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SHANGRI-LA ASIA LIMITED

香格里拉(亞洲)有限公司

(Incorporated in Bermuda with limited liability)

website: www.ir.shangri-la.com

(Stock code: 00069)

2015 INTERIM RESULTS ANNOUNCEMENT

The board of directors (“**Board**”) of Shangri-La Asia Limited (“**Company**”) wishes to announce the unaudited interim results of the Company and its subsidiaries (“**Group**”), and associates for the six months ended 30 June 2015. These results have been reviewed by the Company’s auditor, PricewaterhouseCoopers, in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” and by the audit committee of the Board. The review report of the auditor will be included in the interim report sent to the shareholders of the Company.

For the six months ended 30 June 2015, the consolidated profit attributable to equity holders of the Company before inclusion of the fair value gains of investment properties and impairment losses for hotel properties/development project amounted to US\$41.1 million, as compared to US\$39.0 million in 2014, representing an increase of 5%. Overall, the consolidated profit attributable to equity holders of the Company for the six months ended 30 June 2015 increased by 29% to US\$98.4 million (US2.756 cents per share) from US\$76.2 million (US2.440 cents per share) in the same period last year after accounting for the Group’s share of net fair value gains of investment properties and impairment losses for hotel properties/development project.

The Board has declared an interim dividend of **HK5 cents** per share for 2015 (2014: HK6 cents per share) payable on Friday, 9 October 2015, to shareholders whose names appear on the registers of members of the Company on Wednesday, 30 September 2015.

GROUP FINANCIAL HIGHLIGHTS

Consolidated Results

		Six months ended 30 June	
		2015	2014
		Unaudited	Unaudited
Sales	US\$'000	1,023,729	1,011,966
Profit attributable to the equity holders of the Company			
– Profit before fair value gains of investment properties and impairment losses of hotel properties/development project	US\$'000	41,104	39,035
– Share of net fair value gains of investment properties	US\$'000	126,225	40,357
– Share of impairment losses for leasehold land; properties, plant and equipment of hotel properties/development project	US\$'000	(68,948)	(3,208)
– Total reported profit	US\$'000	98,381	76,184
Earnings per share	US cents	2.756	2.440
equivalent to	HK cents	21.359	18.910
Dividend per share	HK cents	5	6
Annualized Return on Equity		2.9%	2.4%
$\left(\frac{\text{Profit attributable to equity holders of the Company for the six months}}{\text{Average equity attributable to equity holders of the Company}} \times 2 \right)$			

Consolidated Statement of Financial Position

		As at	
		30 June	31 December
		2015	2014
		Unaudited	Audited
Total equity	US\$'000	7,394,082	7,439,247
Net assets attributable to the Company's equity holders	US\$'000	6,873,768	6,904,198
Net borrowings (total of bank loans, convertible bonds and fixed rate bonds less cash and bank balances)	US\$'000	3,982,669	3,663,631
Net assets per share attributable to the Company's equity holders	US\$	1.92	1.93
Net assets (total equity) per share	US\$	2.07	2.08
Net borrowings to total equity ratio		53.9%	49.2%

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

(All amounts in US dollar thousands)

		As at	
		30 June	31 December
		2015	2014
	Note	Unaudited	Audited
ASSETS			
Non-current assets			
Property, plant and equipment		6,426,382	6,465,821
Investment properties		1,121,627	1,071,038
Leasehold land and land use rights		590,601	615,898
Intangible assets		90,081	91,233
Interest in associates		3,731,154	3,584,567
Deferred income tax assets		1,961	553
Derivative financial instruments		26	342
Available-for-sale financial assets		4,853	4,906
Other receivables		12,927	13,099
		<u>11,979,612</u>	<u>11,847,457</u>
Current assets			
Inventories		46,143	46,433
Properties for sale		23,095	23,499
Accounts receivable, prepayments and deposits	4	311,701	283,396
Amounts due from associates		97,987	75,072
Amounts due from non-controlling shareholders		186	57
Derivative financial instruments		16	161
Financial assets held for trading		21,121	21,947
Cash and bank balances		1,279,612	1,442,257
		<u>1,779,861</u>	<u>1,892,822</u>
Total assets		<u>13,759,473</u>	<u>13,740,279</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	5	3,191,801	3,191,745
Other reserves		1,615,552	1,716,784
Retained earnings			
– Proposed interim/final dividend	15	23,029	27,635
– Others		2,043,386	1,968,034
		<u>6,873,768</u>	<u>6,904,198</u>
Non-controlling interests		<u>520,314</u>	<u>535,049</u>
Total equity		<u>7,394,082</u>	<u>7,439,247</u>

		As at	
		30 June 2015	31 December 2014
	Note	Unaudited	Audited
LIABILITIES			
Non-current liabilities			
Bank loans		3,240,682	3,277,663
Convertible bonds	6	–	527,305
Fixed rate bonds	7	598,273	597,787
Derivative financial instruments		4,527	2,500
Amounts due to non-controlling shareholders		28,071	27,579
Deferred income tax liabilities		321,477	304,957
		<u>4,193,030</u>	<u>4,737,791</u>
Current liabilities			
Accounts payable and accruals	8	707,616	829,245
Amounts due to non-controlling shareholders		10,768	8,605
Current income tax liabilities		28,448	21,280
Bank loans		884,569	703,133
Convertible bonds	6	538,757	–
Derivative financial instruments		2,203	978
		<u>2,172,361</u>	<u>1,563,241</u>
Total liabilities		<u>6,365,391</u>	<u>6,301,032</u>
Total equity and liabilities		<u>13,759,473</u>	<u>13,740,279</u>
Net current (liabilities)/assets		<u>(392,500)</u>	<u>329,581</u>
Total assets less current liabilities		<u>11,587,112</u>	<u>12,177,038</u>

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

(All amounts in US dollar thousands unless otherwise stated)

		Six months ended 30 June	
		2015	2014
	<i>Note</i>	Unaudited	Unaudited
Sales	3	1,023,729	1,011,966
Cost of sales	9	<u>(447,715)</u>	<u>(429,798)</u>
Gross profit		576,014	582,168
Other losses – net	10	(31,743)	(7,173)
Marketing costs	9	(41,733)	(40,163)
Administrative expenses	9	(100,024)	(94,336)
Other operating expenses	9	<u>(345,676)</u>	<u>(336,738)</u>
Operating profit		56,838	103,758
Finance costs – net			
– Interest expense	11	(64,625)	(55,447)
– Foreign exchange gains/(losses)	11	4,437	(10,557)
Share of profit of associates	12	<u>177,328</u>	<u>99,079</u>
Profit before income tax		173,978	136,833
Income tax expense	13	<u>(60,463)</u>	<u>(50,482)</u>
Profit for the period		<u>113,515</u>	<u>86,351</u>
Profit attributable to:			
Equity holders of the Company		98,381	76,184
Non-controlling interests		<u>15,134</u>	<u>10,167</u>
		<u>113,515</u>	<u>86,351</u>
Earnings per share for profit attributable to the equity holders of the Company during the period			
(expressed in US cents per share)			
– basic	14	<u>2.756</u>	<u>2.440</u>
– diluted	14	<u>2.756</u>	<u>2.439</u>
Dividends	15	<u>23,029</u>	<u>24,170</u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME*(All amounts in US dollar thousands)*

