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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)

2011 INTERIM RESULTS ANNOUNCEMENT

The board of directors (the “Board”) of Shangri-La Asia Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (the “Group”), and associates for the six months ended 30 June 2011. 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.

The consolidated profit attributable to equity holders of the Company for the six months ended 30 June 2011 increased to US\$ 108.4 million (US3.538 cents per share) from US\$74.8 million (US2.599 cents per share) in the same period last year.

The Board has declared an interim dividend of **HK10 cents** per share for 2011 (2010: HK10 cents per share) payable on Monday, 10 October 2011, to shareholders whose names appear on the Registers of Members of the Company on Wednesday, 28 September 2011.

GROUP FINANCIAL HIGHLIGHTS

Consolidated Results

		Six months ended 30 June	
		2011	2010
		Unaudited	Unaudited
Sales	<i>US\$'000</i>	894,602	722,851
Profit attributable to the equity holders of the Company	<i>US\$'000</i>	108,425	74,752
Earnings per share	<i>US cents</i>	3.538	2.599
	equivalent to <i>HK cents</i>	27.420	20.142
Dividend per share	<i>HK cents</i>	10	10
Annualized Return on Equity		4.3%	3.5%
$\left[\frac{\text{Profit attributable to equity holders of the Company for the six months}}{\text{Average equity attributable to equity holders of the Company}} \times 2 \right]$			
EBITDA	<i>US\$ million</i>	282.4	218.8
(earnings before net finance costs, tax, depreciation, amortization and non-operating items)			
EBITDA Margin		31.6%	30.3%
EBITDA/Sales			

Consolidated Statement of Financial Position

		As at	
		30 June	31 December
		2011	2010
		Unaudited	Audited
Total equity	<i>US\$'000</i>	5,891,623	4,990,207
Net assets attributable to the Company's equity holders	<i>US\$'000</i>	5,510,733	4,637,859
Net borrowings			
(total of bank loans, convertible bonds and overdrafts less cash and bank balances)			
	<i>US\$'000</i>	1,882,948	2,145,573
Net assets per share attributable to the Company's equity holders	<i>US\$</i>	1.76	1.61
Net assets (total equity) per share	<i>US\$</i>	1.88	1.73
Net borrowings to total equity ratio		32.0%	43.0%

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
(All amounts in US dollar thousands)

		As at	
		30 June	31 December
		2011	2010
	<i>Note</i>	Unaudited	Audited
ASSETS			
Non-current assets			
Property, plant and equipment		4,646,394	4,394,094
Investment properties		827,628	794,029
Leasehold land and land use rights		706,734	603,208
Intangible assets		99,596	92,887
Interest in associates		2,057,731	1,799,798
Deferred income tax assets		1,558	2,861
Available-for-sale financial assets		4,923	4,931
Other receivables		19,242	18,955
		8,363,806	7,710,763
Current assets			
Inventories		42,850	40,562
Properties for sale		56,907	26,554
Accounts receivable, prepayments and deposits	4	189,927	162,568
Due from associates		58,187	32,530
Financial assets held for trading		22,880	24,943
Cash and bank balances		1,014,838	540,696
		1,385,589	827,853
Total assets		9,749,395	8,538,616
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	5	2,550,640	1,946,657
Other reserves		1,793,865	1,593,757
Retained earnings			
– Proposed interim/final dividend	14	40,261	40,251
– Others		1,125,967	1,057,194
		5,510,733	4,637,859
Non-controlling interests		380,890	352,348
Total equity		5,891,623	4,990,207

		As at	
		30 June	31 December
		2011	2010
	Note	Unaudited	Audited
LIABILITIES			
Non-current liabilities			
Bank loans		2,007,693	1,414,805
Convertible bonds	6	453,674	–
Derivative financial instruments		12,028	20,304
Due to non-controlling shareholders		41,786	36,788
Deferred income tax liabilities		236,949	225,682
		<u>2,752,130</u>	<u>1,697,579</u>
Current liabilities			
Accounts payable and accruals	7	605,717	528,145
Due to non-controlling shareholders		8,536	10,478
Current income tax liabilities		31,323	17,498
Bank loans and overdrafts		436,419	1,271,464
Derivative financial instruments		23,647	23,245
		<u>1,105,642</u>	<u>1,850,830</u>
Total liabilities		<u>3,857,772</u>	<u>3,548,409</u>
Total equity and liabilities		<u>9,749,395</u>	<u>8,538,616</u>
Net current assets/(liabilities)		<u>279,947</u>	<u>(1,022,977)</u>
Total assets less current liabilities		<u>8,643,753</u>	<u>6,687,786</u>

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

(All amounts in US dollar thousands unless otherwise stated)

		Six months ended 30 June	
		2011	2010
	Note	Unaudited	Unaudited
Sales	3	894,602	722,851
Cost of sales	8	<u>(374,216)</u>	<u>(301,858)</u>
Gross profit		520,386	420,993
Other gains/(losses) – net	9	3,553	(17,049)
Marketing costs	8	(33,182)	(27,274)
Administrative expenses	8	(76,776)	(59,785)
Other operating expenses	8	<u>(285,874)</u>	<u>(243,139)</u>
Operating profit		128,107	73,746
Finance costs – net	10	(13,274)	(21,326)
Share of profit of associates	11	<u>51,120</u>	<u>61,881</u>
Profit before income tax		165,953	114,301
Income tax expense	12	<u>(45,158)</u>	<u>(30,444)</u>
Profit for the period		<u>120,795</u>	<u>83,857</u>
Profit attributable to:			
Equity holders of the Company		108,425	74,752
Non-controlling interests		<u>12,370</u>	<u>9,105</u>
		<u>120,795</u>	<u>83,857</u>
Earnings per share for profit attributable to the equity holders of the Company during the period			
(expressed in US cents per share)			
– basic	13	<u>3.538</u>	<u>2.599</u>
– diluted	13	<u>3.533</u>	<u>2.597</u>
Dividends	14	<u>40,261</u>	<u>37,119</u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

(All amounts in US dollar thousands)

