occupancies and the office tower increased its overall occupancy to 71% from 39%, with a resultant yield growth of 64%.

The commercial and office space in the Chao Phya Tower in Bangkok experienced a 14% decline in yields in a relatively soft market.

The investment properties in Kuala Lumpur showed a mixed performance, with yields of the serviced apartments portfolio increasing by 8% while yield of the office portfolio declined by 18%.

Hotel Management

Revenues of SLIM International Limited, the hotel management arm of the Group, before consolidation adjustments, registered a 12% increase. However, operating profits improved by 22% due to the operating leverage in the business.

(b) Operating Results

Operating profits before finance costs increased by US$65.5 million or 58.7%. Of this, US$45.1 million were contributed by the three newly acquired subsidiaries in Singapore, Malaysia and Thailand.

Share of results of associated companies declined by US$22.3 million due mainly to the fact that the results for 1999 included a net credit of US$29.4 million arising from the dilution of the Group's interest in China World Trade Center Company Limited and corresponding release of investment properties reserves.

Management Discussion & Analysis

Analysis of Profits
For the year ended 31 December

	OPERATING PROFIT BEFORE FINANCE COSTS			SHARE OF RESULTS OF ASSOCIATED COMPANIES		
		(Restated)				
	2000 US$ Million	1999 US$ Million	% Change	**2000 US$ Million**	1999 US$ Million	% Change
Hotels						
The People's Republic of China						
Hong Kong	**51.7**	31.6	64%	**–**	–	N/A
Mainland China	**33.1**	16.4	102%	**13.5**	12.3	10%
The Philippines	**33.6**	31.7	6%	**–**	–	N/A
Indonesia	**–**	–	N/A	**0.6**	(0.2)	NM
Fiji	**0.9**	7.6	(88%)	**–**	–	N/A
Hotel Management[1]	**13.8**	11.3	22%	**–**	–	N/A
Sub-total:	**133.1**	98.6	35%	**14.1**	12.1	17%
Singapore[2]	**26.9**	8.1	232%	**1.3**	1.2	8%
Malaysia[2]	**14.3**	1.6	794%	**–**	–	N/A
Thailand[2]	**16.7**	4.6	263%	**–**	–	N/A
Myanmar[2]	**(1.2)**	(0.4)	(200%)	**–**	(0.4)	NM
Sub-total:	**56.7**	13.9	308%	**1.3**	0.8	63%
Hotels Sub-total:	**189.8**	112.5	69%	**15.4**	12.9	19%
Properties						
The People's Republic of China						
Mainland China	**1.1**	0.2	450%	**22.5**	25.5	(12%)
Singapore[2]	**3.3**	3.4	(3%)	**0.4**	0.4	–
Malaysia[2]	**3.4**	1.0	240%	**0.3**	0.1	200%
Thailand[2]	**0.3**	0.1	200%	**–**	–	N/A
Properties Sub-total:	**8.1**	4.7	72%	**23.2**	26.0	(11%)
Total:	**197.9**	117.2	69%	**38.6**	38.9	(1%)
Less:						
– Corporate expenses net	**(1.6)**	(9.2)	83%	**–**	–	N/A
– (Deficit)/Surplus on valuation of hotel and investment properties	**(1.2)**	(0.7)	(71%)	**2.0**	(5.4)	NM
– Realized and unrealized (loss)/gain on other investments and provision for long term investments	**(17.9)**	4.4	NM	**–**	–	N/A
– Profit arising from dilution of interests in China World Trade Center Company Limited, including transfer from investment properties revaluation reserve	**–**	–	N/A	**–**	29.4	NM
	177.2	111.7	59%	**40.6**	62.9	(35%)

Notes:

1. *Operating profit of the hotel management group is stated before elimination of revenue earned from fellow subsidiaries, and operating results of the subsidiaries are stated before elimination of management fees charged by the hotel management group.*
2. *Acquisition made only in second half of 1999.*
3. *The Group changed its accounting policy for pre-operating expenses with effect from 1 January 2000 to charge all the pre-operating expenses to the profit and loss account in the year in which the expenditure is incurred instead of amortizing the expenses over a period of 5 years. This change in accounting policy was applied retrospectively. As a result, the Group only charged (before share of minority interests) US$1,392,000 pre-operating expenses during the year 2000 instead of US$5,770,000 which would have been charged under the old policy. This change also resulted in a reduction in the operating profit and the profit attributable to shareholders for the year ended 31 December 1999 by US$666,000 and US$417,000, respectively; and the opening balance of retained profits for 1999 by US$16,184,000.*

NM: Not Meaningful
N/A: Not Applicable

(c) Consolidated Profit Attributable to Shareholders

Profits attributable to shareholders increased by US$10.2 million or 15.2% after the net exceptional charge (net of minority interests) of US$15.0 million relating in large part to a provision for unrealized loss on other investments and long term investments and after an increase in interest and finance charges (net of minority interests) of US$19.5 million. Of this increase, US$14.0 million was attributable to the loan portfolio at the corporate level while the rest was attributable to subsidiaries (including the newly acquired subsidiaries whose full year results were not reflected in the accounts for 1999). Management is mindful of the increasing burden of finance charges and is actively seeking ways to reduce this element of cost.