	Six months ended 30 June	
	2015	2014
	Unaudited	Unaudited
Profit for the period	113,515	86,351
Other comprehensive loss:		
Items that may be reclassified subsequently to profit or loss		
Fair value changes of interest-rate swap contracts – hedging	(3,713)	(3,593)
Currency translation differences – subsidiaries	(101,066)	(48,028)
Currency translation differences – associates	(14,499)	(65,830)
	<u>(119,278)</u>	<u>(117,451)</u>
Other comprehensive loss for the period	(119,278)	(117,451)
Total comprehensive loss for the period	<u>(5,763)</u>	<u>(31,100)</u>
Total comprehensive loss attributable to:		
Equity holders of the Company	(2,839)	(38,030)
Non-controlling interests	(2,924)	6,930
	<u>(5,763)</u>	<u>(31,100)</u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

(All amounts in US dollar thousands)

	Unaudited					
	Attributable to equity holders of the Company				Non- controlling interests	Total equity
	Share capital	Other reserves	Retained earnings	Total		
Balance at 1 January 2014	2,554,222	1,904,254	1,854,105	6,312,581	554,763	6,867,344
Fair value changes of interest-rate swap contracts – hedging	–	(3,593)	–	(3,593)	–	(3,593)
Currency translation differences	–	(110,621)	–	(110,621)	(3,237)	(113,858)
Other comprehensive loss recognized directly in equity	–	(114,214)	–	(114,214)	(3,237)	(117,451)
Profit for the period	–	–	76,184	76,184	10,167	86,351
Total comprehensive (loss)/income for the six months ended 30 June 2014	–	(114,214)	76,184	(38,030)	6,930	(31,100)
Exercise of share options – allotment of shares	125	–	–	125	–	125
Exercise of share options – transfer from share option reserve to share premium	33	(33)	–	–	–	–
Payment of 2013 final dividend	–	–	(16,113)	(16,113)	–	(16,113)
Dividend paid and payable to non-controlling shareholders	–	–	–	–	(18,846)	(18,846)
Equity injected by non-controlling shareholders	–	–	–	–	3,314	3,314
	158	(33)	(16,113)	(15,988)	(15,532)	(31,520)
Balance at 30 June 2014	2,554,380	1,790,007	1,914,176	6,258,563	546,161	6,804,724

Unaudited

	Attributable to equity holders of the Company				Non- controlling interests	Total equity
	Share capital	Other reserves	Retained earnings	Total		
Balance at 1 January 2015	3,191,745	1,716,784	1,995,669	6,904,198	535,049	7,439,247
Fair value changes of interest-rate swap contracts – hedging	–	(3,713)	–	(3,713)	–	(3,713)
Currency translation differences	–	(97,507)	–	(97,507)	(18,058)	(115,565)
Other comprehensive loss recognized directly in equity	–	(101,220)	–	(101,220)	(18,058)	(119,278)
Profit for the period	–	–	98,381	98,381	15,134	113,515
Total comprehensive (loss)/income for the six months ended 30 June 2015	–	(101,220)	98,381	(2,839)	(2,924)	(5,763)
Exercise of share options – allotment of shares	44	–	–	44	–	44
Exercise of share options – transfer from share option reserve to share premium	12	(12)	–	–	–	–
Payment of 2014 final dividend	–	–	(27,635)	(27,635)	–	(27,635)
Dividend paid and payable to non-controlling shareholders	–	–	–	–	(12,036)	(12,036)
Net change in equity loans due to non-controlling shareholders	–	–	–	–	225	225
	56	(12)	(27,635)	(27,591)	(11,811)	(39,402)
Balance at 30 June 2015	3,191,801	1,615,552	2,066,415	6,873,768	520,314	7,394,082

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(All amounts in US dollar thousands unless otherwise stated)

1. General information

The Group owns/leases and operates hotels and associated properties; and provides hotel management and related services.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited with secondary listing on the Singapore Exchange Securities Trading Limited.

These condensed consolidated interim financial statements were approved by the Board for issue on 26 August 2015. These condensed consolidated interim financial statements have been reviewed by the Company's auditor.

2. Basis of preparation and accounting policies

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2015 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The consolidated financial statements as at 30 June 2015 have been prepared on a going-concern basis although the Group's consolidated current liabilities exceeded its consolidated current assets by US\$392,500,000. The future funding requirements can be met through the committed available bank loan facilities of US\$1,040,698,000 which are maturing after 30 June 2016 and the net cash inflows to be generated from operating activities. In addition, the Group has received firm offers from banks for new 5-year term loan facilities of US\$280,514,000 in respect of which bank borrowing agreements are under preparation. The Group is also currently negotiating with certain banks for additional long-term loan facilities for loan refinancing and to meet the scheduled project funding requirements. The Group has adequate resources to continue its operation for the foreseeable future.

These condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2014, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The accounting policies and methods of computation used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2014 with the addition of certain amendments to standards and new interpretations which are relevant to the Group's operation and are mandatory for the financial year ending 31 December 2015. These amendments to standards and new interpretations had no material impact on the Group's financial statements.

3. Segment information

The Group is managed on a worldwide basis in the following three main segments:

i. Hotel ownership (including hotels under lease)

- Hong Kong
- Mainland China
- Singapore
- Malaysia
- The Philippines
- Japan
- Thailand
- Australia
- France
- United Kingdom
- Other countries (including Fiji, Myanmar, Maldives, Indonesia, Turkey, Mauritius and the Republic of Mongolia)

ii. Property rentals from ownership and leasing of office properties, commercial properties and serviced apartments/residences

- Mainland China
- Singapore
- Malaysia
- Other countries (including Thailand, the Republic of Mongolia, Myanmar and Australia)

iii. Hotel management services for Group-owned hotels and for hotels owned by third parties

The Group also has equity interests in certain joint venture companies engaged in other businesses including the sale of residential units, wine trading and golf course operation. These other businesses did not have a material impact on the Group's results.

The chief operating decision-maker assesses the performance of the operating segments based on a measure of the share of profit after tax and non-controlling interests. This measurement basis excludes the effects of pre-opening expenses of projects, corporate expenses and other non-operating items such as fair value gains or losses on investment properties, fair value adjustments on monetary items and impairments for any isolated non-recurring event.

Segment income statement

For the six months ended 30 June 2015 and 2014 (US\$ million)

	2015		2014	
	Sales	Profit/(Loss)	Sales	Profit/(Loss)
	(Note b)	after tax (Note a)	(Note b)	after tax (Note a)
Hotel ownership				
Hong Kong	126.0	30.2	136.9	36.3
Mainland China	366.8	(34.3)	342.8	(15.5)
Singapore	106.9	14.8	99.3	20.2
Malaysia	59.2	6.3	74.6	9.1
The Philippines	102.0	9.9	101.5	7.6
Japan	27.0	(1.6)	28.5	(3.2)
Thailand	34.1	6.2	26.1	1.1
Australia	44.9	(1.3)	49.9	(2.1)
France	22.0	(12.3)	32.2	(10.6)
United Kingdom	23.6	(14.2)	4.7	(6.2)
Other countries	47.2	(4.6)	54.4	1.1
	<u>959.7</u>	<u>(0.9)</u>	<u>950.9</u>	<u>37.8</u>
Property rentals				
Mainland China	14.6	65.8	14.3	51.1
Singapore	6.8	5.2	7.3	5.8
Malaysia	3.4	0.9	3.7	1.0
Other countries	14.9	2.7	11.2	1.1
	<u>39.7</u>	<u>74.6</u>	<u>36.5</u>	<u>59.0</u>
Hotel management services	<u>66.9</u>	<u>8.3</u>	<u>70.4</u>	<u>9.7</u>
Other businesses	<u>–</u>	<u>0.8</u>	<u>–</u>	<u>1.7</u>
Total	<u><u>1,066.3</u></u>	<u><u>82.8</u></u>	<u><u>1,057.8</u></u>	<u><u>108.2</u></u>
Less: Hotel management – Inter-segment sales	<u>(42.6)</u>		<u>(45.8)</u>	
Total external sales	<u><u>1,023.7</u></u>		<u><u>1,012.0</u></u>	