	Six months ended 30 June	
	2011	2010
	Unaudited	Unaudited
Profit for the period	120,795	83,857
Other comprehensive income:		
Currency translation differences – subsidiaries	125,301	(6,429)
Currency translation differences – associates	41,209	7,301
Other comprehensive income for the period	166,510	872
Total comprehensive income for the period	287,305	84,729
Total comprehensive income attributable to:		
Equity holders of the Company	264,430	66,765
Non-controlling interests	22,875	17,964
	287,305	84,729

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 2010	1,943,448	1,412,324	873,733	4,229,505	315,792	4,545,297
Currency translation differences	–	(7,987)	–	(7,987)	8,859	872
Net (expenses)/income recognized directly in equity	–	(7,987)	–	(7,987)	8,859	872
Profit for the period	–	–	74,752	74,752	9,105	83,857
Total comprehensive (expenses)/income for the six months ended 30 June 2010	–	(7,987)	74,752	66,765	17,964	84,729
Exercise of share options – allotment of shares	520	–	–	520	–	520
Exercise of share options – transfer from option reserve to share premium	54	(54)	–	–	–	–
Payment of 2009 final dividend	–	–	(22,269)	(22,269)	–	(22,269)
Difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration arising from changes in the Company's ownership interest in subsidiaries	–	–	(4,071)	(4,071)	–	(4,071)
Dividend paid and payable to non- controlling shareholders	–	–	–	–	(4,997)	(4,997)
Equity acquired from a non-controlling shareholder	–	–	–	–	(2,562)	(2,562)
Equity injected by a non-controlling shareholder	–	–	–	–	665	665
Net change in equity loans due to non- controlling shareholders	–	–	–	–	194	194
	574	(54)	(26,340)	(25,820)	(6,700)	(32,520)
Balance at 30 June 2010	<u>1,944,022</u>	<u>1,404,283</u>	<u>922,145</u>	<u>4,270,450</u>	<u>327,056</u>	<u>4,597,506</u>

		Unaudited					
	Note	Attributable to equity holders of the Company				Non- controlling interests	Total equity
		Share capital	Other reserves	Retained earnings	Total		
Balance at 1 January 2011		1,946,657	1,593,757	1,097,445	4,637,859	352,348	4,990,207
Currency translation differences		–	156,005	–	156,005	10,505	166,510
Net income recognized directly in equity		–	156,005	–	156,005	10,505	166,510
Profit for the period		–	–	108,425	108,425	12,370	120,795
Total comprehensive income for the six months ended 30 June 2011		–	156,005	108,425	264,430	22,875	287,305
Exercise of share options – allotment of shares		1,574	–	–	1,574	–	1,574
Exercise of share options – transfer from option reserve to share premium		415	(415)	–	–	–	–
Rights issue	5	601,994	–	–	601,994	–	601,994
Payment of 2010 final dividend		–	–	(40,251)	(40,251)	–	(40,251)
Issue of convertible bonds – equity component	6	–	44,518	–	44,518	–	44,518
Net consideration received from the resale of the Company's shares held by a subsidiary		–	–	609	609	217	826
Dividend paid and payable to non-controlling shareholders		–	–	–	–	(4,000)	(4,000)
Acquisition of a non-wholly owned subsidiary		–	–	–	–	4,367	4,367
Equity injected by a non-controlling shareholder		–	–	–	–	5,083	5,083
		603,983	44,103	(39,642)	608,444	5,667	614,111
Balance at 30 June 2011		2,550,640	1,793,865	1,166,228	5,510,733	380,890	5,891,623

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(All amounts in US dollar thousands unless otherwise stated)

1. General information

The Group owns 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 2011.

2. Basis of preparation and accounting policies

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2011 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").

These condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2010, 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 2010 with the addition of certain amendments to standards, new interpretations and the HKICPA's improvements to HKFRS 2010 which are relevant to the Group's operation and are mandatory for the financial year ending 31 December 2011. These amendments to standards and new interpretations had no material impact on the Group's financial statements.

In addition, the Group has issued convertible bonds during the period and the accounting policy adopted by the Group on convertible bonds is as follows:

Convertible bonds issued are split into their liability and equity components at initial recognition. The liability component at its fair value is determined using a market interest rate for equivalent non-convertible bonds. The difference between the net proceeds from the issue and the fair value of the liability component is the equity component. The liability component is subsequently carried at amortized cost. The equity component is recognized in the convertible bonds reserve until the bond is either converted (in which case it is transferred to share premium) or the bond is redeemed (in which case it is released directly to retained earnings).

3. Segment information

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

Hotel operation (hotel ownership and operation)

- Hong Kong
- Mainland China
- Singapore
- Malaysia
- The Philippines
- Japan
- Thailand
- France
- Other countries (including Fiji, Australia, Myanmar, Maldives and Indonesia)

Property rentals (ownership and leasing of office, commercial and serviced apartments)

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

Hotel management (provision of hotel management and related services)

The chief operating decision-maker assesses the performance of the operating segments based on a measure of the share of profits 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 2011 and 2010 (US\$ million)

	2011		2010	
	Sales	Profit/(Loss)	Sales	Profit/(Loss)
	(Note 2)	after tax (Note 1)	(Note 2)	after tax (Note 1)
Hotel operation				
Hong Kong	125.0	34.8	99.9	20.8
Mainland China	384.1	31.6	318.5	22.6
Singapore	76.8	15.5	62.3	12.6
Malaysia	66.9	8.5	56.7	6.5
The Philippines	90.2	5.7	80.3	(0.1)
Japan	15.6	(11.4)	20.6	(7.4)
Thailand	25.6	(1.1)	19.2	(0.6)
France	16.6	(18.9)	–	–
Other countries	45.8	(1.9)	27.2	(2.5)
	<u>846.6</u>	<u>62.8</u>	<u>684.7</u>	<u>51.9</u>
Property rentals				
Mainland China	10.3	24.3	8.9	19.4
Singapore	8.1	5.6	6.5	5.1
Malaysia	3.1	0.8	3.3	0.9
Other countries	6.8	2.0	5.5	2.3
	<u>28.3</u>	<u>32.7</u>	<u>24.2</u>	<u>27.7</u>
Hotel management	<u>55.8</u>	<u>16.4</u>	<u>41.0</u>	<u>12.8</u>
Total	<u><u>930.7</u></u>	<u><u>111.9</u></u>	<u><u>749.9</u></u>	<u><u>92.4</u></u>
Less: Hotel management – Inter-segment sales	<u>(36.1)</u>		<u>(27.0)</u>	
Total external sales	<u><u>894.6</u></u>		<u><u>722.9</u></u>	
Corporate finance costs (net)		(6.1)		(3.7)
Land cost amortization and pre-opening expenses for projects		(14.1)		(8.6)
Corporate expenses		(7.4)		(5.0)
Exchange gains/(losses) of corporate investment holding companies		<u>0.7</u>		<u>(4.0)</u>
Profit before non-operating items		85.0		71.1