Consolidated Profit Attributable to Shareholders

For the year ended 31 December

	2000 **US$ million**	(Restated) 1999 *US$ million*	% *Change*
Company & Subsidiaries			
Hotels			
The People's Republic of China			
Hong Kong	**39.1**	25.1	55%
Mainland China	**25.2**	10.6	139%
The Philippines	**22.7**	21.9	4%
Singapore	**18.3**	3.6	404%
Malaysia	**5.0**	0.9	474%
Thailand	**8.9**	3.1	187%
Fiji	**0.4**	3.4	(88%)
Myanmar	**(1.8)**	(1.0)	(84%)
	117.8	67.6	74%
Properties			
The People's Republic of China			
Mainland China	**1.2**	0.4	191%
Singapore	**2.3**	1.6	46%
Malaysia	**1.2**	0.6	107%
Thailand	**0.2**	–	484%
	4.9	2.6	88%
Hotel Management	**11.0**	8.9	25%
Associated Companies			
Hotels			
Mainland China	**9.8**	7.2	36%
Singapore	**0.4**	1.2	(65%)
Indonesia	**0.3**	(0.4)	NM
	10.5	8.0	31%
Properties			
Mainland China	**19.0**	19.8	(4%)
Singapore	**0.1**	0.4	(65%)
Malaysia	**0.2**	0.1	22%
	19.3	20.3	(5%)
Operating Profit After Tax	**163.5**	107.4	52%
Less:			
– Corporate expenses net	**(71.5)**	(67.6)	(6%)
– Surplus/(Deficit) on valuation of hotel and investment properties	**0.8**	(5.9)	NM
– Realized and unrealized (Loss)/Gain on other investments and provision for long term investments	**(15.8)**	3.6	NM
– Profit arising from dilution of interests in China World Trade Center Company Limited, including transfer from investment properties revaluation reserve	**–**	29.4	NM
Profit attributable to the members of the Group	**77.0**	66.9	15%

Note: Interest expenses on corporate debts are grouped under Corporate Expenses while interest expenses of operating units are included in operating results.

NM: Not Meaningful

Management Discussion & Analysis

(d) Earnings Per Share (EPS)

EPS were US3.48 cents compared to US3.51 cents (as restated) in 1999. However, the earnings for the year included net exceptional charges of US$15 million after adjustment for minority interests while the profits for 1999, included net exceptional credits of US$27.1 million after adjusting for minority interests. On this basis, EPS before exceptional items would be restated at US4.15 cents per share for 2000 and US2.09 cents per share for 1999, indicating a year on year adjusted EPS growth of 99%.

3. LIQUIDITY AND FINANCIAL CONDITIONS

In June 2000, the subsidiaries that the Group acquired in late 1999 disposed of 25,000,000 equity shares in the Company listed on The Stock Exchange of Hong Kong Limited for a cash consideration of US$28.7 million and in July 2000 they disposed of 37,728,000 additional equity shares for a cash consideration of US$43.6 million. These shares were held by the respective subsidiaries before the Company acquired its controlling interest in them in 1999, and were classified as Other Investments in the 1999 annual report. As at 31 December 2000, these subsidiaries held shares in the Company with an aggregate value of US$86.8 million which form part of their portfolio of marketable securities. The total market value of the marketable securities as at 31 December 2000 was US$149.3 million. The Group intends to sell these investments in an orderly manner, subject to satisfactory market conditions.

In addition, the Company repurchased a total of 2,724,000 fully paid equity shares, all of which have been duly cancelled. It also repurchased and cancelled Convertible Bonds with a face value of US$14.1 million thereby realizing a profit of approximately US$0.2 million.