	2015	2014	
	Profit/(Loss)	Profit/(Loss)	
Sales	after tax	Sales	after tax
(Note b)	(Note a)	(Note b)	(Note a)
Corporate finance costs (net)	(31.8)		(30.7)
Land cost amortization and pre-opening expenses for projects	(6.1)		(29.0)
Corporate expenses	(5.5)		(7.9)
Exchange gains/(losses) of corporate investment holding companies	0.7		(1.9)
Profit before non-operating items	40.1		38.7
Non-operating items			
Fair value gains on investment properties	126.2		40.4
Provision for impairment losses for hotel properties	(68.9)		–
Provision for impairment loss for a property under development and leasehold land	–		(3.1)
Net realized/unrealized gains on financial assets held for trading	1.4		0.6
Fair value adjustments on loans from non-controlling shareholders and security deposit on leased premises	(0.4)		(0.4)
Profit attributable to equity holders of the Company	98.4		76.2

Notes:

- Profit/(Loss) after tax includes net of tax results from both associates and subsidiaries after share of non-controlling interests.
- Sales exclude sales of associates.

4. Accounts receivable, prepayments and deposits

	As at	
	30 June 2015	31 December 2014
Trade receivables – net	86,365	88,855
Prepayments and other deposits	108,757	92,483
Other receivables	116,579	102,058
	311,701	283,396

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, internationally dispersed.

- (a) The fair values of the trade and other receivables are not materially different from their carrying values. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above.
- (b) A significant part of the Group's sales are by credit cards or against payment of deposits. The remaining amounts are with general credit term of 30 days. The Group has a defined credit policy. The ageing analysis of the trade receivables after provision for impairment is as follows:

	As at	
	30 June 2015	31 December 2014
0 – 3 months	75,257	79,528
4 – 6 months	4,690	3,977
Over 6 months	6,418	5,350
	<u>86,365</u>	<u>88,855</u>

5. Share capital

	No. of shares ('000)	Amount		
		Ordinary shares	Share premium	Total
Authorized – Ordinary shares of HK\$1 each				
At 1 January 2015 and 30 June 2015	5,000,000	646,496	–	646,496
Issued and fully paid				
– Ordinary shares of HK\$1 each				
At 1 January 2015	3,579,994	462,191	2,729,554	3,191,745
Exercise of share options				
– allotment of shares	30	4	40	44
– transfer from option reserve	–	–	12	12
At 30 June 2015	3,580,024	462,195	2,729,606	3,191,801

As at 30 June 2015, 10,501,055 ordinary shares in the Company were held by a subsidiary which was acquired in late 1999. The cost of these shares was recognized in equity as in prior years.

Share options

The shareholders of the Company approved the adoption of a new share option scheme on 28 May 2012 (“**2012 Option Scheme**”) to replace the expired share option scheme adopted on 24 May 2002 (“**2002 Option Scheme**”). The subsisting option shares granted in the past years under the 2002 Option Scheme prior to the expiry date will continue to be valid and exercisable in accordance with the terms of the scheme. The options granted on 23 August 2013 under the 2012 Option Scheme are immediately exercisable on the grant date and have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Certain share options granted to option holders of the Company were exercised and the following new shares were issued.

	Number of option shares issued			Total consideration US\$'000
	At HK\$11.60 per option share	At HK\$14.60 per option share	At HK\$12.11 per option share	
In year 2015				
April	30,000	—	—	44
For the six months ended 30 June 2015	30,000	—	—	44

The closing price of the shares immediately before the date on which the options were exercised for the six months ended 30 June 2015 was HK\$11.82 (for the six months ended 30 June 2014: HK\$15.00).

Movements in the number of outstanding option shares and their related weighted average exercise prices are as follows:

	For the six months ended 30 June 2015		For the year ended 31 December 2014	
	Weighted average exercise price in HK\$ per option share	Number of outstanding option shares	Weighted average exercise price in HK\$ per option share	Number of outstanding option shares
At 1 January	12.33	24,478,500	12.32	26,591,000
Granted	—	—	—	—
Exercised	11.60	(30,000)	11.97	(110,000)
Lapsed	11.71	(4,917,500)	12.25	(2,002,500)
At 30 June/31 December	12.49	19,531,000	12.33	24,478,500

As at 30 June 2015 and 31 December 2014, outstanding option shares are as follows:

Last exercisable date	Exercise price in HK\$ per option share	Number of outstanding option shares as at	
		30 June 2015	31 December 2014
27 April 2015	11.60	—	4,245,000
15 June 2016	14.60	2,973,000	3,045,500
22 August 2023	12.11	16,558,000	17,188,000
		19,531,000	24,478,500

No new option was granted during the six months ended 30 June 2015 and 2014.

Options on 35,000 shares and 130,000 shares with exercise price of HK\$14.60 and HK\$12.11 per share, respectively have lapsed subsequent to 30 June 2015 and up to the approval date of the financial statements.

6. Convertible bonds

On 12 May 2011, a wholly owned subsidiary of the Company issued zero coupon guaranteed convertible bonds due 12 May 2016 (“**Maturity Date**”), in the aggregate principal amount of US\$500 million. Each bond will, at the option of the holder, be convertible on or after 22 June 2011 up to the close of business on the business day immediately prior to 2 May 2016 into fully paid ordinary shares of the Company with a par value of HK\$1.00 each at an initial conversion price of HK\$29.03 per ordinary share of the Company (subject to adjustment) and the conversion price has been adjusted to HK\$27.63 per ordinary share of the Company on 11 June 2015. Unless previously redeemed, converted or purchased and cancelled, these bonds will be redeemed at 111.84% of their principal amount on the Maturity Date.

The initial fair values of the liability component and the equity conversion component, based on net proceeds, were determined at issuance of the bonds. The fair value of the liability component, included under non-current liabilities, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in shareholders’ equity in other reserves.

The convertible bonds recognized in the consolidated statement of financial position is calculated as follows:

	As at	
	30 June 2015	31 December 2014
Face value of convertible bonds issued on 12 May 2011	500,000	500,000
Issuing expenses	(4,400)	(4,400)
Equity component credited to the equity	(44,518)	(44,518)
	<hr/>	<hr/>
Liability component on initial recognition at 12 May 2011	451,082	451,082
Accumulated interest expense	87,675	76,223
	<hr/>	<hr/>
Liability component	538,757	527,305
	<hr/> <hr/>	<hr/> <hr/>

The face value of outstanding bonds at 30 June 2015 amounted to US\$500,000,000. No convertible bonds were converted to ordinary shares of the Company during the period or subsequent to 30 June 2015 and up to the date of this announcement. The carrying amount of the liability component which approximates its fair value is calculated using cash flows discounted at an initial market interest rate of 4.34% per annum.

