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)

2012 FINAL RESULTS ANNOUNCEMENT

The board of directors ("**Board**") of Shangri-La Asia Limited ("**Company**") is pleased to announce the audited results of the Company and its subsidiaries ("**Group**"), and associates for the year ended 31 December 2012. These results have been audited by the Company's auditor, PricewaterhouseCoopers, in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants and reviewed by the audit committee of the Company.

The consolidated profit attributable to the equity holders of the Company for the year ended 31 December 2012 increased by 41.9% to US$358.9 million from US$253.0 million in the last year. Earnings per share for the year ended 31 December 2012 increased by 40.6% to US11.50 cents per share from US8.18 cents per share in the last year.

The Board has recommended a final dividend of **HK10 cents** per share for 2012 (2011: HK10 cents per share) payable to the Company's shareholders whose names appear on the registers of members of the Company on 6 June 2013. With the interim dividend of HK10 cents per share (2011: HK10 cents per share) paid in October 2012, the total dividend for 2012 is HK20 cents per share (2011: HK20 cents per share).

Subject to shareholders' approval of the payment of the final dividend at the forthcoming annual general meeting of the Company, the proposed final dividend is expected to be paid on 18 June 2013.

GROUP FINANCIAL HIGHLIGHTS

Consolidated Results

		Year ended 31 December	
		2012	2011
		Audited	Audited
Sales	*US$'000*	**2,057,249**	1,912,089
Profit attributable to the equity holders of the Company	*US$'000*	**358,895**	252,979
Earnings per share	*US cents*	**11.50**	8.18
Dividend per share	*HK cents*	**20**	20
Return on Equity $\left(\frac{\text{Profit attributable to equity holders of the Company}}{\text{Average equity attributable to equity holders of the Company}}\right)$		**6.2%**	4.9%
EBITDA (the Company and its subsidiaries)	*US$'000*	**608,096**	549,601
EBITDA Margin $\left(\frac{\text{EBITDA (the Company and its subsidiaries)}}{\text{Sales}}\right)$		**29.56%**	28.74%

EBITDA is defined as earnings before interest expenses on loans and bonds issued, tax, depreciation and amortization, gain or loss on disposal of fixed assets and available-for-sale financial assets and excludes fair value gains on investment properties, fair value gains or losses on interest-rate swap contracts and financial assets held for trading, negative goodwill arising from acquisition of subsidiaries, impairment loss on goodwill and fixed assets; and stamp duty paid for acquisition of subsidiaries.

Consolidated Statement of Financial Position

		As at 31 December	
		2012	2011
		Audited	Audited
Total equity	*US$'000*	**6,530,077**	6,027,854
Net assets attributable to the Company's equity holders	*US$'000*	**6,027,283**	5,606,103
Net borrowings (total of bank loans, convertible bonds and fixed rate bonds less cash and bank balances)	*US$'000*	**3,526,443**	2,088,836
Net assets per share attributable to the Company's equity holders	*US$*	**1.92**	1.79
Net assets (total equity) per share	*US$*	**2.08**	1.93
Net borrowings to total equity ratio		**54.0%**	34.7%

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2012 US$'000	2011 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**5,908,344**	4,659,689
Investment properties		**956,412**	884,907
Leasehold land and land use rights		**686,093**	739,099
Intangible assets		**93,511**	93,058
Interest in associates		**2,956,495**	2,381,770
Deferred income tax assets		**3,193**	2,237
Available-for-sale financial assets		**4,412**	4,364
Other receivables		**18,133**	19,998
		10,626,593	8,785,122
Current assets			
Inventories		**50,012**	49,373
Properties for sale		**25,448**	27,346
Accounts receivable, prepayments and deposits	*4*	**290,655**	225,727
Due from associates		**63,386**	30,433
Financial assets held for trading		**24,929**	15,741
Cash and bank balances		**838,918**	838,786
		1,293,348	1,187,406
Total assets		**11,919,941**	9,972,528
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*5*	**2,553,647**	2,551,789
Other reserves		**1,923,738**	1,782,763
Retained earnings			
– Proposed final dividend	*15*	**40,280**	40,270
– Others		**1,509,618**	1,231,281
		6,027,283	5,606,103
Non-controlling interests		**502,794**	421,751
Total equity		**6,530,077**	6,027,854