Shangri-La Hotel, Hangzhou – Exterior

Management Discussion & Analysis

Shangri-La's Tanjung Aru Resort, Kota Kinabalu – Swimming Pool

On 4 July 2000, the Group executed a loan agreement with a consortium of banks to refinance its maturing debt. This US$600 million unsecured loan facility carries an interest spread of 68 basis points over LIBOR or HIBOR at the option of the borrower, provided that the maximum amount that can be drawn in Hong Kong dollars will be limited to 50% of the total facility. The loan has a final maturity on 4 July 2005. Thereafter, the Group prepaid US$237 million of its outstanding debt on 17 August 2000 which was scheduled for repayment in March 2001. This debt carried a higher interest spread ranging between 175 and 200 basis points over LIBOR and HIBOR, respectively. The prepayment will therefore have a favourable impact on the Group's interest costs going forward. The Convertible Bonds (face value outstanding US$221.3 million) were redeemed as scheduled on 16 December 2000.

As at 31 December 2000, two subsidiaries entered into a loan agreement which requires the Kuok Group, the controlling shareholder of the Company, to own at least 51 per cent interest in the issued share capital of the Company during the tenure of the loans and breach of such condition would be considered as an event of default under this loan agreement. The total amount of these loans outstanding is US$14 million as at that date and the final repayment of the loans is to be made on 9 February 2002. Subsequent to the year end, by virtue of a supplemental loan agreement entered into with the lenders, this shareholding requirement has been deleted.

Save as mentioned above, there is no other disclosure required to be made by the Company pursuant to Practice Note 19 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

Management Discussion & Analysis

As at 31 December 2000 the Group's net debt (net of cash and bank balances US$179.8 million) stood at US$1,010.3 million (as against US$1,150.2 million as at 31 December 1999), and the overall gearing ratio was 30.5% (37.2% as at 31 December 1999). Bank loans and banking facilities of two subsidiaries amounting to US$44,909,000 were secured by charges over the hotel properties and other assets of these two subsidiaries with net book values of US$100,884,000.

The analysis of loans outstanding as at 31 December 2000 is as follows:

	Maturities of Bank Loans and Overdrafts Contracted as at 31 December 2000				
			Repayment		
(US$'000)	**Within 1 year**	**In the 2nd year**	**In the 3rd to 5th year**	**After 5 years**	**Total**
Unsecured					
Corporate bank loans	–	500,000	470,000	–	970,000
Project bank loans and overdrafts	101,954	62,865	7,338	3,040	175,197
	101,954	562,865	477,338	3,040	1,145,197
Secured					
Project bank loans and overdrafts	26,109	18,800	–	–	44,909
	128,063	581,665	477,338	3,040	1,190,106
Cash and bank balances					(179,809)
Marketable securities					(149,342)
Net Debt					860,955
Undrawn but Committed facilities (bank loans and overdrafts)	2,947	–	130,000	–	132,947

The currency-mix of the bank loans and cash and bank balances as at 31 December 2000 is as follows:

	Loans and Overdrafts *US$ Million*	**Cash and Bank Balances** *US$ Million*
In US dollars	712.4	106.4
In Singapore dollars	148.3	2.9
In Hong Kong dollars	300.0	22.3
In Malaysian Ringgit	16.1	4.7
In Renminbi	13.3	17.9
In Thai Baht	–	19.5
In Philippine Pesos	–	2.6
In Fiji dollars	–	2.4
In other currencies	–	1.1
	1,190.1	179.8

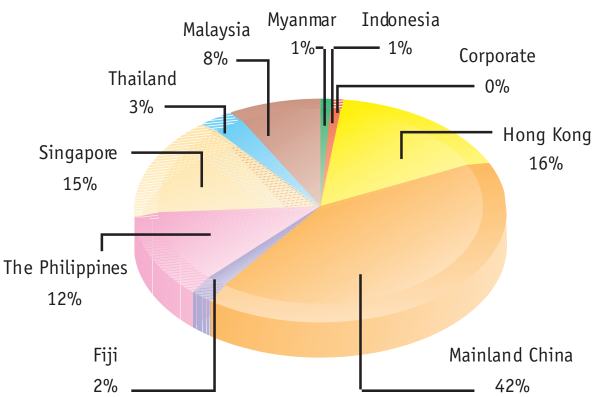
The loans in US, Hong Kong dollars and Malaysian Ringgit are at variable rates of interest at spreads over LIBOR, HIBOR and Cost of Funds (for Malaysia), respectively. The majority of the loans in Singapore dollars are at fixed interest rates. The loans in Renminbi are at rates specified by The People's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

The Group executed guarantees in favour of banks for securing banking facilities granted to certain associated companies. The utilised amount of such facilities covered by the Group's guarantees for these associated companies as at 31 December 2000 amounted to US$57,680,000.