	2011	2010
	Profit/(Loss)	Profit/(Loss)
	Sales	Sales
	(Note 2)	(Note 2)
	after tax	after tax
	(Note 1)	(Note 1)
Non-operating items		
Fair value gains on investment properties	20.7	32.7
Negative goodwill arising from acquisition of a subsidiary and an associate	9.0	–
Unrealized losses on financial assets held for trading	(2.0)	(3.6)
Fair value losses on interest-rate swap contracts	(4.2)	(16.5)
Fair value adjustments on loans from non-controlling shareholders and security deposit on leased premises	(0.5)	(1.2)
Realized gain on disposal of long term investment	0.4	–
Discarding of property, plant and equipment due to renovation of a resort	–	(7.7)
Profit attributable to equity holders of the Company	108.4	74.8

Notes:

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

4. Accounts receivable, prepayments and deposits

	As at	
	30 June	31 December
	2011	2010
Trade receivables – net	66,214	68,036
Deposits for acquisition of a project company and land bids	7,344	10,469
Prepayments and other deposits	57,274	38,947
Other receivables	59,095	45,116
	189,927	162,568

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 of impairment is as follows:

	As at	
	30 June 2011	31 December 2010
0 – 3 months	61,785	63,618
4 – 6 months	2,486	1,779
Over 6 months	1,943	2,639
	66,214	68,036

5. Share capital

	Amount			
	No. of shares (‘000)	Ordinary shares	Share premium	Total
Authorized – Ordinary shares of HK\$1 each				
At 1 January 2011 and 30 June 2011	5,000,000	646,496	–	646,496
Issued and fully paid – Ordinary shares of HK\$1 each				
At 1 January 2011	2,888,677	372,989	1,573,668	1,946,657
Exercise of share options				
– allotment of shares	1,026	132	1,442	1,574
– transfer from option reserve	–	–	415	415
Rights issue	240,752	31,065	570,929	601,994
At 30 June 2011	3,130,455	404,186	2,146,454	2,550,640

Certain share options at various exercise prices granted to option holders of the Company under the Executive Option Scheme and the New Option Scheme were exercised during the six months ended 30 June 2011 and the following new shares were issued:

	Number of option shares issued						
	At HK\$8.26 per option share	At HK\$8.82 per option share	At HK\$8.18 per option share	At HK\$6.81 per option share	At HK\$11.60 per option share	At HK\$14.60 per option share	Total consideration US\$'000
In year 2011							
January	–	–	–	–	308,000	209,000	855
February	–	–	–	100,000	29,000	20,000	169
March	–	–	–	–	200,000	–	299
April	–	–	–	–	80,000	–	120
May	–	–	–	–	50,000	30,000	131
For the six months ended 30 June 2011	–	–	–	100,000	667,000	259,000	1,574

The weighted average closing price of the shares immediately before the dates on which the options were exercised for the six months ended 30 June 2011 was HK\$20.65 (six months ended 30 June 2010: HK\$14.34).

On 11 February 2011, the Company completed a rights issue of ordinary shares resulting in 240,751,561 new shares being issued at HK\$19.50 per share. Gross proceeds on the issue were approximately HK\$4,694,655,000 (equivalent to US\$605,762,000) with issue expenses amounting to approximately HK\$29,200,000 (equivalent to US\$3,768,000). Of the net proceeds, HK\$4,607,500,000 (equivalent to US\$594,516,000) were applied to repay corporate bank borrowings maturing in 2011 with the remaining HK\$57,955,000 (equivalent to US\$7,478,000) retained as general working capital and for immediate capital expenditure.

During the period, a subsidiary of the Company disposed of 316,000 ordinary shares of the Company for a net cash consideration of approximately US\$826,000 on The Stock Exchange of Hong Kong Limited. The amount was credited to the equity. As at 30 June 2011, 10,501,055 ordinary shares of the Company were still held by the subsidiary.

Share options

Share options are granted to directors and to key employees. The exercise price of the granted options is equal to/higher than the closing price of the shares on the date of the grant. Options are conditional on the directors and employees completing one year's service (the vesting period). The options are exercisable starting one year from the grant date and the options have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The Company originally has two share option schemes: the Executive Option Scheme and the New Option Scheme. Following the exercise of the remaining outstanding option shares by the option holders in 2010, the Executive Option Scheme has been terminated in 2010.

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 2011		For the year ended 31 December 2010	
	Average exercise price in HK\$ per option share	Number of option shares	Average exercise price in HK\$ per option share	Number of option shares
At 1 January	12.57	11,257,500	12.48	13,769,466
Exercised	11.89	(1,026,000)	11.81	(1,698,116)
Lapsed	12.46	(70,000)	12.64	(813,850)
At 30 June/31 December	12.64	<u>10,161,500</u>	12.57	<u>11,257,500</u>

As at 30 June 2011 and 31 December 2010, outstanding option shares of the New Option Scheme at the end of the period/year are as follows:

Last exercisable date	Exercise price in HK\$ per option share	Number of option shares as at	
		30 June 2011	31 December 2010
New Option Scheme			
31 December 2011	11.60	30,000	30,000
31 December 2011	14.60	15,000	15,000
28 May 2012	6.81	390,000	490,000
27 April 2015	11.60	5,595,000	6,312,000
15 June 2016	14.60	4,131,500	4,410,500
		10,161,500	11,257,500

No option was granted during the six months ended 30 June 2011 and 2010.