		As at 31 December	
		2012	2011
	Note	***US$'000***	*US$'000*
LIABILITIES			
Non-current liabilities			
Bank loans		**2,757,007**	1,927,745
Convertible bonds	*6*	**483,879**	463,527
Fixed rate bonds	*7*	**595,843**	–
Derivative financial instruments		**765**	3,537
Due to non-controlling shareholders		**25,900**	24,904
Deferred income tax liabilities		**250,856**	234,656
		4,114,250	2,654,369
Current liabilities			
Accounts payable and accruals	*8*	**717,896**	707,881
Due to non-controlling shareholders		**7,889**	7,298
Current income tax liabilities		**17,148**	18,609
Bank loans		**528,632**	536,350
Derivative financial instruments		**4,049**	20,167
		1,275,614	1,290,305
Total liabilities		**5,389,864**	3,944,674
Total equity and liabilities		**11,919,941**	9,972,528
Net current assets/(liabilities)		**17,734**	(102,899)
Total assets less current liabilities		**10,644,327**	8,682,223

AUDITED CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2012	2011
	Note	***US$'000***	*US$'000*
Sales	*3*	**2,057,249**	1,912,089
Cost of sales	*9*	**(881,325)**	(839,925)
Gross profit		**1,175,924**	1,072,164
Other gains – net	*10*	**58,139**	37,039
Marketing costs	*9*	**(80,953)**	(74,864)
Administrative expenses	*9*	**(182,696)**	(177,722)
Other operating expenses	*9*	**(668,406)**	(617,152)
Operating profit		**302,008**	239,465
Finance costs – net	*11*	**(79,427)**	(43,959)
Share of profit of associates	*12*	**261,576**	165,579
Profit before income tax		**484,157**	361,085
Income tax expense	*13*	**(101,961)**	(77,221)
Profit for the year		**382,196**	283,864
Attributable to:			
Equity holders of the Company		**358,895**	252,979
Non-controlling interests		**23,301**	30,885
		382,196	283,864
Earnings per share for profit attributable to the equity holders of the Company during the year *(expressed in US cents per share)*			
– basic	*14*	**11.50**	8.18
– diluted	*14*	**11.49**	8.17
Dividends	*15*	**80,554**	80,533

AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2012	2011
	US$'000	*US$'000*
Profit for the year	**382,196**	283,864
Other comprehensive income:		
Fair value changes of an interest-rate swap contract – hedging	**(848)**	–
Currency translation differences – subsidiaries	**113,763**	63,524
Currency translation differences – associates	**36,623**	79,371
Other comprehensive income for the year	**149,538**	142,895
Total comprehensive income for the year	**531,734**	426,759
Attributable to:		
Equity holders of the Company	**500,236**	398,111
Non-controlling interests	**31,498**	28,648
	531,734	426,759

AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company					
	Share capital *US$'000*	Other reserves *US$'000*	Retained earnings *US$'000*	Total *US$'000*	Non-controlling interests *US$'000*	Total *US$'000*
Balance at 1 January 2012	**2,551,789**	**1,782,763**	**1,271,551**	**5,606,103**	**421,751**	**6,027,854**
Fair value changes of an interest-rate swap contract – hedging	–	(848)	–	(848)	–	(848)
Currency translation differences	–	142,189	–	142,189	8,197	150,386
Net income recognized directly in equity	–	141,341	–	141,341	8,197	149,538
Profit for the year	–	–	358,895	358,895	23,301	382,196
Total comprehensive income for the year ended 31 December 2012	–	141,341	358,895	500,236	31,498	531,734
Exercise of share options – allotment of shares	1,492	–	–	1,492	–	1,492
Exercise of share options – transfer from share option reserve to share premium	366	(366)	–	–	–	–
Payment of 2011 final dividend	–	–	(40,274)	(40,274)	–	(40,274)
Payment of 2012 interim dividend	–	–	(40,274)	(40,274)	–	(40,274)
Dividend paid and payable to non-controlling shareholders	–	–	–	–	(15,598)	(15,598)
Equity injected by non-controlling shareholders	–	–	–	–	19,872	19,872
Net change in equity loans due to non-controlling shareholders	–	–	–	–	45,271	45,271
	1,858	(366)	(80,548)	(79,056)	49,545	(29,511)
Balance at 31 December 2012	**2,553,647**	**1,923,738**	**1,549,898**	**6,027,283**	**502,794**	**6,530,077**