4. FIXED ASSET VALUATIONS

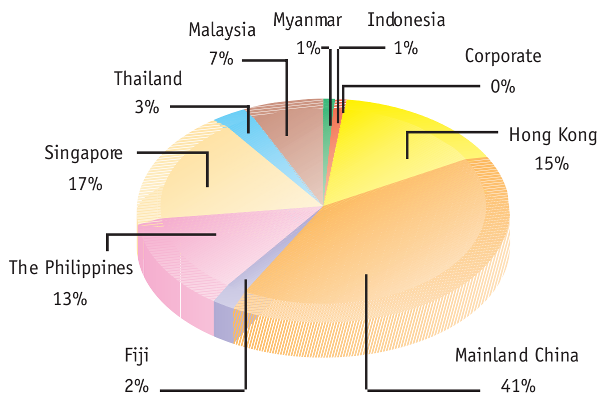
(a) Fixed Assets values – by Geographical Area

31 December 2000



US$4,580 million

31 December 1999



US$4,383 million

	2000		1999	
	US$ million	%	*US$ million*	%
The People's Republic of China				
– *Hong Kong*	**745**	16%	666	15%
– *Mainland China*	**1,947**	42%	1,802	41%
Fiji	**71**	2%	72	2%
The Philippines	**562**	12%	565	13%
Singapore	**700**	15%	765	17%
Thailand	**121**	3%	141	3%
Malaysia	**358**	8%	300	7%
Myanmar	**38**	1%	38	1%
Indonesia	**37**	1%	33	1%
Corporate	**1**	0%	1	0%
Total	**4,580**	100%	4,383	100%

* *Fixed assets owned by associated companies are included above and stated at effective interest basis.*

Management Discussion & Analysis

(b) Valuation

Hotel and Investment Properties

These are stated at professional valuations carried out by the following independent firms of professional valuers:

CB Richard Ellis Limited, DTZ Debenham Tie Leung Limited and Chesterton Petty Limited	:	For properties in the PRC
CB Richard Ellis Limited	:	For properties in the Philippines, Indonesia, Myanmar and Fiji
CB Richard Ellis (Pte) Limited, Colliers Jardine Consultancy & Valuation (Singapore) Pte Ltd and DTZ Debenham Tie Leung (SEA) Pte Limited	:	For properties in Singapore
CB Richard Ellis (Thailand) Co., Ltd.	:	For property in Thailand
W.M. Malik & Kamaruzaman and CH Williams Talhar & Wong Sdn Bhd	:	For properties in Malaysia

Shangri-La's Rasa Sentosa Resort, Singapore – Garden

According to Group practice, independent valuations are obtained on a rotation basis for some of the hotels in its hotel property portfolio each year with the intention that all hotels in its portfolio are independently valued once every three years, while all the investment properties in its portfolio are independently revalued at every year-end. The valuations made in the current year resulted in the reserves increasing by US$257 million as at 31 December 2000.

Valuation of Intellectual Property Rights

Intellectual property rights in the "Shangri-La", "Traders" and associated trademarks/ service marks were independently valued at US$161.6 million as at 31 December 1997 by Ernst & Young Corporate Finance Pty Ltd. No revaluation of this investment as at 31 December 2000 was considered necessary.

In accordance with the requirements of the Hong Kong Statement of Standard Accounting Practice No. 29 "Intangible Assets" issued by the Hong Kong Society of Accountants which will become effective in 2001, these intellectual property rights will be amortized equally over a period of 20 years. This will represent an incremental annual charge of approximately US$8 million against future profits of the Group.

5. MANAGEMENT STRATEGIES

General

Economic recovery in the region gathered some momentum in 2000, although political uncertainties overshadowed economic recovery in Indonesia, the Philippines and Fiji. However, economic growth in the PRC has been a cause for comfort and continuing stability in the region. With the country's admission to the World Trade Organisation likely to occur in 2001, there is general optimism about a more favourable economic environment in the country going forward. Hotels in most countries in the region, other than the three countries referred to earlier, have experienced a good rebound in occupancies and return of some pricing power. This, coupled with the fact that there is little, if any, new supply in the Group's hotels' competitive set in most markets for the next two or three years, should augur well for the Group.

Although there is some concern about the fall-out of an economic slow-down in the United States of America, it is generally believed that both intra-regional and local spending in 2001 will help the hotel industry sustain a reasonable growth rate.

Over time, domestic travel in the PRC is expected to offer attractive opportunities for this industry and provide a stable demand base for hotels to improve their yields progressively.

