



Chairman's Statement

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

RESULTS

The consolidated profit attributable to shareholders for the year ended 31 December 2002 was US\$93.1 million (earnings per share US4.28 cents) compared to US\$58.8 million (earnings per share US2.63 cents) for the year 2001.

DIVIDENDS

The Directors recommend a final dividend of HK5 cents per share with a scrip alternative. With the interim dividend of HK7 cents per share paid in November 2002, the total dividend for 2002 is HK12 cents per share.

FUTURE PROSPECTS

The Group's strategic focus has been to build on its brand strength in Mainland China where it currently owns and/or operates 17 hotels. The economic fundamentals of the Mainland China remain very strong and both international arrivals and domestic travel have been growing rapidly. Increasingly, manufacturing capacities are being relocated into the country because of comparative cost advantages and availability of skill sets. The country's accession to the World Trade Organisation, its success in being awarded the staging of the 2008 Olympic games and the 2010 World Expo will provide further impetus to its economic growth. Concurrently, the per capita GDP growth, increasing disposable incomes and aspirational needs of its citizens is underpinning a growing demand for luxury hotel accommodation.

The Group remains optimistic about the future potential for hotel business in Mainland China and to this end continues to actively pursue investment and management contract opportunities. The Group also believes that its growing brand dominance in the country will, over time, benefit its hotels elsewhere in Asia as increasing numbers of Mainland Chinese travel overseas.

The performance of the Group's hotels outside Mainland China is predicated on the recovery of the regional economies and the global economy which has been characterised by recessionary trends, security concerns and more recently, the escalating political crisis in the Middle East. The negative sentiment triggered by these developments have dampened business and leisure travel to and within the region. However, with limited if any, addition to hotel supply in the competitive set anticipated in most locations within the region, the Group's hotels should benefit from the operational leverage inherent in this business when these economies turn around.

PROJECTS/RENOVATIONS

The Shangri-La hotel in Zhongshan is expected to open for business by year end 2003 while the Shangri-La Hotel, Fuzhou and the extension of the Pudong Shangri-La, Shanghai are expected to open for business in 2005. Master planning submissions are on-going for the hotel development in Jingan Nanli, Shanghai. The Group will fit-out an additional 80 guestrooms at its hotel in Qingdao in 2003. The Group is also committed to developing new hotel projects in Futian (Shenzhen), Xian and Chengdu, all in Mainland China.



The Group has embarked on an extensive renovation programme to ensure that its hotels' physical products are in top condition thus retaining their competitive advantage and preserving the integrity of the Group's brands. While guestroom renovations at the Makati Shangri-La, Manila were completed in December 2002, other renovations are on-going at the following hotels: Shangri-La hotels in Bangkok and Kuala Lumpur, Kowloon Shangri-La, Hong Kong, China World Hotel, Beijing, Shangri-La Golden Flower Hotel, Xian, Shangri-La's Tanjung Aru Resort, Kota Kinabalu, Shangri-La's Mactan Island Resort, Cebu and the Valley Wing of the Shangri-La Hotel, Singapore.

MANAGEMENT CONTRACTS

In 2002, the Group signed six new hotel management contracts. Of these, the Shangri-La Hotel, Putrajaya in Kuala Lumpur commenced operations on 4 February 2003. Shangri-La's Sunny Bay Resort Sanya, the Traders Hotel, Kunshan and the Traders Fudu Hotel, Changzhou are all expected to open in 2005 while the Traders Hotel, Shijiazhuang near Beijing is expected to open in mid 2004. These new projects are all located in Mainland China. The Shangri-La resort in Maldives is expected to open in 2005.

Work on hotels in the Middle East and in Mainland China for which the Group had executed management contracts earlier, is progressing satisfactorily with a majority of these hotels expected to open for business in 2003.

CORPORATE DEBTS AND FINANCIAL CONDITIONS

Taking advantage of the liquidity in the banking system, the Group executed new unsecured bank loan agreements for a total amount of HK\$4,100 million in 2002. Barring a loan of HK\$300 million which is due in February 2009, these loans have a maturity of 5 years and carry a lower all-inclusive cost. With these facilities in place, the Group prepaid by June 2002 all the outstanding amount under a US\$500 million loan agreement maturing in August 2002. In April 2002, the Group cancelled a total of US\$200 million undrawn facilities under an existing US\$600 million loan agreement, which carried a higher interest rate. 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. As at 31 December 2002, 80% of the Group's total outstanding loans was denominated in Hong Kong dollars. The Group has in place adequate lines of credit available to fund its development programme for the foreseeable future.

As at 31 December 2002, the Group's net borrowings (net of cash and bank balances of US\$127.3 million) stood at US\$1,013.7 million (2001: US\$1,022.4 million) and the net borrowings to shareholders' equity ratio was 35.0% (2001: 35.5%).

DIRECTORS

Mr KUOK Khoon Loong, Edward has been appointed as an executive Director of the Company with effect from 21 March 2003. Mr KUOK is currently the Chairman of Kerry Properties Limited.

Mr Thaddeus Thomas BECZAK who has served on the Board since 13 August 1997 has given notice that he would not stand for re-election at the forthcoming Annual General Meeting to be held on 30 May 2003. On behalf of the Board, I would like to thank Mr BECZAK for his invaluable guidance and contributions to the Company.



Chairman's Statement

ACKNOWLEDGEMENT

Mr LIU Tai Fung who was the erstwhile Chairman and a member of the Board of Directors of the Company from 12 April 1994 to 16 December 1997, passed away suddenly on 1 February 2003. He presided over the Company during a period that witnessed a rapid growth in its investments and business in The People's Republic of China. 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 LIU.

On behalf of the Board, I would also like to acknowledge the hard work, dedication and professionalism of the management and staff of the Group and thank them for their support.

YE Longfei
Chairman

Hong Kong, 21 March 2003