	Attributable to equity holders of the Company					
	Share capital *US$'000*	Other reserves *US$'000*	Retained earnings *US$'000*	Total *US$'000*	Non-controlling interests *US$'000*	Total *US$'000*
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	–	145,132	–	145,132	(2,237)	142,895
Net income/(expenses) recognized directly in equity	–	145,132	–	145,132	(2,237)	142,895
Profit for the year	–	–	252,979	252,979	30,885	283,864
Total comprehensive income for the year ended 31 December 2011	–	145,132	252,979	398,111	28,648	426,759
Exercise of share options – allotment of shares	2,494	–	–	2,494	–	2,494
Exercise of share options – transfer from share option reserve to share premium	644	(644)	–	–	–	–
Rights issue	601,994	–	–	601,994	–	601,994
Issue of convertible bonds – equity component	–	44,518	–	44,518	–	44,518
Payment of 2010 final dividend	–	–	(40,251)	(40,251)	–	(40,251)
Payment of 2011 interim dividend	–	–	(40,263)	(40,263)	–	(40,263)
Net consideration received from the resale of the Company's shares held by a subsidiary	–	–	609	609	217	826
Difference between the consideration received and the portion of the non-controlling interests arising from dilution of equity interest in a subsidiary to a non-controlling shareholder	–	–	1,032	1,032	–	1,032
Dividend paid and payable to non-controlling shareholders	–	–	–	–	(8,757)	(8,757)
Acquisition of a non-wholly owned subsidiary	–	–	–	–	(599)	(599)
Equity acquired by a non-controlling shareholder	–	–	–	–	14,005	14,005
Equity injected by non-controlling shareholders	–	–	–	–	16,507	16,507
Equity loans transferred from loans due to non-controlling shareholders	–	–	–	–	12,880	12,880
Net change in equity loans due to non-controlling shareholders	–	–	–	–	6,502	6,502
	605,132	43,874	(78,873)	570,133	40,755	610,888
Balance at 31 December 2011	2,551,789	1,782,763	1,271,551	5,606,103	421,751	6,027,854

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements have been consistently applied during the year unless otherwise stated.

Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants. They have been prepared under the historical cost convention except that certain financial assets, financial liabilities (including derivative financial instruments) and investment properties are stated at fair value.

The following amendment to standard is relevant to the Group's operation and are mandatory for financial year ended 31 December 2012:

– Amendments to HKAS12	Income Taxes

This amendment to standard had no material impact on the presentation of the Group's financial statements.

The following new standards and amendments to standards are relevant to the Group's operation but are not effective for the year 2012 and have not been early adopted:

– Amendments to HKAS 1 (Revised)	Presentation of Financial Statements
– HKAS 19 (2011)	Employee Benefits
– HKAS 27 (2011)	Separate Financial Statements
– HKAS 28 (2011)	Investments in Associates and Joint Ventures
– HKAS 32	Financial Instruments: Presentation
– Amendments to HKFRS 7	Financial Instruments: Disclosures
– HKFRS 9	Financial Instruments
– HKFRS 10	Consolidated Financial Statements
– HKFRS 12	Disclosure of Interests in Other Entities
– HKFRS 13	Fair Value Measurement

3 SALES AND SEGMENT INFORMATION

The Group owns and operates hotels and associated properties and provides hotel management and related services. Sales recognized during the year are as follows:

	2012	2011
	US$'000	*US$'000*
Sales		
Hotel operation:		
Room rentals	**980,877**	911,743
Food and beverage sales	**848,134**	790,866
Rendering of ancillary services	**115,099**	111,367
Hotel management and related service fees	**45,744**	39,683
Property rentals	**67,395**	58,430
	2,057,249	1,912,089

The Group is domiciled in Hong Kong. The sales revenue from external customers attributed to Hong Kong and other countries are US$304,628,000 (2011: US$290,600,000) and US$1,752,621,000 (2011: US$1,621,489,000), respectively.

