Chairman's Statement

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

GENERAL

After the acquisition of an additional 9.61% of the paid-up ordinary share capital of Shangri-La Hotel Limited, Singapore ("SHL") and the subsequent delisting of SHL from the Singapore Exchange Securities Trading Limited on 23 February 2001, the independent shareholders of SHL approved a reduction of its fully paid-up ordinary share capital by 1,476,887 shares, being the 0.89% equity interest in the capital of SHL held by all the minority shareholders. This reduction was confirmed by an order of the Singapore High Court and took effect on 5 March 2002. SHL is now a wholly owned subsidiary of the Company.

RESULTS

The consolidated profit attributable to shareholders for the year ended 31 December 2001 was US$58.8 million (earnings per share US2.63 cents) compared to US$91.8 million (earnings per share US4.14 cents) after restatement of profits for the year 2000.

DIVIDENDS

The Directors recommend a final dividend of HK8 cents per share. With the interim dividend of HK7 cents per share paid in September 2001, the total dividend for 2001 is maintained at HK15 cents per share.

CORPORATE DEBTS AND FINANCIAL CONDITIONS

The Group at the corporate level executed unsecured bilateral loan agreements with individual banks for HK$1,580 million in December 2001 and HK$1,100 million in February 2002. All these loans, barring one for HK$300 million which is due in February 2009, have a maturity of 5 years. Funds raised were partly used to prepay US$280 million of the US$500 million maturing debt due in August 2002, subsequent to the year end, to arbitrage interest on other existing bank loans and for working capital. Further, on 15 March 2002, the Group executed a new five-year unsecured loan agreement with a consortium of banks in an amount of HK$3,000 million. The all-inclusive cost of this and the bilateral loans with identical maturities referred to earlier ranges from 53 basis points to 55 basis points over HIBOR. With this, the Group has sufficient funds and credit lines in place to prepay the remaining US$220 million maturing debt due in August 2002. Apart from pushing out loan maturities, the Group has benefited in terms of interest arbitrage and the hedge provided on currency risk with an increased component of Hong Kong dollar denominated loans.

The Group has also sought to hedge its medium term interest rate risk by entering into HIBOR interest rate swap contracts. As at the date of this report, the Group has contracted an aggregate principal amount of HK$2,340 million one-year contracts at fixed interest rates between 2.525% to 2.67% per annum and HK$4,916 million three-year contracts at fixed interest rates between 3.735% to 5.74% per annum, of which three-year contracts for HK$2,216 million were entered into after the year end. The interest cover continues through December 2005.

Other subsidiaries of the Group borrowed aggregate amounts of US$45.2 million equivalent and repaid US$86.8 million equivalent of maturing debts, in their respective local currencies. The Group satisfactorily complied with all covenants under its loan agreements.

Chairman's Statement

The Group has no off-balance sheet funding schemes in place. It has not entered into contracts guaranteeing payments under financial leases nor has it given profit guarantees under its management contracts.

REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

In December 2001, the Company purchased 66,945,522 equity shares in the Company, listed on The Stock Exchange of Hong Kong Limited from a wholly owned subsidiary of SHL. These shares were then cancelled on repurchase. The Company also repurchased a total of 2,758,000 fully paid equity shares during the year, all of which were duly cancelled.

SHARE OPTION SCHEME

In terms of the Executive Share Option Scheme (the "Option Scheme") adopted by the Company on 16 December 1997, during the year, the Directors granted additional options on 5,340,000 shares to eligible executives of the Group at an exercise 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 6,190,000 shares have so far lapsed. As of this date, the options outstanding aggregate 26,370,000 shares.

PROJECTS/RENOVATIONS

Work has recently been initiated on the new hotel projects in Fuzhou and Jingan Nanli in Shanghai. Land has also been acquired to expand the facilities at the Pudong Shangri-La, Shanghai. The Group has also acquired a 51% equity interest in a new hotel project in Zhongshan, Guangdong province, subsequent to the year end. The Group believes that the opening of these projects will be well timed to benefit from the favourable market conditions expected. The People's Republic of China ("PRC") will remain the main focus of the Group's development efforts.