7. Fixed rate bonds

On 10 April 2012, a wholly owned subsidiary of the Company issued fixed rate bonds in the aggregate principal amount of US\$600,000,000 which carry a coupon rate of 4.75% per annum and have a maturity term of 5 years. The fixed rate bonds recognized in the statement of financial position is calculated as follows:

	As at	
	30 June 2015	31 December 2014
Face value of fixed rate bonds issued on 10 April 2012	600,000	600,000
Issuing expenses	(4,859)	(4,859)
	<hr/>	<hr/>
Net bonds proceeds received	595,141	595,141
Accumulated amortization of issuing expenses	3,132	2,646
	<hr/>	<hr/>
Carrying value of fixed rate bonds	598,273	597,787
	<hr/> <hr/>	<hr/> <hr/>

As at 30 June 2015, the outstanding interest payable for the fixed rate bonds included in accounts payable and accruals is US\$6,333,000. The carrying amount of the bonds approximates its fair value.

8. Accounts payable and accruals

	As at	
	30 June 2015	31 December 2014
Trade payables	95,469	102,867
Construction cost payable, other payables and accrued expenses	595,790	710,035
Short term advance from an associate of the Company's controlling shareholder	16,357	16,343
	<u>707,616</u>	<u>829,245</u>

The short term advance from an associate of the Company's controlling shareholder is unsecured and bearing interest at a fixed rate of 6.02% per annum.

The ageing analysis of the trade payables is as follows:

	As at	
	30 June 2015	31 December 2014
0 – 3 months	79,998	91,167
4 – 6 months	8,089	5,434
Over 6 months	7,382	6,266
	<u>95,469</u>	<u>102,867</u>

9. Expenses by nature

Expenses included in cost of sales, marketing costs, administrative expenses and other operating expenses are analyzed as follows:

	For the six months ended	
	30 June 2015	30 June 2014
Depreciation of property, plant and equipment (net of amount capitalized of US\$91,000 (2014: US\$98,000))	161,909	145,092
Amortization of leasehold land and land use rights (net of amount capitalized of US\$234,000 (2014: Nil))	8,092	8,380
Amortization of trademark and website development	337	389
Employee benefit expenses	314,512	321,858
Cost of inventories sold or consumed in operation	139,348	130,009
Loss on disposal of property, plant and equipment and partial replacement of investment properties	851	600
Discarding of property, plant and equipment and investment properties due to renovation	659	2,952

10. Other losses – net

	For the six months ended	
	30 June	30 June
	2015	2014
Net realized/unrealized gains on financial assets held for trading	1,477	687
Interest income	7,835	6,618
Fair value gains/(losses) of investment properties	27,090	(12,078)
Provision for impairment losses for hotel properties	(68,948)	–
Provision for impairment loss for a property under development and leasehold land	–	(3,208)
Dividend income	803	658
Others	–	150
	(31,743)	(7,173)

11. Finance costs – net

	For the six months ended	
	30 June	30 June
	2015	2014
Interest expense		
– bank loans	56,136	50,643
– interest-rate swap contracts – hedging	3,088	3,140
– convertible bonds	11,452	10,970
– fixed rate bonds	14,740	14,740
– other loans	1,677	1,294
	87,093	80,787
Less: amount capitalized	(22,468)	(25,340)
	64,625	55,447
Net foreign exchange (gains)/losses	(4,437)	10,557
	60,188	66,004

The effective capitalization rate used to determine the amount of borrowing costs eligible for capitalization is 3.35% per annum for the period (2014: 3.18%).

12. Share of profit of associates

	For the six months ended	
	30 June 2015	30 June 2014
Share of profit before tax of associates before share of net fair value gains of investment properties	83,782	70,179
Share of net fair value gains of investment properties	<u>153,397</u>	<u>60,558</u>
Share of profit before tax of associates	<u>237,179</u>	<u>130,737</u>
Share of associates' taxation before provision for deferred tax liabilities on fair value gains of investment properties	(20,874)	(16,519)
Share of provision for deferred tax liabilities on fair value gains of investment properties	<u>(38,977)</u>	<u>(15,139)</u>
Share of associates' taxation	<u>(59,851)</u>	<u>(31,658)</u>
Share of profit of associates	<u>177,328</u>	<u>99,079</u>

13. Income tax expense

Income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings. Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits for the period. Taxation outside Hong Kong includes withholding tax paid and payable on dividends from subsidiaries and tax provided at the prevailing rates on the estimated assessable profits of group companies operating outside Hong Kong.

	For the six months ended	
	30 June 2015	30 June 2014
Current income tax		
– Hong Kong profits tax	7,414	8,906
– overseas taxation	34,745	34,214
Deferred income tax	<u>18,304</u>	<u>7,362</u>
	<u>60,463</u>	<u>50,482</u>

14. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period after adjustment of those issued ordinary shares of the Company held by a subsidiary.

	For the six months ended	
	30 June 2015	30 June 2014
Profit attributable to equity holders of the Company (<i>US\$'000</i>)	98,381	76,184
Weighted average number of ordinary shares in issue (<i>thousands</i>)	3,569,504	3,121,961
Basic earnings per share (<i>US cents per share</i>)	2.756	2.440

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bonds are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense. For the share options, a calculation is done to determine the number of shares that would be issued at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is increased by the number of shares that would have been issued assuming the exercise of the share options.

For the six months ended 30 June 2015, there is no dilution effect on the earnings per share. For the six months ended 30 June 2014, all the share options issued under the 2002 Option Scheme have the greatest dilution effect.

	For the six months ended	
	30 June 2015	30 June 2014
Profit attributable to equity holders of the Company (<i>US\$'000</i>)	98,381	76,184
Weighted average number of ordinary shares in issue (<i>thousands</i>)	3,569,504	3,121,961
Adjustments for share options (<i>thousands</i>)	–	1,720
Weighted average number of ordinary shares for diluted earnings per share (<i>thousands</i>)	3,569,504	3,123,681
Diluted earnings per share (<i>US cents per share</i>)	2.756	2.439

15. Dividends

	For the six months ended	
	30 June	30 June
	2015	2014
Interim dividend of HK5 cents		
(2014: HK6 cents) per ordinary share	23,029	24,170

Notes:

- (a) At a meeting held on 25 March 2015, the Board proposed a final dividend of HK6 cents per ordinary share for the year ended 31 December 2014, which was paid on 11 June 2015, and has been reflected as a charge against retained earnings for the six months ended 30 June 2015.
- (b) At a meeting held on 26 August 2015, the Board declared an interim dividend of HK5 cents per ordinary share for the year ending 31 December 2015. This declared dividend is not reflected as a dividend payable in these financial statements but reflected as an appropriation of retained earnings for the year ending 31 December 2015. The declared interim dividend of US\$23,029,000 for the six months ended 30 June 2015 is calculated based on 3,580,024,056 shares of the Company in issue as at 26 August 2015 after elimination on consolidation the amount of US\$68,000 for the 10,501,055 ordinary shares in the Company held by a subsidiary of the Company (Note 5).

16. Financial guarantees, contingencies and charges over assets

(a) Financial guarantees

As at 30 June 2015, the Group executed proportionate guarantees in favour of banks for securing banking facilities granted to certain associates. The Group also provided suretyship in favour of an associate in relation to the payment obligations under its banking facility which in return provided counter guarantee to the Company such that any amounts paid by the Company under the suretyship agreement should be proportionate to its respective shareholding in the associate. The utilized amount of such facilities covered by the Group's guarantees for these associates amounts to US\$417,824,000 (31 December 2014: US\$420,897,000). The Board is of the opinion that it is not probable that such guarantees will be called upon.

(b) Contingent liabilities

As at 30 June 2015, the Group executed guarantee for securing standby documentary credit granted by a bank in favour of a building contractor relating to the execution of construction works for a hotel building with the amount of US\$8,178,000 (31 December 2014: US\$17,977,000).

