



# Chairman's Statement





Shangri-La's Rasa Sayang Resort & Spa, Penang

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

### General

The Group has a dominant presence in the luxury segment of the hotel market in Asia, especially in Mainland China. The buoyant market conditions have helped the Group's hotels to increase achieved average room rates and room yields.

The performance of the Group's investment properties in Mainland China from which the Group derives the majority of its property rentals, continues to improve generally.

### Results

The consolidated profit attributable to equity holders for the year ended 31 December 2006 was US\$202.2 million (earnings per share US7.97 cents) compared to US\$151.0 million (earnings per share US6.14 cents) for the year 2005.

The record profits for the year enjoyed by the Group was the outcome of favourable global and regional economic conditions supplemented by a stable competitive environment.

As detailed in the Management Discussion and Analysis section, net operating profit before non-operating items increased from US\$107.9 million in 2005 to US\$150.0 million in 2006. In addition, there was a net credit from non-operating items in 2006 of US\$52.2 million compared to US\$43.1 million in 2005.

### Dividends

The Board recommends a final dividend of HK10 cents per share. With the interim dividend of HK13 cents per share paid in October 2006, the total dividend for 2006 is HK23 cents per share.

### Development Programmes

Development work on the Group's projects both within and outside Mainland China is progressing satisfactorily.

Shangri-La's Rasa Sayang Resort & Spa, Penang which closed for redevelopment on 1 December 2004 reopened on 28 September 2006 and was repositioned as a high-end resort. On 27 January 2007, the 704-rooms Shangri-La Hotel, Guangzhou soft-opened for business. Phase III of the Shangri-La Hotel, Beijing which consists of 142 guest rooms soft-opened for business on 8 March 2007.

There are 14 hotel development projects and 1 extension project currently underway in Mainland China (including a 219-rooms extension to the Shangri-La Hotel, Qingdao). Five projects will be completed before end of 2007 and the rest are expected to open for business progressively between early 2008 through mid 2011. In addition, the Group has 7 development projects (including Paris and Tokyo) and 1 hotel extension project outside of Mainland China. These will open for business between end 2007 through 2011.

In January 2006, the Group acquired the entire interest in the historic palace of Prince Roland Bonaparte which it plans to convert into a 118-deluxe-guestrooms Shangri-La Hotel, Paris by early 2009.

In August 2006, the Group signed an operating lease agreement for the Shangri-La Hotel, Tokyo, marking the Group's Japanese debut. The deluxe, 204-room Shangri-La will be opened for business in early 2009.

In September 2006, the Group acquired 30% equity interest in the Novotel Century Harbourview, Hong Kong, its first mid priced business hotel in the city to tap the rapidly growing mass travel market.

## Management Contracts

In the last three years, 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. The total number of operating hotels owned by third parties under management contracts increased from 6 with 1,940 rooms as at 31 December 2003 to 13 with 4,651 rooms as at the date of this report.

In addition, the Group currently has contracts on hand for development of 17 new hotels. These represent an inventory of 6,939 rooms. The development projects are located in Abu Dhabi, Doha (Qatar), Vancouver, Chicago, Miami, Las Vegas, Toronto, Seychelles, Phuket, Bangalore (India) (3 hotels), Tainan (Taiwan), Macau (2 hotels), Dongguan 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

The Group executed six unsecured bilateral Hong Kong dollars or US dollars corporate loan agreements and one Hong Kong dollars/US dollars dual currency corporate loan agreement with individual banks in 2006 in a total amount of equivalent to US\$471.9 million. These loans have a maturity of 5 years with an all-inclusive cost ranging from 33 to 36 basis points over HIBOR/LIBOR. In November 2006, the Group executed a five-year unsecured loan agreement with a consortium of banks in an amount of HK\$4,200 million with an all-inclusive cost of 36 basis points over HIBOR. With these facilities in place, the Group prepaid by end of September 2006 all the outstanding amount under a HK\$3,000 million loan agreement maturing in March 2007, which carried a higher interest rate. The Group also repaid the HK\$800 million loan that matured in December 2006. As at 31 December 2006, the Group has undrawn but committed borrowing facilities of US\$987.4 million.

Following the exercise of the conversion right by most of the convertible bondholders, 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\$9.2 million at the date of this report. Unless previously redeemed, converted or purchased and cancelled, the outstanding bonds will be redeemed at 114.633 percent of their principal amount on the maturity date.

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

## Prospects

In general, 2007 is expected to follow this trend, albeit at a slightly reduced pace. The pricing momentum experienced by the Group's hotels is expected to continue through 2007 giving scope to further improve operating margins. The recent amendments to the corporate income tax regime in Mainland China which take effect from 1 January 2008 will further improve profit contribution from the Group's hotels from this area. Barring any major adverse developments, the Group remains optimistic about its financial performance for 2007.

## Acknowledgement

Mr YE Longfei retired from the Board on 27 March 2007. Mr YE was appointed as an Executive Director of the Company in December 1997 and was elected as the Chairman of the Company from October 2000 to August 2003. He acted as Deputy Chairman of the Company thereafter.

On behalf of the Board, I would like to thank Mr YE for his invaluable guidance and contribution to the Group.



**KUOK Khoon Loong, Edward**  
*Chairman*

Hong Kong, 27 March 2007