The total of non-current assets other than available-for-sale financial assets, and deferred income tax assets and interest in associates located in Hong Kong and other countries are US$572,183,000 (2011: US$269,635,000) and US$7,090,310,000 (2011: US$6,127,116,000), respectively.

In accordance with HKFRS 8 "Operating Segments", segment information disclosed in the financial statements has been prepared in a manner consistent with the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The Group's sales revenue is derived from various external customers in which there is no significant sales revenue derived from a single external customer of the Group. The Group's management considers the business from both a geographic and business perspective.

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

i. Hotel operations (hotel ownership and operation)

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

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

– Mainland China
– Singapore
– Malaysia
– Other countries (including Thailand, Australia and The Republic of Mongolia)

iii. 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 year ended 31 December 2012 and 2011 (US$ million)

	2012		2011	
		Profit/(Loss)		Profit/(Loss)
	Sales	**after tax**	Sales	after tax
	(Note ii)	***(Note i)***	*(Note ii)*	*(Note i)*
Hotel operation				
Hong Kong	**270.5**	**65.8**	260.0	65.8
Mainland China	**853.3**	**50.9**	844.0	71.9
Singapore	**180.9**	**36.9**	167.3	31.5
Malaysia	**143.2**	**15.5**	132.9	14.1
The Philippines	**196.7**	**7.2**	180.7	5.0
Japan	**54.9**	**(15.6)**	41.5	(19.8)
Thailand	**63.6**	**2.2**	49.1	1.8
France	**49.8**	**(22.3)**	37.8	(37.6)
Australia	**46.4**	**(0.5)**	15.8	(3.0)
Other countries	**84.8**	**(3.2)**	84.9	(2.7)
	1,944.1	**136.9**	1,814.0	127.0
Property rentals				
Mainland China	**25.4**	**63.8**	21.6	46.1
Singapore	**16.1**	**11.3**	16.1	10.7
Malaysia	**7.0**	**1.7**	6.2	1.5
Other countries	**18.9**	**4.7**	14.5	3.6
	67.4	**81.5**	58.4	61.9
Hotel management	**135.2**	**23.5**	113.6	13.2
Total	**2,146.7**	**241.9**	1,986.0	202.1
Less: Hotel management – Inter-segment sales	**(89.5)**		(73.9)	
Total external sales	**2,057.2**		1,912.1	
Net corporate finance costs (including foreign exchange gains and losses)		**(24.8)**		(20.0)
Land cost amortization and pre-opening expenses for projects		**(42.7)**		(26.5)
Corporate expenses		**(20.1)**		(19.6)
Profit before non-operating items		**154.3**		136.0

	2012 Profit/(Loss) after tax *(Note i)*	2011 Profit/(Loss) after tax *(Note i)*
Profit before non-operating items	**154.3**	136.0
Non-operating items		
Fair value gains on investment properties	**185.0**	137.0
Net unrealized gains/(losses) on financial assets held for trading	**9.0**	(9.0)
Fair value losses on interest-rate swap contracts – non-hedging	**(0.9)**	(5.0)
Fair value adjustments on loans from non-controlling shareholders and security deposit on leased premises	**(0.9)**	(0.9)
Negative goodwill arising from acquisition of subsidiaries and an associate	**22.6**	9.0
Realized (loss)/gain on disposal of long term investment	**(1.7)**	0.4
Provision for impairment losses on projects and hotel properties	**(5.0)**	–
Stamp duty expenses relating to acquisition of subsidiaries	**(18.8)**	–
Realized gains on fixed rate bonds investment	**9.1**	–
Reversal of deferred tax provision on revaluation gain of investment properties owned by an associate	**6.2**	–
Impairment loss on goodwill arising from acquisition of a subsidiary	**–**	(12.0)
Provision for taxation relating to a rationalization of the ownership structure of property in Mainland China	**–**	(2.5)
Total non-operating items	**204.6**	117.0
Profit attributable to equity holders of the Company	**358.9**	253.0

Notes:

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

ii. Sales exclude sales of associates.