(c) Charges over assets

As at 30 June 2015, bank borrowings of certain subsidiaries amounting to US\$211,091,000 (31 December 2014: US\$263,844,000) are secured by:

- (i) Land use rights and all immovable assets owned by a subsidiary with net book value of US\$123,583,000 (31 December 2014: US\$127,416,000) together with a pledge of all the equity shares of the subsidiary.
- (ii) Legal mortgage over the property owned by four subsidiaries with an aggregate net book value of US\$432,868,000 (31 December 2014: US\$548,661,000).

17. Commitments

The Group's commitment for capital expenditure at the date of the consolidated statement of financial position but not yet incurred is as follows:

	As at	
	30 June 2015	31 December 2014
Existing properties – Property, plant and equipment and investment properties		
– contracted but not provided for	26,333	66,601
– authorized but not contracted for	169,041	124,780
Development projects		
– contracted but not provided for	218,433	285,402
– authorized but not contracted for	1,140,134	1,352,396
	1,553,941	1,829,179

18. Events after the date of the statement of financial position

On 20 August 2015, the Group entered into a sale and purchase agreement with an independent third party to dispose of its 55% equity interest in a wholly owned project company which indirectly owns a piece of land for a composite development in Accra, the Republic of Ghana for a cash consideration of US\$15,150,000. The Group's equity interest in the project company was reduced from 100% to 45% with the completion of the transaction. It is currently envisaged that the Group will record a marginal profit on the transaction.

OPERATIONS REVIEW

(Performance compared to the corresponding period last year)

The Group's business is organized into three main segments:

- (a) Hotel ownership (including hotels under lease)
- (b) Hotel management services for Group-owned hotels and for hotels owned by third parties
- (c) Property rentals from ownership and leasing of office properties, commercial properties and serviced apartments/residences

The Group has equity interests in certain joint venture companies that are also engaged in businesses other than the above-mentioned three main business segments. These included:

- the sale of residential units in Arcadia Court, Tangshan (a 35%-owned project) in Mainland China;
- the sale of residential units in Phase I of Tianjin Kerry Centre (a 20%-owned project) in Mainland China;
- the sale of residential units and office in Phase I of Shenyang Kerry Centre (a 25%-owned project) in Mainland China;
- the operation of a golf course in Bali, Indonesia (a 53.3%-owned business); and
- wine trading in Hong Kong and Mainland China (a 20%-owned business).

These other businesses did not have a material impact on the Group's consolidated results for the six months ended 30 June 2015.

Revenues

(a) Hotel ownership

- The 473-room Shangri-La Hotel, Nanchang (part of a composite development project in which the Group has 20% equity interest), the 330-room Shangri-La Hotel, Qinhuangdao (a 100%-owned hotel) and the 401-room Shangri-La Hotel, Hefei (a 100%-owned hotel) in Mainland China opened for business on 8 February 2015, 8 May 2015 and 25 June 2015, respectively.
- The Group opened the 290-room Shangri-La Hotel, Ulaanbaatar (part of a composite development project in which the Group has 51% equity interest), in the capital city of the Republic of Mongolia on 3 June 2015.
- The newly acquired Le Touessrok Resort in Mauritius (a 26%-owned hotel) closed for a major renovation on 15 April 2015 and will be reflagged and launched as Shangri-La's Le Touessrok Resort & Spa, Mauritius in November 2015. It will be the second property in the Group's portfolio of high-end five-star resorts in the Indian Ocean after Shangri-La's Villingili Resort & Spa, Maldives.

- The extension of the Ocean Wing of Shangri-La's Rasa Ria Resort & Spa, Kota Kinabalu, Malaysia (a 64.59%-owned hotel), which has 83 rooms, opened for business on 2 April 2015.
- As at 30 June 2015, the Group has equity interest in 71 operating hotels (including the Portman Ritz Carlton Hotel, Shanghai) and 3 hotels under operating lease, representing a room inventory of 32,536 across Asia-Pacific and Europe. The Group also has a substantial development pipeline with upcoming projects in Hong Kong, Mainland China, Myanmar, the Philippines, Sri Lanka and Ghana.
- As at 30 June 2015, the Group has equity interest in 40 operating hotels in Mainland China. Hotels in Mainland China continued to face challenges from a difficult business environment. Intense price competition continued in most cities. All hotels recorded declines in weighted average room rates during the current period with the exception of the Shangri-La Hotel, Harbin (increased by 3%) and the Jing An Shangri-La, West Shanghai (increased by 13%). The overall weighted average room rate of the Mainland China hotel portfolio recorded a decline of 8%. However, the weighted average occupancy of most of the hotels recorded improvement. The overall weighted average room yields ("**RevPAR**") registered a modest 2% decrease when compared to the same period last year.
- Due to a decline in visitors from Mainland China, hotels in Hong Kong registered a decrease in weighted average RevPAR of 15%. Hotels in Singapore also suffered from a decline in visitor arrivals and the major renovation of Hotel Jen Tanglin Singapore, as well as the depreciation of the Singapore dollar. The hotel portfolio in Singapore registered a 24% decrease in weighted average RevPAR in US dollar terms.
- In Malaysia, the Group's hotels were adversely affected by the sharp drop in visitors from Mainland China following the Malaysia Airlines tragedies in 2014. This, together with an 11% depreciation of the Malaysian ringgit, led to a decrease in weighted average RevPAR in US dollar terms of 24% as compared to the same period last year.
- Supported by increased visitor arrivals following an improvement in the political environment, the two hotels in Thailand recorded an increase in weighted average RevPAR of 33% as compared to the same period last year.
- The three hotels in Australia registered a decrease in weighted average RevPAR in US dollar terms of 12% as compared to the same period last year, largely due to the depreciation of the Australian dollar.
- The hotel in Paris recorded a decrease in RevPAR in US dollar terms of 33% due to a decrease of 15 percentage points in occupancy following weaker demand from its key markets in Russia and the Middle East and the depreciation of the Euro as compared to the same period last year.
- The two hotels in the Maldives recorded an increase in weighted average room rate of 7% but a decline in weighted average occupancy of 19 percentage points as compared to the same period last year again due to weaker demand from their key source markets.

- The four hotels in the Philippines recorded a marginal increase in weighted average RevPAR of 1% while the hotel in Tokyo recorded a modest decline in RevPAR of 3% in US dollar terms as compared to the same period last year due to a depreciation of the Japanese yen.
- The hotel in Istanbul and the hotel in London recorded declines in RevPAR of 15% and 22%, respectively, mainly due to the sharp depreciation of the local currencies against the US dollar.
- The overall weighted average RevPAR for the six months ended 30 June 2015 decreased by 9% as compared to the same period last year.

(b) Hotel management services

- The management contract with the Traders Hotel, Dubai was terminated during the current period.
- As at 30 June 2015, the Group's wholly owned subsidiary, SLIM International Limited and its subsidiaries ("SLIM"), managed 91 properties including 18 operating hotels with a room inventory of 5,962 under third party hotel management agreements in Asia-Pacific, North America and the Middle East.
- Overall weighted average RevPAR of those hotels under third party hotel management agreements registered a decrease of 10%.
- SLIM recorded a marginal decline of 1% in revenues after elimination of revenues earned from fellow subsidiaries as compared to the corresponding period in 2014.