Foreign Exchange Fluctuations

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 where exchange controls apply) are also immediately converted into United States dollars upon realization, to the maximum extent possible. The hotels and properties in Hong Kong, Singapore and Malaysia derive their revenues in local currencies.

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.

Management Discussion & Analysis

Shangri-La Hotel, Wuhan – Lobby Lounge

Renovation Programmes

The Group is committed to maintaining its hotels in excellent condition to retain their competitive advantage. Given the high rates of occupancies and guest patronage of the hotels' facilities, the Group is constantly assessing the need to renovate or upgrade these facilities and introduce new and exciting dining concepts.

During the year, the Shangri-La Hotel, Singapore completed the renovation of its Garden Wing comprising 160 rooms and suites. The Shangri-La's Rasa Sentosa Resort, Singapore completed renovations on 144 rooms. The renovation of the remaining guestrooms and other facilities will be completed in late 2001. The Shangri-La Hotel, Hangzhou completed renovations on the remaining rooms, public areas and food & beverage outlets by mid 2000.

By the end of the year, room renovations were underway in Makati Shangri-La, Manila and the Shangri-La's Golden Sands Resort, Penang. All renovations are being scheduled to minimize inconvenience to hotel guests and minimize loss of revenue.

Major renovations planned for 2001 include the Shangri-La Hotel, Kuala Lumpur, Shangri-La Hotel, Bangkok, Kowloon Shangri-La, Hong Kong and China World Hotel, Beijing. The renovations will commence in the second half of 2001 and will be spread over a period of 18 to 24 months. Estimated expenditure on renovations of US$130 million will be largely funded from operating cash flows of the business units, supplemented by locally contracted short term debt, where appropriate. The Group believes these renovations are essential to preserve the competitive advantage of these hotels.

Renovation of the 214 room Lagoon Wing at the Shangri-La's Fijian Resort scheduled for 2000 was postponed in view of the political developments in Fiji. This will be reviewed in 2001.

Technology

The Group launched its new interactive website in July 2000 which includes Chinese and Japanese versions. Hotel guests in the Group's key city hotels have access to broad band high speed internet access in the comfort of their rooms or at business centres. The Group has also embarked on a major intra-net project to improve accessibility to important information to its business managers for their day-to-day decision making.

Personnel

As at 31 December 2000, the Company and its subsidiaries had approximately 17,100 employees. Salaries of employees are maintained at competitive levels while 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 emphasize service attitudes, organizational values and job enrichment. Internal training is supplemented by retaining outside professional training agencies.

In terms of the Option Scheme, subsequent to the year end, 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 4,500,000 shares have so far lapsed. As of this date, the options outstanding aggregate to 28,060,000 shares.

New Projects

With general expectations of the favourable impact of China's admission to the World Trade Organisation, the Group is reconsidering its earlier decision to defer the development of hotel projects in Shanghai and Fuzhou. With a normal implementation period of around 3 years, the Group believes their opening will be well timed to benefit from the favourable market conditions expected. The Group has also secured additional land adjacent to the Pudong Shangri-La in Shanghai and intends to build additional guest rooms and other facilities in view of the strong demand expected. Incremental investment costs on these projects are projected at US$400 million. These investments will be spread over a 42 month period and will be financed partly by locally contracted project loans and partly from corporate funding sources.

Asia continues to remain the main focus of the Group's development efforts.

Profit Optimization

The emphasis on cost reductions continues relentlessly. Opportunities for cost savings exist in the area of group and regional purchasing of the hotels' requirements, delayering of the organization and process efficiencies, all of which are receiving serious management attention. On the revenue front, the Group is rolling out a computerized yield management software at key hotels and is critically reviewing both its room pricing structure and the distribution channels to optimize revenues.

Apart from the focus on operating profits, the Group is reviewing its asset portfolio to sell assets that are considered non-core, once property values rebound. Funds released will be used to pay down debt and reduce interest expenses.

Management Discussion & Analysis

Management Contracts

In the last quarter of the year, the hotel management arm of the Group signed the following management contracts for hotels in:

• Zhongshan, Guangdong Province, PRC	260 rooms
• Nanjing, Jiangsu Province, PRC	460 rooms
• Zhengzhou, Henan Province, PRC	280 rooms
• Muscat, Sultanate of Oman	700 rooms
• Dubai, United Arab Emirates	210 rooms

All these hotels are in the development stage and should become operational progressively from mid 2001 through early 2005. The Group has no equity investment in any of these new projects.

The Group continues to receive several proposals for management of hotels in the Asia-Pacific Region and the Middle East. The Group believes that these contracts will significantly underpin the brand strength and deliver incremental profits to shareholders.