Options on 120,000 shares and 190,000 shares with exercise price of HK\$6.81 and HK\$14.60 per share, respectively have been exercised subsequent to 30 June 2011 and up to the approval date of the financial statements. No options have lapsed subsequent to 30 June 2011 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 (the “Maturity Date”), in the aggregate principal amount of US\$500 million with an initial conversion price of HK\$29.03 per ordinary share of the Company (subject to adjustment). 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 in long-term borrowings, 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 statement of financial position is calculated as follows:

Face value of convertible bonds issued on 12 May 2011	500,000
Issuing expenses	(4,400)
Equity component credited to the equity	(44,518)
Liability component on initial recognition at 12 May 2011	451,082
Accumulated interest expense (<i>Note 10</i>)	2,592
Liability component at 30 June 2011	453,674

The face value of outstanding bonds at 30 June 2011 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 2011 and up to the date of this announcement. The carrying value of the liability component is calculated using cash flows discounted at an initial market interest rate of 4.34% per annum.

7. Accounts payable and accruals

	As at	
	30 June 2011	31 December 2010
Trade payables	80,370	80,537
Construction cost payable, payable for land use rights and accrued expenses	525,347	447,608
	605,717	528,145

The ageing analysis of the trade payables is as follows:

	As at	
	30 June 2011	31 December 2010
0 – 3 months	71,717	73,123
4 – 6 months	5,107	4,476
Over 6 months	3,546	2,938
	80,370	80,537

8. 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 2011	30 June 2010
Depreciation of property, plant and equipment (net of amount capitalized of US\$411,000 (2010: US\$87,000))	135,980	111,846
Amortization of leasehold land and land use rights	6,142	5,621
Amortization of trade mark and web site development	274	556
Employee benefit expenses	251,620	197,804
Cost of inventories sold or consumed in operation	123,810	99,143
Loss on disposal of property, plant and equipment and partial replacement of investment properties	609	670
Discarding of property, plant and equipment due to renovation of hotels and a resort	23	9,294

9. Other gains/(losses) – net

	For the six months ended	
	30 June 2011	30 June 2010
Net unrealized losses on financial assets held for trading	(2,063)	(3,662)
Fair value (losses)/gains on derivative financial instruments		
– interest-rate swap contracts	(4,208)	(16,509)
– forward exchange contract	219	(342)
Negative goodwill arising from acquisition of a subsidiary (Note 15(a))	3,598	–
Interest income	4,891	2,606
Dividend income	479	465
Others	637	393
	<u>3,553</u>	<u>(17,049)</u>

10. Finance costs – net

	For the six months ended	
	30 June 2011	30 June 2010
Interest expense		
– bank loans and overdrafts	28,492	22,103
– convertible bonds	2,592	–
– other loans	581	1,367
	<u>31,665</u>	<u>23,470</u>
Less: amount capitalized	<u>(3,527)</u>	<u>(1,250)</u>
	<u>28,138</u>	<u>22,220</u>
Net foreign exchange transactions gains	<u>(14,864)</u>	<u>(894)</u>
	<u>13,274</u>	<u>21,326</u>

The effective capitalization rate used to determine the amount of borrowing costs eligible for capitalization is 2.37% per annum for the period (2010: 1.8%).

11. Share of profit of associates

	For the six months ended	
	30 June 2011	30 June 2010
Share of profit before tax of associates before negative goodwill and share of net increase in fair value of investment properties	35,607	38,859
Negative goodwill arising from acquisition of an associate (Note 15(b))	5,408	–
Share of net increase in fair value of investment properties	27,546	43,557
Share of profit before tax of associates	<u>68,561</u>	<u>82,416</u>
Share of associates' taxation before provision for deferred tax liabilities on fair value gains of investment properties	(10,555)	(9,646)
Share of provision for deferred tax liabilities on fair value gains of investment properties	<u>(6,886)</u>	<u>(10,889)</u>
Share of associates' taxation	<u>(17,441)</u>	<u>(20,535)</u>
Share of profit of associates	<u>51,120</u>	<u>61,881</u>

12. 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% (2010: 16.5%) on the estimated assessable profit 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 2011	30 June 2010
Current income tax		
– Hong Kong profits tax	8,478	5,171
– Overseas taxation	31,156	24,004
Deferred income tax	<u>5,524</u>	<u>1,269</u>
	<u>45,158</u>	<u>30,444</u>

13. 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 2011	30 June 2010
Profit attributable to equity holders of the Company (<i>US\$'000</i>)	108,425	74,752
Weighted average number of ordinary shares in issue (<i>thousands</i>)	3,064,884	2,876,410
Basic earnings per share (<i>US cents per share</i>)	3.538	2.599

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 could have been acquired 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 2011, all the share options issued under the New Option Scheme have the greatest dilution effect. For the six months ended 30 June 2010, the share options with exercise price of HK\$8.82 and HK\$8.18 issued under the Executive Option Scheme together with the share options with exercise price of HK\$6.81 and HK\$11.60 issued under the New Option Scheme have the greatest dilution effect.

	For the six months ended	
	30 June 2011	30 June 2010
Profit attributable to equity holders of the Company (<i>US\$'000</i>)	108,425	74,752
Weighted average number of ordinary shares in issue (<i>thousands</i>)	3,064,884	2,876,410
Adjustments for share options (<i>thousands</i>)	3,946	1,790
Weighted average number of ordinary shares for diluted earnings per share (<i>thousands</i>)	3,068,830	2,878,200
Diluted earnings per share (<i>US cents per share</i>)	3.533	2.597

14. Dividends

	For the six months ended	
	30 June 2011	30 June 2010
Interim dividend of HK10 cents (2010: HK10 cents) per ordinary share	<u>40,261</u>	<u>37,119</u>

Notes:

- (a) At a meeting held on 30 March 2011, the Board proposed a final dividend of HK10 cents per ordinary share for the year ended 31 December 2010, which was paid on 9 June 2011, and has been reflected as an appropriation of retained earnings for the six months ended 30 June 2011.
- (b) At a meeting held on 26 August 2011, the Board declared an interim dividend of HK10 cents per ordinary share for the year ending 31 December 2011. This declared dividend is not reflected as a dividend payable in these financial statements but reflected as a distribution of retained earnings for the year ending 31 December 2011. The declared interim dividend of US\$40,261,000 for the six months ended 30 June 2011 is calculated based on 3,130,764,299 shares of the Company in issue as at the approval date of these financial statements after having eliminated on consolidation the amount of US\$135,000 for the 10,501,055 ordinary shares of the Company held by a subsidiary of the Company.