(c) Property rentals

- The property rentals segment continued to be the Group's main source of operating profits for the current period.
- The Group's investment properties are located principally in Shanghai and Beijing and are owned by associates.
- In Beijing, the China World Trade Center (the Group's principal asset holding 40.32% to 50% equity interests) recorded further improvement in yields for its office spaces and commercial spaces ranging from 2% to 17% as compared to the same period last year. Yields of the serviced apartments in the Center however recorded a marginal decrease of 4%. Major improvements to the Center's exhibition hall and its connecting area are ongoing. The serviced apartments of Century Towers, Beijing (50% owned by the Group) recorded a remarkable increase in yields of 53% supported by increases in both the occupancy and rental rate. Yields of office and commercial spaces at the Beijing Kerry Centre (23.75% owned by the Group) recorded increases of 12% and 31%, respectively. Yields of the serviced apartments at the Beijing Kerry Centre, which re-opened for business in April 2014, recorded a 230% increase as compared to the same period last year.

- In Shanghai, yields of the office spaces, serviced apartments and commercial spaces at the Jing An Kerry Centre Phase I (24.75% owned by the Group) registered further growth of 27%, 51% and 93%, respectively. Yields of the commercial spaces and the office spaces at the Jing An Kerry Centre Phase II (49% owned by the Group) recorded growth in yields of 4% and 56%, respectively. Yields of the commercial spaces and office spaces at the Kerry Parkside Shanghai Pudong (23.20% owned by the Group) recorded increases of 12% and 15%, respectively, while yields of its serviced apartments posted a marginal decline of 6%. The commercial spaces and the serviced apartments of the Shanghai Centre (30% owned by the Group) recorded growth in yields of 15% and 17%, respectively, while yields of its office spaces decreased by 6%.
- In other cities in Mainland China, the Shangri-La Residences, Dalian (a 100%-owned property) recorded a significant improvement in yields of 22% as compared to the same period last year after the completion of major renovations in January 2014. The Shangri-La Centre, Qingdao (a 100%-owned property) recorded increases in yields of 12% and 13% for its office spaces and commercial spaces, respectively. The Chengdu Shangri-La Centre (an 80%-owned property) recorded a 3% increase in yields for its commercial spaces but a 9% decrease in yields for its office spaces.
- Adversely affected by the general depreciation of Asian currencies, the rental rates of investment properties in Singapore, Malaysia and the Republic of Mongolia when expressed in US dollars all recorded decreases ranging between 3% and 15% as compared to the same period last year.
- In Singapore, the yields of the Shangri-La Residences recorded a marginal increase of 4%. Yields of the Shangri-La Apartments however recorded a decline of 12%. These two investment properties are wholly owned by the Group. The commercial spaces at Tanglin Place and Tanglin Mall (44.60% owned by the Group) recorded modest declines in yields of 3% and 7%, respectively.
- In Malaysia, the UBN Apartments and the office spaces of the UBN Tower (both 52.78% owned by the Group) recorded further decrease in yields of 25% and 7%, respectively, while the yield of the commercial spaces of the UBN Tower improved by 9%.
- The office spaces and commercial spaces at the Central Tower in Ulaanbaatar, the Republic of Mongolia (51% owned by the Group) recorded declines in yields of 17% and 20%, respectively.
- Shangri-La Residences in Yangon, Myanmar (55.86% owned by the Group) registered a significant growth in yields of 134% as compared to the same period last year, with an occupancy rate of 88%.

Segment Results

- Details of the segment information are provided in Note 3 to the condensed consolidated interim financial statements included in this announcement.
- The overall results of the hotel ownership segment turned from a net profit of US\$37.8 million in the same period last year to a net loss of US\$0.9 million during the current period. This was largely caused by weak market conditions in Hong Kong, Mainland China, Singapore, Malaysia, Australia and France. The large start-up losses (principally caused by higher depreciation charges in the initial years after opening) of the new hotels in Mainland China (total seven hotels opened for business in 2014 and 2015), the hotel in London and the hotel in Ulaanbaatar (grouped under “Other countries” of the hotel ownership segment) amplified the negative impact on the financial results. The hotels in the Philippines and in Thailand performed relatively well, recording an increase in net profit of US\$2.3 million and US\$5.1 million, respectively. The performance of the hotel in Tokyo improved slightly but it continued operating at a loss due to the burden of the lease rent.
- In contrast, the property rentals segment, especially the investment properties in Mainland China, continued to be the key profit contributor. The incremental net profit during the period from the property rentals segment was US\$15.6 million, mainly contributed by the additional profits from Jing An Kerry Centre Phase II and China World Trade Center of US\$10.1 million and US\$1.4 million, respectively, together with a US\$2.6 million reduction in loss in respect of the Shangri-La Residences, Dalian.
- Net profit of the hotel management services segment declined marginally by US\$1.4 million.
- The Group’s effective share of the land cost amortization and pre-opening expenses for projects declined substantially from US\$29.0 million in 2014 to US\$6.1 million in the current period following the opening of large number of new hotels and the reversal of a US\$6.8 million provision made in prior years for pre-opening costs incurred for the terminated hotel project in Vienna, upon recovery of the sum under a settlement agreement.

EBITDA

With the additional contributions from the newly opened hotels owned by subsidiaries, the earnings before interest expenses, tax, depreciation, amortization and non-operating items (“**EBITDA**”) of the Group for the current period increased slightly by US\$8.4 million to US\$273.5 million as compared to the same period last year. The EBITDA to Consolidated Sales ratio of the Group was 26.7% as compared to 26.2% for the same period last year. The Group’s share of EBITDA of its associates for the current period also increased by US\$13.1 million to US\$126.9 million with the additional profit contributions from the Jing An Kerry Centre and the China World Trade Center.

Consolidated Profits

- Consolidated sales increased marginally by 1.2% in a weak market environment exacerbated by the negative impact of the depreciation of most currencies against the US dollar during the current period.
- Consolidated operating profit decreased by US\$46.9 million after accounting for US\$68.9 million impairment losses for hotel properties and US\$27.1 million fair value gains on investment properties owned by subsidiaries.
- Consolidated interest expenses increased from US\$55.4 million in 2014 to US\$64.6 million as a result of the increased borrowings and lower interest capitalization following the completion of several new hotel developments. The Group recorded a net foreign exchange gain of US\$4.4 million in the current period compared to a loss of US\$10.6 million in the same period last year.
- The Group's share of profit of associates (net of tax) increased by US\$78.2 million, which included its share of fair value gains (net of tax) of US\$114.4 million on investment properties in the current period (US\$45.4 million in the same period last year).

CORPORATE DEBT AND FINANCIAL CONDITIONS

At the corporate level, a wholly owned subsidiary executed six 5-year unsecured corporate bank loan agreements totaling an equivalent of US\$804.4 million during the period. The corporate together with certain subsidiaries also jointly executed a 2-year bank loan agreement of US\$100 million.

At the subsidiary level, the Group also executed the following bank loan agreements during the six months ended 30 June 2015:

- one 3-year local bank loan agreement of US\$100 million and one 5-year local bank loan agreement of US\$50 million for project financing;
- one 4-year local bank loan agreement of S\$100 million (approximately US\$74.3 million) for hotel renovations; and
- one 5-year bank loan agreement of HK\$360 million (approximately US\$46.5 million) and two 4-year bank loan agreements totaling S\$102.9 million (approximately US\$76.4 million) for refinancing maturing loans.

The Group is finalizing the documentation of two 5-year bank loan agreements at the corporate level totaling HK\$1,350 million (approximately US\$174.2 million) and two 5-year bank loan agreements at the subsidiary level totaling RMB650 million (approximately US\$106.3 million) for project financing.

As at 30 June 2015, the Group had net current liabilities of US\$392.5 million. These funding obligations can be met through the committed available bank loan facilities of US\$1,040.7 million, which are maturing after 30 June 2016, and the net cash inflows to be generated from operating activities.