The Group's share of profit of associates (excluding projects under development) by operating segments included in profit before non-operating items in the segment income statement are analyzed as follows:

(US$ million)	2012 Share of profit of associates	2011 Share of profit of associates
Hotel operation		
Hong Kong	**0.3**	0.4
Mainland China	**8.5**	2.1
Singapore	**5.0**	5.2
Malaysia	**3.1**	4.5
The Philippines	**1.1**	0.9
Other countries	**1.8**	1.9
	19.8	15.0
Property rentals		
Mainland China	**61.5**	43.3
Singapore	**5.4**	4.4
	66.9	47.7
Total	**86.7**	62.7

The amount of depreciation and amortization and income tax expense before share of non-controlling interests included in the results of operating segments contributed by subsidiaries (excluding projects under development) are analyzed as follows:

	2012		2011	
(US$ million)	**Depreciation and amortization**	**Income tax expense/ (credit)**	Depreciation and amortization	Income tax expense/ (credit)
Hotel operation				
Hong Kong	**16.5**	**16.3**	15.6	14.8
Mainland China	**132.8**	**35.5**	136.8	35.0
Singapore	**15.2**	**9.5**	18.1	4.1
Malaysia	**17.4**	**4.7**	16.0	4.1
The Philippines	**35.1**	**7.3**	34.3	5.6
Japan	**3.6**	**–**	4.0	0.1
Thailand	**19.8**	**0.8**	21.2	(10.8)
France	**23.8**	**–**	23.6	–
Australia	**5.9**	**0.5**	2.0	–
Other countries	**18.0**	**1.1**	16.3	0.5
	288.1	**75.7**	287.9	53.4
Property rentals				
Mainland China	**–**	**3.1**	–	3.3
Singapore	**–**	**1.3**	–	1.4
Malaysia	**–**	**1.1**	–	0.9
Other countries	**–**	**2.8**	–	–
	–	**8.3**	–	5.6
Hotel management	**4.0**	**8.2**	2.7	7.6
Total	**292.1**	**92.2**	290.6	66.6

Segment assets
As at 31 December 2012 and 2011 (US$ million)

	As at 31 December	
	2012	2011
Hotel operation		
Hong Kong	**245.3**	238.4
Mainland China	**2,559.6**	2,598.9
Singapore	**644.1**	569.3
Malaysia	**381.8**	367.2
The Philippines	**554.3**	578.3
Japan	**34.1**	41.9
Thailand	**229.0**	231.6
France	**433.0**	417.4
Australia	**493.8**	55.4
Other countries	**328.6**	319.5
	5,903.6	5,417.9
Property rentals		
Mainland China	**322.4**	313.8
Singapore	**473.7**	442.7
Malaysia	**92.2**	87.8
Other countries	**103.1**	89.6
	991.4	933.9
Hotel management	**148.7**	118.1
Elimination	**(58.2)**	(30.7)
Total segment assets	**6,985.5**	6,439.2
Assets allocated to projects	**1,747.4**	984.5
Unallocated assets	**137.0**	73.9
Intangible assets	**93.5**	93.1
Total assets of the Company and its subsidiaries	**8,963.4**	7,590.7
Interest in associates	**2,956.5**	2,381.8
Total assets	**11,919.9**	9,972.5

Unallocated assets mainly comprise other assets of the Company and non-properties holding companies of the Group as well as the available-for-sale financial assets, financial assets held for trading and deferred income tax assets.