15. Acquisition of interests in subsidiaries and an associate

(a) Acquisition of interests in subsidiaries

On 31 March 2011, the Group completed the acquisition of 55% equity interest in a joint venture which owns the Shangri-La Hotel, The Marina, Cairns and the associated properties in Australia at a total consideration of A\$8,353,000 (equivalent to US\$8,465,000) which included the conversion of A\$6,000,000 loan previously granted by the Group to the hotel as part of the equity in the joint venture. The hotel has been managed by the Group since 2004. The Group has also provided a proportionate shareholder loan of A\$2,750,000 (equivalent to US\$2,787,000) to the joint venture for partial refinancing of bank loan of the hotel.

By end of June 2011, the Group obtained the necessary approvals from the local government authorities and completed certain changes of registration from the local government authorities for the acquisition of 100% equity interest in a project company in Yangzhou City in Mainland China from a wholly owned subsidiary of Kerry Properties Limited which is a subsidiary of the Company's controlling shareholder Kerry Holdings Limited ("KHL"). A deposit of RMB11,329,000 (equivalent to US\$1,718,000) was paid in January 2011. Balance of the cash consideration of RMB215,257,000 (equivalent to US\$33,851,000) was paid in August 2011.

Details of purchase considerations and the fair values of assets and liabilities acquired for the aforesaid acquisitions of subsidiaries are as follows:

Purchase considerations:

Purchase considerations already paid	12,970
Balance of consideration payable	33,851

Total purchase considerations	46,821
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Fair value of net assets acquired:

Property, plant and equipment and leasehold land	97,471
Current assets	39,734
Current liabilities	(13,354)
Bank loans	(74,979)
Non-controlling interests	(4,367)

44,505

Goodwill arising from acquisition of a subsidiary (included in intangible assets of the statement of financial position)	5,914
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Excess of share of fair value of net assets of a subsidiary over its purchase considerations (represented by negative goodwill included in other gains of the income statement (<i>Note 9</i>))	(3,598)
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(b) Acquisition of interests in an associate

By end of June 2011, the Group also obtained the necessary approvals from the local authorities and completed certain changes of registration for the acquisition of 10% and 15% equity interest in a project company in Shenyang City in Mainland China from each of a wholly owned subsidiary of KHL and Allgreen Properties Limited (a subsidiary of which is a substantial shareholder of an indirect non-wholly owned subsidiary of the Company), respectively. Total deposits of RMB204,488,000 (equivalent to US\$31,308,000) were paid during the period. Balance of the cash consideration of RMB750,262,000 (equivalent to US\$117,241,000) was paid in August 2011. The 25% share of the fair value of the net assets of the project company was RMB996,407,000 (equivalent to US\$153,957,000). The excess of the share of the fair value of the net assets over the total purchase consideration amounted to US\$5,408,000 which was included in share of profit of associates (*Note 11*).

16. Financial guarantees, contingencies and charges over assets

(a) Financial guarantees

As at 30 June 2011, the Group executed proportionate guarantees in favour of banks for securing banking facilities granted to certain associates. The Group also executed a counter guarantee in favour of the major shareholder of an associate which had provided full guarantee in favour of a bank for securing banking facilities granted to the associate. The utilized amount of such facilities covered by the Group's guarantees for these associates amounts to US\$121,842,000 (31 December 2010: US\$91,466,000). The guarantees are stated at their respective contracted amounts. 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 2011, the Group executed guarantees for securing standby documentary credit granted by banks in favour of certain building contractors relating to the execution of construction works for hotel buildings with the amount of US\$28,867,000 (31 December 2010: US\$26,577,000). These facilities were undrawn as at 30 June 2011.

(c) Charges over assets

As at 30 June 2011, bank borrowings of certain subsidiaries amounting to US\$169,296,000 (31 December 2010: US\$97,323,000) was secured by:

- (i) Freehold land and construction of a subsidiary with net book value of US\$40,575,000 (31 December 2010: US\$42,095,000).
- (ii) Land lease right and all immovable assets owned by a subsidiary together with a pledge of all the equity shares of the subsidiary with net book value of US\$156,120,000 (31 December 2010: US\$160,876,000).
- (iii) Legal mortgage over the property owned by a subsidiary with net book value of US\$115,805,000 (31 December 2010: US\$88,061,000).
- (iv) Legal mortgage over the property owned by a subsidiary acquired during the period with net book value of US\$66,896,000 (31 December 2010: Nil).

17. Commitments

Capital expenditure at the date of the statement of financial position committed but not yet incurred is as follows:

	As at	
	30 June	31 December
	2011	2010
Existing properties – Property, plant and equipment and investment properties		
Contracted but not provided for	93,003	103,453
Authorized but not contracted for	113,408	98,279
Development projects		
Contracted but not provided for	1,405,447	1,393,849
Authorized but not contracted for	1,899,810	1,392,040
	3,511,668	2,987,621

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

- (a) The Company issued a total of 310,000 new ordinary shares to share option holders who have exercised their rights to subscribe for shares of the Company subsequent to 30 June 2011 and up to the approval date of these financial statements.
- (b) In August 2011, the Group paid the balance of the cash consideration of RMB750,262,000 (equivalent to US\$117,241,000) and RMB215,257,000 (equivalent to US\$33,851,000) for the acquisition of 25% equity interest in a project company in Shenyang City and 100% equity interest in a project company in Yangzhou City in Mainland China, respectively after all the conditions included in the sale and purchase agreements relating to the acquisitions have been met.
- (c) In July 2011, an indirect wholly owned subsidiary of the Company executed a 6-year unsecured bilateral bank loan agreement of RMB15,000,000 (equivalent to US\$2,318,000). A wholly owned subsidiary of the Company executed three 5-year unsecured bilateral bank loan agreements with an aggregate amount of HK\$1,980,000,000 (equivalent to US\$255,484,000) in July 2011.