The Group is currently negotiating with certain banks for additional long term loan facilities for refinancing maturing borrowings as well as meeting project funding requirements.

The Group has not encountered any difficulty when drawing down loans from committed banking facilities. None of the banking facilities were cancelled by the banks during or after the close of the current financial period.

The net borrowings (total of bank loans, convertible bonds and fixed rate bonds less cash and bank balances) to total equity ratio, i.e. the gearing ratio, increased from 49.2% as at 31 December 2014 to 53.9% as at 30 June 2015.

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

The analysis of borrowings outstanding as at 30 June 2015 is as follows:

	Maturities of Borrowings Contracted as at 30 June 2015				Total
	Within 1 year	In the 2nd year	Repayment In the 3rd to 5th year	After 5 years	
<i>(US\$ million)</i>					
Borrowings					
Corporate borrowings					
– unsecured bank loans	516.1	494.8	1,235.3	–	2,246.2
– convertible bonds	538.8	–	–	–	538.8
– fixed rate bonds	–	598.3	–	–	598.3
Project bank loans					
– secured	14.6	161.3	21.1	14.1	211.1
– unsecured	353.9	165.2	1,065.2	83.6	1,667.9
Total	<u>1,423.4</u>	<u>1,419.6</u>	<u>2,321.6</u>	<u>97.7</u>	<u>5,262.3</u>
Undrawn but committed facilities					
Bank loans and overdrafts	<u>183.6</u>	<u>77.9</u>	<u>962.8</u>	<u>–</u>	<u>1,224.3</u>

The currency-mix of the borrowings and cash and bank balances as at 30 June 2015 is as follows:

<i>(US\$ million)</i>	Borrowings	Cash and Bank Balances
In United States dollars	2,706.9	317.4
In Hong Kong dollars	1,412.0	205.0
In Renminbi	557.8	524.2
In Euros	217.5	15.3
In Australian dollars	154.3	26.9
In Singapore dollars	76.4	61.7
In British pounds	70.8	3.0
In Japanese yen	40.8	3.7
In Philippines pesos	25.8	40.6
In Malaysian ringgit	—	6.9
In Thai baht	—	51.1
In Mongolian tugrik	—	4.6
In Fiji dollars	—	15.7
In Sri Lankan rupees	—	2.7
In Maldivian rufiyaa	—	0.3
In other currencies	—	0.5
	<u>5,262.3</u>	<u>1,279.6</u>

Excepting the convertible bonds, the fixed rate bonds and the borrowings in Renminbi, which carry interest at rates specified by The People's Bank of China from time to time, all the borrowings are at floating interest rates.

Details of financial guarantees, contingencies and charges over assets as at 30 June 2015 are disclosed in Note 16 to the condensed consolidated interim financial statements included in this announcement.

TREASURY POLICIES

The Group has consistently followed all treasury policies aimed at minimizing interest and currency risk as disclosed in the 2014 annual report.

As planned, the Group had arranged additional shareholder loans and equity contributions totaling US\$318.2 million to certain loss-making subsidiaries in Mainland China to repay their Renminbi bank borrowings in order to reduce the overall interest costs during the current period.

Intra-group financing between subsidiaries in Mainland China by way of entrusted loan agreements through local banks increased from RMB1,122.5 million (approximately US\$183.4 million) as at 31 December 2014 to RMB1,279.5 million (approximately US\$209.3 million) as at 30 June 2015. The Group will continue to arrange entrusted loans utilizing the cash surplus of operating hotels to finance the development of its new projects as well as the operation of newly opened hotels in Mainland China.

The Group has endeavoured to hedge its medium term interest rate risk by entering into interest-rate swap contracts. No new contract was executed during the current period. As at 30 June 2015, the outstanding HIBOR and LIBOR interest-rate swap contracts are:

- HK\$2,200 million (approximately US\$283.9 million) at fixed rates ranging between 0.94% and 1.635% per annum maturing during December 2016 to October 2018
- US\$206 million at fixed rates ranging between 1.42% and 1.785% per annum maturing during August 2018 to October 2018

All these interest-rate swap contracts qualify for hedge accounting.

Taking into account these interest-rate swap contracts, convertible bonds, fixed rate bonds and the Renminbi bank loans, the Group has fixed its interest liability on 42% of its borrowings outstanding as at 30 June 2015.

In general, the Group has not felt it appropriate to substantially hedge against currency risks through currency forward contracts upon consideration of the currency risks involved in normal operation and the cost of obtaining such cover.

INVESTMENT PROPERTIES VALUATIONS

Investment properties of subsidiaries and associates continue to be stated at fair value (including those properties being constructed for future use as investment properties of which fair value becomes reliably determinable at 30 June 2015). All changes in the fair value are recorded in the income statement. For the six months ended 30 June 2015, the Group's share of the net fair value gains on investment properties (including those under construction) being owned by subsidiaries and associates (net of deferred taxation) amounted to US\$11.8 million and US\$114.4 million, respectively, based on the opinion from independent professional valuers as obtained by the Group and the major shareholder of certain associates.

IMPAIRMENT PROVISION

The Group assesses the carrying value of a group-owned operating hotel when there is any indication that the assets may be impaired. These include continuing adverse changes in the local market conditions in which the hotel operates or will operate, when the hotel continues to operate at a loss position and its financial performance is worse than expected. Professional valuations were carried out by independent firms of professional valuers as at 30 June 2015 for those properties for which the internal assessment results needed independent confirmation. During the current period, the Group has recognized total impairment losses of US\$53.6 million for five hotels in Mainland China wholly owned by the Group and an impairment loss of US\$15.3 million for a hotel operated under operating lease in Japan in the consolidated income statement under "Other losses – net", to write down their carrying values to their recoverable amount. The recoverable amount of each hotel is the higher of its fair value less costs of disposal and its value in use based on the opinion of independent firms of professional valuers obtained by the Group using the market comparison approach and income approach.

FINANCIAL ASSETS HELD FOR TRADING – TRADING SECURITIES

For the six months ended 30 June 2015, the Group had disposed of its investment in trading securities amounting to US\$2.3 million and recorded realized gains of US\$0.2 million (US\$0.1 million after share of non-controlling interests). As at 30 June 2015, the market value of the Group's investment portfolio was US\$21.1 million, which recorded unrealized fair value gains of US\$1.3 million and dividend income of US\$0.4 million during the period.

DEVELOPMENT PROGRAMMES

The Group opened the new 166-room Hylandia by Shangri-La (a 100%-owned hotel) in Diqing Tibetan Autonomous Prefecture in Mainland China on 3 August 2015. It is the first international full-service hotel in Shangri-La City, the capital and the largest city in Diqing.