4 ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS

	2012	2011
	US$'000	*US$'000*
Trade receivables	**95,645**	78,237
Less: provision for impairment of receivables	**(1,500)**	(697)
Trade receivables – net	**94,145**	77,540
Deposits for acquisition of land	**75,220**	38,140
Deposit for acquisition of an associate	**–**	7,344
Prepayments and other deposits	**50,254**	50,318
Other receivables	**71,036**	52,385
	290,655	225,727

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.

(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:

	2012	2011
	US$'000	*US$'000*
0 – 3 months	**87,587**	73,143
4 – 6 months	**4,498**	2,016
Over 6 months	**2,060**	2,381
	94,145	77,540

5 SHARE CAPITAL

		Amount		
	No. of shares *('000)*	**Ordinary shares** *US$'000*	**Share premium** *US$'000*	**Total** *US$'000*
Authorized – Ordinary shares of HK$1 each				
At 31 December 2011 and 31 December 2012	**5,000,000**	**646,496**	**–**	**646,496**
Issued and fully paid – Ordinary shares of HK$1 each				
At 1 January 2012	3,131,075	404,266	2,147,523	2,551,789
Exercise of share options				
– allotment of shares	1,022	132	1,360	1,492
– transfer from option reserve	–	–	366	366
At 31 December 2012	**3,132,097**	**404,398**	**2,149,249**	**2,553,647**

As at 31 December 2012, 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 credited to the equity in prior years.

Share options

Share options are granted to directors and 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 following option shares at various exercise prices granted to option holders of the Company were exercised during 2012:

	Number of option shares issued			
	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*
February	–	50,000	32,500	136
March	60,000	50,000	140,000	391
April	40,000	50,000	40,000	185
May	120,000	50,000	–	180
June	–	50,000	–	75
October	–	100,000	40,000	225
November	–	100,000	–	150
December	–	100,000	–	150
For the year ended 31 December 2012	**220,000**	**550,000**	**252,500**	**1,492**

The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK$16.62 (2011: HK$19.55).

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

	For the year ended 31 December 2012		For the year ended 31 December 2011	
	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	**12.71**	**9,456,500**	12.57	11,257,500
Exercised	**11.31**	**(1,022,500)**	11.74	(1,646,000)
Lapsed	**13.69**	**(265,000)**	13.05	(155,000)
At 31 December	**12.85**	**8,169,000**	12.71	9,456,500

Outstanding option shares at the end of the year are as follows:

	Exercise price in HK$ per option share	Number of outstanding option shares as at 31 December 2012	31 December 2011
Last exercisable date			
28 May 2012	6.81	**–**	220,000
27 April 2015	11.60	**4,765,000**	5,395,000
15 June 2016	14.60	**3,404,000**	3,841,500
		8,169,000	9,456,500

There was no option granted during the year ended 31 December 2012 and 2011.

Options on 50,000 shares and 36,000 shares with exercise price of HK$11.60 and HK$14.60 per share, respectively have been exercised subsequent to 31 December 2012 and up to the date of this announcement. No options have lapsed subsequent to 31 December 2012 and up to the date of this announcement.

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$28.37 per ordinary share of the Company on 10 October 2012. 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 by 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:

	2012 *US$'000*	2011 *US$'000*
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)
Liability component on initial recognition at 12 May 2011	**451,082**	451,082
Accumulated interest expense *(Note 11)*	**32,797**	12,445
Liability component at 31 December 2012	**483,879**	463,527

The face value of outstanding bonds at 31 December 2012 amounted to US$500,000,000. No convertible bonds were converted to ordinary shares of the Company during the year or subsequent to 31 December 2012 and up to the date of this announcement. The carrying value of the liability component is calculated by 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:

	US$'000
Face value of fixed rate bonds issued on 10 April 2012	**600,000**
Issuing expenses	**(4,859)**
Net bonds proceeds received	**595,141**
Accumulated amortization of issuing expenses	**702**
Carrying value of fixed rate bonds at 31 December 2012	**595,843**

As at 31 December 2012, the outstanding interest payable for the fixed rate bonds included in accounts payable and accruals is US$6,333,000.