OPERATIONS REVIEW

(Performance compared to the corresponding period last year)

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

- (a) Hotel operations – Hotel ownership and operation
- (b) Hotel management – Provision of hotel management and related services to Group-owned hotels and to hotels owned by third parties
- (c) Property rentals – Ownership and leasing of office properties, commercial properties and serviced apartments

Revenues

(a) Hotel Operations

- Continued to be the main source of revenue and operating profits.
- As at 30 June 2011, the Group has equity interest in 56 operating hotels with 26,356 available guest rooms, including the Portman Ritz-Carlton Hotel, Shanghai (the "Portman"). The 200-room Shangri-La Hotel, Tokyo ("Shangri-La Tokyo") is operating under a medium term operating lease.
- Benefited from both the recovering corporate travel market and emerging leisure travel trends and together with the general appreciation of Asian currencies against US dollar, performance of most of the Group's hotels continued to be good during the period under review. The weighted average room yields ("RevPAR") of the Group's hotels recorded a 17% year-on-year increment, led mainly by improvements in room rates.
- In terms of key performance indicators, all the Group's hotels recorded an increment in RevPAR with the exception of the hotels in Shanghai (affected by the temporary decrease in occupancy after Shanghai EXPO) and Tokyo (affected by the temporary closure from mid March to mid April following the catastrophic event in Fukushima) and Shangri-La's Tanjung Aru Resort & Spa in Kota Kinabalu (affected by the renovation programme). Segments results are set out in Note 3 to the condensed consolidated interim financial statements included in this announcement.
- The 454-room Shangri-La's Rasa Sentosa Resort, Singapore (a wholly owned hotel) re-opened for business on 18 January 2011 in a phased manner after completion of its major renovation since its temporary closure in March 2010.

- The 574-room Kerry Hotel Pudong, Shanghai (a 23.2% owned hotel) in Mainland China opened for business on 18 February 2011.
- The 235-room Shangri-La Hotel, Manzhouli (a wholly owned hotel) in Mainland China opened for business on 15 April 2011.
- At the end of March 2011, the Group acquired a 55% equity interest in a joint venture which owns the Shangri-La Hotel, The Marina, Cairns (“Shangri-La Cairns”) in Australia. This hotel has been managed by the Group since 2004.

The key performance indicators of the Group on an unconsolidated basis for the period are as follows:

Country	2011 Weighted Average			2010 Weighted Average		
	Occupancy (%)	Transient Room Rate (US\$)	RevPAR (US\$)	Occupancy (%)	Transient Room Rate (US\$)	RevPAR (US\$)
The People’s Republic of China						
Hong Kong	79	322	248	69	269	211
Mainland China	59	152	88	60	133	79
Singapore	70	248	186	66	191	150
Malaysia	69	132	90	62	133	80
The Philippines	72	184	131	73	161	115
Japan	50	460	225	59	441	254
Thailand	47	157	72	39	145	65
France	46	1,357	531	N/A	N/A	N/A
Other countries	67	185	118	65	142	91
Group	<u>63</u>	<u>179</u>	<u>111</u>	<u>61</u>	<u>153</u>	<u>96</u>

Note: The RevPAR of hotels under renovation has been computed by excluding the number of rooms under renovation.

(b) Hotel Management

- Except for the Portman, all the other 55 hotels in which the Group has equity interest together with Shangri-La Tokyo are managed by the hotel management subsidiary, SLIM International Limited and its subsidiaries (“SLIM”) as at 30 June 2011.
- SLIM had hotel management agreements in respect of 16 operating hotels owned by third parties as at 30 June 2011. Overall weighted average occupancy, room rate and RevPAR of these 16 hotels increased by 6%, 7% and 14%, respectively.
- Revenue of SLIM on consolidation, after elimination of revenue earned from fellow subsidiaries, recorded an increase of 41%.

- In March 2011, SLIM exited its management agreements in respect of the two hotels under development in Macau which have experienced significant completion delays. In early July 2011, SLIM also terminated its management agreement in respect of a hotel under development in Moscow. As at the date of this announcement, SLIM has management agreements on hand for 11 hotels under development owned by third parties.

(c) Property Rentals

- The Group's investment properties are located principally in Shanghai and Beijing and are owned by associates.
- All the principal investment properties in Mainland China recorded an improvement in yields save for the serviced apartments and the office spaces of Shanghai Centre (which experienced a marginal decrease in rental rates) and the commercial spaces of the Beijing Kerry Centre (under renovation). In Beijing, the serviced apartments of the Beijing Kerry Centre, the China World Trade Center and the Century Towers recorded increase in yields of 24%, 17% and 45%, respectively. The serviced apartments of the Shanghai Kerry Centre were under renovation during the period. The office spaces and the commercial spaces of the Shangri-La Centre in Qingdao recorded increase in yields of 103% and 756%, respectively.
- The investment properties in other countries also recorded an increase in yields save for the UBN Tower in Malaysia (affected by the moving out of two tenants following the expiry of the leases). Notably, the office spaces of the Central Tower in Ulaanbaatar, the Republic of Mongolia and the serviced apartments in Singapore recorded increase in yields of 66% and 24%, respectively.
- The Kerry Parkside, Pudong in Shanghai (a 23.2% owned high-end composite development which includes the Kerry Hotel, Pudong) commenced business in February 2011.

Consolidated Profits

- On a segment basis, net profit attributable to equity holders of the Company from hotel operations and investment properties increased by US\$10.9 million and US\$5.0 million, respectively compared to the same period last year.
- In general, most of the hotels which have been operating for over 3 years since their opening have recorded a net profit during the period under review. The Shangri-La Tokyo suffered an increase in operating loss primarily due to the effect of the temporary closure for around one month since mid March. The performance of the Shangri-La Hotel, Paris (which commenced business in December 2010) was adversely affected by a slow pick-up in business. It is now enjoying reasonably good occupancies.
- Net profit before non-operating items increased from US\$71.1 million in 2010 to US\$85.0 million in 2011.

- Net credit from non-operating items during the current period was US\$23.4 million (US\$3.7 million in the previous year), mainly contributed by the US\$20.7 million fair value gains on investment properties (net of tax), US\$9.0 million negative goodwill arising from the acquisition of a subsidiary and an associate and after offsetting US\$2.0 million of unrealized losses on financial assets held for trading and US\$4.2 million of fair value losses on interest-rate swap contracts.