Construction work on the following projects is on-going:

(i) Hotel Developments

	Group's Equity Interest	Hotel Rooms	Long Stay Apartments	Projected Opening
Hotels in the People's Republic of China				
Shangri-La Hotel, Tangshan (part of development project of Parkside Place, Tangshan)	35%	301	38	28 Aug 2015
Midtown Shangri-La Hotel, Hangzhou (part of Kerry Central, Hangzhou)	25%	417	–	Late 2015
Shangri-La Hotel, Jinan (part of composite development project in Jinan City)	45%	359	32	2016
Shangri-La Hotel, Xiamen	100%	434	15	2016
Shangri-La Harbin, Songbei District	100%	345	33	2016
New hotel in China World Trade Center (part of composite development project in China World Trade Center – Phase 3B)	40.32%	385	–	2016
Shangri-La Hotel, Hunghom Bay, Hong Kong	100%	547	–	2016
Hotels in other countries				
Shangri-La Hotel, At The Fort, Manila (part of composite development project in Bonifacio Global City, Metro Manila, the Philippines)	40%	576	–	Late 2015
Shangri-La's Hambantota Resort & Spa, Sri Lanka	90%	300	–	2016
Shangri-La Hotel, Colombo, Sri Lanka (part of composite development project in Colombo)	90%	500	41	2017
Lakeside Shangri-La, Yangon, Myanmar	55.86%	276	15	2017

(ii) Composite Developments and Investment Properties Developments

		Total gross floor area upon completion (excluding hotel component) (approximate in square meters)				
	Group's Equity Interest	Residential	Office	Commercial	Serviced Apartments	Projected Opening
In Mainland China						
Parkside Place, Tangshan	35%	–	–	18,460	–	Late 2015
Nanchang City Project (Phase I)	20%	82,143	70,545	9,144	–	Late 2015
Shenyang Kerry Centre (Phase I & II) ⁽¹⁾	25%	576,953	165,484	223,261	–	2016-2018
Phase II of Shangri-La Hotel, Dalian	100%	18,650	–	4,600	14,011	2016
Kerry Central, Hangzhou	25%	–	12,651	108,000	33,512	2016
Putian City Project	40%	263,460	–	7,205	–	2016
China World Trade Center Phase 3B	40.32%	–	66,997	53,111	–	2016
Jinan City Project	45%	–	37,534	4,779	–	2017
In other countries						
Bonifacio Global City, Metro Manila, the Philippines	40%	37,522	–	4,405	17,554	Late 2015
Sule Square, Yangon, Myanmar	59.28%	–	29,625	5,309	–	2016
Composite development project in Ulaanbaatar, Mongolia	51%	32,328	40,902	46,372	–	2016
Composite development project in Colombo, Sri Lanka	90%	111,100	59,984	68,585	–	2017 ⁽²⁾
		1,122,156	483,722	553,231	65,077	

(1) Part of Phase I development (office and residential) has been sold and handed over.

(2) The pre-sale of residences have officially launched on 22 May 2015.

The Group is currently reviewing the development plans of the following projects in which land use rights and leasehold lands were acquired in recent years:

Hotel development

- Zhoushan, Mainland China (wholly owned by the Group)
- Wolong Bay in Dalian, Mainland China (wholly owned by the Group)
- Bali, Indonesia (53.3% equity interest owned by the Group)

Composite development

- Zhengzhou, Mainland China (45% equity interest owned by the Group)
- Kunming, Mainland China (45% equity interest owned by the Group)
- Tianjin Kerry Centre – Phase II, Mainland China (20% equity interest owned by the Group)
- Accra, the Republic of Ghana (wholly owned by the Group as at 30 June 2015, but the Group's effective interest was reduced to 45% with the completion of a sale and purchase agreement to dispose of 55% equity interest to a strategic partner on 20 August 2015)

The Group acquired the entire equity interest in a local company that owns a very well-located building in Rome in May 2012. The vacant possession of the premises has been obtained and the final adjusted balance of the cash consideration of EUR28.8 million (approximately US\$31.7 million) was paid in May 2015. The Group intends to convert the building into a Shangri-La hotel.

The Group continues to review its asset portfolio, and may sell assets that it considers non-core at an acceptable price and introduce strategic investors for some of its operating assets/development projects. The Group adjusts its development plans and investment strategy from time to time in response to changing market conditions and in order to improve the financial position of the Group.

DISPOSAL

On 20 August 2015, the Group entered into a sale and purchase agreement with an independent third party to dispose of its 55% equity interest in a project company which indirectly owns a piece of land in Accra, the Republic of Ghana for a cash consideration of US\$15,150,000. The Group's equity interest in the project company was reduced from 100% to 45% with the completion of the transaction. Both parties intend to develop a high-end composite development, which includes a hotel, on the land site.

HOTEL MANAGEMENT

In April 2015, the Group signed a management agreement in relation to the management and operation of a hotel under a new mixed-use development located in Phnom Penh, Cambodia expected to open in 2019.

As at the date of this announcement, the Group has 18 management agreements in respect of operating hotels owned by third parties.

In addition, the Group has agreements on hand for the management of 7 new hotels under development. The new hotel projects are located in Shaoxing, Nanning and Qiantan (Mainland China), Doha (Qatar), Phnom Penh (Cambodia) and Bengaluru (India, 2 hotels).

In May 2015, the Group also signed a Memorandum of Undertaking in relation to the management and operation of a luxury hotel and residences development opening in early 2018 in Jeddah, the second-largest city in Saudi Arabia.

PROSPECTS

The global economic outlook remains weak and uncertain. The Group's hotels in general continue to face a challenging business environment characterized by weakening local currencies which have reduced the affordability of overseas travel for many; lower profits in US dollar terms; weak demand from key markets, especially for some of the luxury hotels in the portfolio; and oversupply of hotel rooms in certain cities in Mainland China. This situation is expected to continue for the rest of this year with a consequent adverse impact on the operating results of the hotel portfolio.

In contrast, the investment property portfolio's performance and operating profits are expected to record a reasonable improvement over the previous year.

Given the significant impact of the hotel portfolio on the overall operating results of the Group and the recent depreciation of the Renminbi, the Group's operating profits are expected to be materially lower than those of the previous year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the underlying six-month period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

CORPORATE GOVERNANCE

The Company recognizes the importance of transparency in governance and accountability to shareholders. The Board believes that shareholders can maximize their benefits from good corporate governance. Therefore, the Company continuously reviews its corporate governance framework to ensure alignment with generally acceptable practices and standards.

On 19 March 2012, the Board adopted a composite handbook ("**Directors Handbook**") comprising (amongst other things) a set of corporate governance principles of the Company ("**CG Principles**"), terms of which align with or are stricter than the requirements set out in the code provisions under the Corporate Governance Code and Corporate Governance Report ("**CG Model Code**") as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited save for the provision that the positions of the chairman and the chief executive officer of the Company may be served by the same person. The Directors Handbook serves as a comprehensive guidebook for all directors of the Company.

During the underlying six-month period, the CG Principles were the codes for the Company's corporate governance.

The Company has met the CG Principles and the CG Model Code throughout the underlying six-month period except for the deviation summarized below:

CG Model Code	Deviation and reason
A.2.1 The roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual	Mr KUOK Khoon Chen serves as both the chairman and the chief executive officer of the Company. The Company believes that the non-separation of the two roles is not significant given that Mr Gregory Allan DOGAN, an executive director and the chief operating officer of the Company, is also the president and chief executive officer of Shangri-La International Hotel Management Limited (the hotel management subsidiary of the Company) which is entrusted with the primary responsibility of operating the assets of the Group.

QUALIFICATION FOR INTERIM DIVIDEND

In order to qualify for the interim dividend, all share transfers accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Abacus Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 pm on 30 September 2015.

On behalf of the board of
Shangri-La Asia Limited
KUOK Khoon Chen
Chairman

Hong Kong, 26 August 2015

As at the date hereof, the directors of the Company are:

Executive directors

Mr KUOK Khoon Chen (Chairman)
Mr LUI Man Shing
Mr Madhu Rama Chandra RAO
Mr Gregory Allan DOGAN

Non-executive directors

Mr HO Kian Guan
Ms KUOK Hui Kwong
Mr HO Kian Hock (alternate to Mr HO Kian Guan)

Independent non-executive directors

Mr Alexander Reid HAMILTON
Mr Timothy David DATTELS
Professor LI Kwok Cheung Arthur