During the year renovations were completed at the coffee shop at the Island Shangri-La Hotel in Hong Kong, guestrooms and other facilities at Shangri-La's Rasa Sentosa Resort in Singapore and Shangri-La's Golden Sands Resort in Penang. Renovations are also on-going at the Makati Shangri-La, Manila and Shangri-La hotels in Bangkok and Kuala Lumpur. Major renovations to be commissioned in 2002 include the Kowloon Shangri-La, Hong Kong, China World Hotel, Beijing, Valley Wing of the Shangri-La Hotel, Singapore, Traders Hotel, Singapore, Shangri-La's Tanjung Aru Resort, Kota Kinabalu, Malaysia and Shangri-La's Mactan Island Resort, Cebu, the Philippines. These renovations are expected to be spread over a period of 15 to 18 months. The Group believes the renovations are essential to preserve the competitive advantage of these hotels.

MANAGEMENT CONTRACTS

On 8 July 2001, the Dingshan Garden Hotel in Nanjing, the PRC was rebranded the Shangri-La Dingshan, Nanjing. Since that date, the hotel is being managed by the Group.

On 8 March 2002, the Group signed a contract to manage a 555-room resort hotel in Sanya, Hainan Island, the PRC. The hotel is expected to open for business in 2005. Work on hotels in the PRC and the Middle East for which the Group has management contracts, is proceeding satisfactorily. These hotels are expected to progressively open for business between 2003 through 2005.

FUTURE PROSPECTS

The positive momentum in economic activity experienced by most economies in the region in the latter half of 2000, continued through the first quarter of 2001. Thereafter, recessionary trends in the United States of America ("USA") and Europe, in particular the 'melt-down' of the technology sector, combined with a spurt in international crude oil prices, triggered a recession in most regional economies. The situation was further exacerbated by the unfortunate and tragic events of 11 September 2001 in the USA which severely curtailed air travel the world over. Security concerns became a major issue influencing travel in general. In particular, arrivals to certain destinations in the region were drastically curtailed after travel advisories were issued by governments discouraging visitations by their citizens to these destinations. This negative sentiment eroded occupancies at the Group's hotels in the region and exerted severe downward pressure on room rates. Consequently, yields at the Group's hotels registered declines in the second half of 2001. In addition, the political situation in Indonesia and the Philippines during the year discouraged new investments in these countries and curtailed business travel sharply.

Amidst all this, the PRC market proved to be relatively stable with the Group's hotels generally suffering only modest decline in yields. The country's admission to the World Trade Organization in late 2001 coupled with the economic growth and political stability the country continues to enjoy, is a cause for optimism. Domestic travel in the PRC is growing at a healthy pace and PRC nationals constitute on average over 45% of the hotel guests at the Group's hotels in Mainland China. Meanwhile, the Group continues to explore and implement profit improvement opportunities and relentlessly pursue cost savings opportunities.

TECHNOLOGY

The Group's interactive web-site (www.shangri-la.com) continues to attract increasing volumes of traffic. Reservations over the web-site, albeit very modest, are showing impressive year-on-year increases. The Company's internal corporate intranet project has made important information such as policies, practices, procedures, minimum quality standards and sharing of ideas, easily accessible to business managers for their day-to-day decision making.

DIRECTORS

Mr Eoghan Murray McMillan, an independent non-executive Director of the Company, passed away suddenly on 2 October 2001. Mr McMillan was the Chairman of the Audit Committee and a member of the Remuneration Committee of the Board of Directors. He made major contributions at deliberations of the Board and these committees. He is sadly missed by all of us on the Board. I would like to take this opportunity to extend our deepest sympathy and condolences to the family of the late Mr McMillan.

On 11 March 2002, Mr Tomas Campos Zita, Jr. and Mr Young Chun Hui both executive Directors, resigned from the Board. On behalf of my colleagues on the Board, I would like to acknowledge their valuable contributions at the deliberations of the Board.

On 22 March 2002, Mr Lui Man Shing was appointed as an executive Director on the Board. Mr Lui is the Vice Chairman of Shangri-La Hotel Public Company Limited, Thailand.

Chairman's Statement

ACKNOWLEDGEMENT

2001 has been a very challenging year by all accounts. Despite this, the Group has successfully managed to contain the adverse effects of the economic and political events which unfolded during the year. This is largely attributable to the hardwork, commitment and professionalism of the management and staff of the Group. On behalf of the Board, I wish to thank them for their conscientious efforts.

YE Longfei
Chairman

Hong Kong, 22 March 2002