CORPORATE DEBT AND FINANCIAL CONDITIONS

At the corporate level, the Group executed two 5-year bilateral unsecured bank loan agreements of HK\$2,500 million (approximately US\$322.6 million) and US\$120 million during the period. These loan agreements were executed for project financing as well as refinancing of loans maturing in 2011.

On 11 February 2011, the Company completed the rights issue of ordinary shares resulting in 240,751,561 new shares being issued at HK\$19.50 per share. On 12 May 2011, the Group issued zero coupon guaranteed convertible bonds due May 2016 in the aggregate principal amount of US\$500 million with an initial conversion price of HK\$29.03 per ordinary share of the Company (subject to adjustment). Of the net proceeds from the bonds, US\$102 million and US\$164 million were applied to fund capital expenditure before and after 30 June 2011, respectively. Details of the rights issue and the convertible bonds were provided in Note 5 and Note 6 to the condensed consolidated interim financial statements included in this announcement, respectively.

At the subsidiary level, the Group executed three 3-year unsecured bank loan agreements totaling US\$36 million and RMB150 million (approximately US\$23.2 million) and one 5-year unsecured bank loan agreement of RMB80 million (approximately US\$12.4 million) to refinance outstanding bank borrowings matured in 2011. For project financing, a wholly owned subsidiary in Mainland China executed a 5-year unsecured bank loan agreement of RMB250 million (approximately US\$38.6 million). A non-wholly owned subsidiary in the Republic of Mongolia also executed a 10-year US\$50 million project loan agreement with International Finance Corporation.

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 overdrafts less cash and bank balances) to total equity ratio, i.e. the gearing ratio, reduced from 43.0% as at 31 December 2010 to 32.0% as at 30 June 2011.

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

The analysis of borrowings outstanding as at 30 June 2011 is as follows:

(US\$ million)	Maturities of Borrowings Contracted as at 30 June 2011				Total
	Within 1 year	In the 2nd year	Repayment In the 3rd to 5th year	After 5 years	
Borrowings					
Corporate borrowings					
– unsecured bank loans	187.1	291.6	613.8	–	1,092.5
– convertible bonds	–	–	453.7	–	453.7
Project bank loans and overdrafts					
– secured	16.5	77.6	75.2	–	169.3
– unsecured	232.8	469.7	460.3	19.5	1,182.3
Total	436.4	838.9	1,603.0	19.5	2,897.8
Undrawn but committed facilities					
Bank loans and overdrafts	167.6	9.6	508.2	158.9	844.3

Subsequent to the period end and up to the date of this announcement, the Group executed new bank loan agreements totaling approximately US\$257.8 million as detailed in Note 18 to the condensed consolidated interim financial statements included in this announcement.

The currency-mix of the borrowings and cash and bank balances as at 30 June 2011 is as follows:

(US\$ million)	Borrowings	Cash and Bank Balances
In Hong Kong dollars	1,016.6	79.1
In United States dollars	867.9	504.4
In Renminbi	507.9	301.5
In Euros	217.3	8.9
In Japanese Yen	74.6	1.2
In Philippines Pesos	65.6	44.5
In Singapore dollars	60.8	24.3
In Australian dollars	57.4	0.9
In Malaysian Ringgit	23.1	11.3
In Thai Baht	6.6	7.9
In Mongolian Tugrik	–	12.8
In Fiji dollars	–	10.8
In British Pound	–	5.7
In Maldives Rufiyaa	–	1.1
In other currencies	–	0.4
	2,897.8	1,014.8

Excepting the convertible 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 2011 are disclosed in Note 16 to the condensed consolidated interim financial statements included in this announcement.

TREASURY POLICIES

Treasury policies aimed at minimizing interest and currency risk have been consistently followed by the Group as disclosed in the 2010 annual report. As at 30 June 2011, the principal amount of the outstanding HIBOR interest-rate swap contracts (with fixed interest rates ranging between 4.28% and 4.63% per annum) and LIBOR interest-rate swap contracts (with a fixed interest rate of 4.70% per annum) was HK\$3,460 million (approximately US\$446.5 million) and US\$100 million, respectively. Taking into account the interest-rate swap contracts, convertible bonds and the Renminbi borrowings, the Group has fixed its interest liability on 52% of its loans outstanding as at 30 June 2011.

The Group has not felt it appropriate to substantially hedge against currency risks through forward exchange contracts upon consideration of the currency risks involved and the cost of obtaining such cover. A non-wholly owned subsidiary in Thailand has an outstanding short term forward exchange contract of US\$9 million between Thai Baht and United States dollars maturing December 2011 to hedge against a short term intra-group loan with similar principal amount.

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 2011). All changes in the fair value are recorded in the income statement. For the six months ended 30 June 2011, the Group's share of the increase in fair value of investment properties (including those under construction) being owned by certain associates (net of deferred taxation) amounted to US\$20.7 million based on the opinion from an independent professional valuer as obtained by the major shareholder of these associates.

FINANCIAL ASSETS HELD FOR TRADING – TRADING SECURITIES

The investment portfolio remained unchanged during the period. The Group recorded net unrealized fair value losses of US\$2.1 million (US\$2.0 million after share of non-controlling interests) and dividend income of US\$0.5 million (US\$0.4 million after share of non-controlling interests) during the period.

DEVELOPMENT PROGRAMMES

Construction work on the following projects is on-going:

	Group's Equity Interest	Hotel Rooms	Serviced Apartments/ Villas	Projected Opening
Hotels in Mainland China				
Shangri-La Hotel, Qufu	100%	501	–	2012
Shangri-La Resort, Sanya	100%	504	43 Villas	2012
Shangri-La Hotel, Yangzhou	100%	369	–	2012
Shangri-La Hotel, Lhasa	100%	296	–	2013
Shangri-La Hotel, Diqing	100%	220	–	2013
Shangri-La Hotel, Qinhuangdao	100%	317	–	2014
Hotels in other countries				
Shangri-La Hotel, Ulaanbaatar, the Republic of Mongolia	75%	280	–	2013
Shangri-La Hotel, at The Shard, London, the United Kingdom	Operating lease	203	–	2013
Composite developments in Mainland China				
Jing An Kerry Centre, Shanghai (with Jing An Shangri-La, Shanghai)	49%	508	–	2013
Tianjin Kerry Centre (with Shangri-La Hotel, Tianjin)	20%	507	11	2013
Nanjing City Project (with Shangri-La Hotel, Nanjing)	55%	516	40	2013
Tangshan City Project (with Shangri-La Hotel, Tangshan)	35%	428	–	2013
Nanchang City Project (with Shangri-La Hotel, Nanchang)	20%	385	–	2014
Composite development in the Philippines				
Bonifacio Global City, Metro Manila (with Shangri-La At The Fort, Manila)	40%	577	97	2014

The Group has acquired land use rights in the following cities and is now drafting the development plan of these projects:

In Mainland China:

- Zhoushan (hotel development)
- Hefei (hotel development)
- Xiamen (hotel development)
- Wolong Bay in Dalian (hotel development)

- Fuzhou (extension of the Shangri-La Hotel, Fuzhou)
- Harbin[#] (hotel development)
- Zuhai[#] (hotel and training centre development)
- Dalian[#] (extension of the Shangri-La Hotel, Dalian)

In Sri Lanka:

- Colombo (high-end composite development)
- Hambantota[#] (resort development)

([#] Acquired in 2011)

Following the successful biddings for the land sites in Jinan City in Mainland China on 26 May 2011, the Group entered into a supplemental shareholders' agreement with a wholly owned subsidiary of Kerry Properties Limited ("KPL"). The Group's 45% share of the maximum total investment amount in this high-end composite development project increased to RMB554.1 million (approximately US\$85.6 million).

Following the successful biddings for the land sites in Laobian District, Yingkou City in Mainland China on 5 January 2011, the Group and the wholly owned subsidiaries of KPL and Wilmar International Limited ("WIL") entered into a master joint venture agreement for a high-end composite development project. Shareholders' agreements have been executed and project companies have been established in this connection. The Group's 25% share of the maximum total investment cost in this project will be RMB1,877.0 million (approximately US\$290.0 million).

Project companies for a high-end composite development project in Bayuquan, Yingkou City have also been established in the period under review. The shareholders' agreements for such project were entered between the Group, the wholly owned subsidiaries of KPL and WIL in December 2010 following the successful biddings of the land sites. The Group's 25% share of the maximum total investment cost in this project will be RMB642.3 million (approximately US\$99.2 million).

On 3 June 2011, the Group executed a hotel lease agreement with a third party for a Traders hotel in Singapore comprising around 500 rooms opening in 2013. The operating lease agreement has an initial period of 10 years.

In February 2011, the Group terminated the operating lease agreement for a hotel under development owned by a third party in Vienna, Austria due to the failure of the property developer on the timely delivery of the premises.

ACQUISITIONS

Details of the Group's acquisition of 55% equity interest in a joint venture which owns Shangri-La Cairns and the associated properties, 100% equity interest in a project company in Yangzhou City in Mainland China which owns the land use rights for a land site for the development of a hotel (superstructure works in progress) and three blocks of completed residential towers (some units have been sold) and 25% equity interest in a project company in Shenyang City in Mainland China which owns the land use rights in a land site for a high-end composite development comprising a hotel, offices, serviced apartments, residential and a commercial retail mall were provided in Note 15 to the condensed consolidated interim financial statements included in this announcement.

The Group had also entered into sales and purchase agreements on 31 December 2010 for the acquisition of 25% equity interest in a project company which owns the land use rights for a land site in Hangzhou City in Mainland China for a high-end composite development comprising a hotel, offices, serviced apartments and a large-scale commercial retail mall complex. Development work is on-going. Completion of the acquisition is subject to certain conditions including the obtaining of all necessary approvals from the local government authorities and completion of all relevant change of registration as required by local laws.

On 30 June 2011, the Company entered into an agreement for the sale and purchase of shares with a third party to acquire a 50% equity interest in a project company which owns the Shangri-La Hotel, Istanbul in Turkey for a cash consideration of US\$92 million. The hotel is currently under development and is expected to open for business by end of 2012. The Group had signed the hotel management agreement for this 184-room hotel in April 2010. All necessary government approvals for the acquisition have been obtained by mid August 2011 and the acquisition will be completed upon payment of the cash consideration by early September 2011.

On 12 August 2011, the Company entered into sale and purchase agreements from a local party for certain land sites in Accra in the Republic of Ghana for a hotel development project together with certain trade marks for a total cash consideration of US\$24 million. Completion of the acquisition is subject to a legal due diligence review and the necessary government registrations.

MANAGEMENT AGREEMENTS

As at the date of this announcement, the Group has 16 management agreements in respect of operating hotels owned by third parties.

In addition, the Group has agreements on hand for development of 11 new hotels. The development projects are located in Bangalore (2 hotels), Chennai and Mumbai (India), Changzhou, Chongqing and Haikou (Mainland China), Doha (2 hotels) (Qatar), Iskandar (Malaysia) and Toronto (Canada).

PROSPECTS

With the recent downgrading of the sovereign credit rating of the United States and growing concerns over the credit rating of France, Italy and Spain, the last three weeks witnessed a new wave of volatility in the global financial markets which has triggered anxieties of another recession in North America and Europe. The Group's hotels are predominantly operating in South East Asia where the economies have been able to maintain a reasonably healthy level of growth thus far this year. Consequently, the Group's hotels' RevPAR in the first half registered a healthy year-on-year overall growth. However, with the continuing economic uncertainties in North America and Europe, it is difficult to predict the extent to which the economies of South East Asia will be affected and to this extent the Group is cautiously optimistic of its business prospects for the remainder of the year.

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

Save as disclosed in Note 5 to the condensed consolidated interim financial statements included in this announcement, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities during the period under review.

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.

During the period under review, the Company has met the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that Mr KUOK Khoon Ean 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 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.

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

Hong Kong, 26 August 2011

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

Executive directors

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

Non-executive directors

Mr HO Kian Guan
Mr KUOK Khoon Loong Edward
Mr Roberto V ONGPIN
Mr HO Kian Hock
(alternate to Mr HO Kian Guan)

Independent non-executive directors

Mr Alexander Reid HAMILTON
Mr Timothy David DATTELS
Mr WONG Kai Man
Mr Michael Wing-Nin CHIU
Professor LI Kwok Cheung Arthur

* *For identification purpose only*