8 ACCOUNTS PAYABLE AND ACCRUALS

	2012 *US$'000*	2011 *US$'000*
Trade payables	**103,145**	97,476
Construction cost payable, payable for land use rights and accrued expenses	**614,751**	610,405
	717,896	707,881

At 31 December 2012, the ageing analysis of the trade payables is as follows:

	2012 *US$'000*	2011 *US$'000*
0 – 3 months	**95,613**	88,032
4 – 6 months	**4,025**	6,284
Over 6 months	**3,507**	3,160
	103,145	97,476

9 EXPENSES BY NATURE

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

	2012	2011
	US$'000	*US$'000*
Depreciation of property, plant and equipment (net of amount capitalized of US$181,000 (2011: US$93,000))	**283,708**	282,280
Amortization of leasehold land and land use rights	**20,230**	12,730
Amortization of trademark and website development	**731**	548
Employee benefit expenses excluding directors' emoluments (net of amount capitalized and amount grouped under pre-opening expenses)	**618,324**	563,319
Cost of inventories sold or consumed in operation	**282,024**	271,097
Stamp duty expenses for acquisition of subsidiaries	**18,842**	–
Loss on disposal of property, plant and equipment and partial replacement of investment properties	**3,842**	1,717
Discarding of property, plant and equipment due to renovation of hotels and a resort	**3,826**	9,990
Operating lease expenses	**39,177**	32,207
Pre-opening expenses	**8,032**	4,996
Auditors' remuneration	**1,543**	1,393

10 OTHER GAINS – NET

	2012	2011
	US$'000	*US$'000*
Fair value gains on investment properties	**16,516**	48,377
Gains/(losses) on financial assets held for trading		
– net unrealized gains/(losses) on equity securities	**9,188**	(9,202)
– realized gains on fixed rate bonds	**9,118**	–
Fair value losses on derivative financial instruments		
– interest-rate swap contracts – non-hedging	**(924)**	(5,039)
Provision for impairment losses on properties under development and hotel properties	**(8,634)**	–
Negative goodwill arising from acquisition of subsidiaries	**16,040**	3,598
Impairment of goodwill on acquisition of a subsidiary	**–**	(11,984)
Provision for taxation relating to a rationalization of the ownership structure of properties in Mainland China	**–**	(2,500)
Non-operating items	**41,304**	23,250
Interest income		
– fixed rate bonds	**4,929**	–
– bank deposit and others	**10,926**	11,917
Dividend income	**927**	988
Others	**53**	884
	58,139	37,039

11 FINANCE COSTS – NET

	2012 US$'000	2011 US$'000
Interest expense:		
– bank loans	**83,918**	65,022
– convertible bonds *(Note 6)*	**20,352**	12,445
– fixed rate bonds *(Note 7)*	**21,285**	–
– other loans	**1,988**	1,203
	127,543	78,670
Less: amount capitalized	**(31,850)**	(7,705)
	95,693	70,965
Net foreign exchange gains	**(16,266)**	(27,006)
	79,427	43,959

The effective capitalization rate used to determine the amount of borrowing costs eligible for capitalization is 3.3% per annum (2011: 2.8%).

12 SHARE OF PROFIT OF ASSOCIATES

	2012 US$'000	2011 US$'000
Share of profit before tax and non-operating items of associates	**101,343**	78,917
Share of net increase in fair value of investment properties	**233,649**	140,356
Negative goodwill arising from acquisition of an associate	**6,609**	5,408
Share of profit before tax of associates	**341,601**	224,681
Share of associates' taxation before provision for taxation for non-operating items	**(29,645)**	(24,633)
Share of provision for deferred tax liabilities on fair value gains of investment properties	**(50,380)**	(34,469)
Share of associates' taxation	**(80,025)**	(59,102)
Share of profit of associates	**261,576**	165,579

13 INCOME TAX EXPENSE

	2012	2011
	US$'000	*US$'000*
Current income tax		
– Hong Kong profits tax	**15,543**	15,504
– Overseas taxation	**72,557**	57,339
Deferred income tax	**13,861**	4,378
	101,961	77,221

Share of associates' taxation for the year ended 31 December 2012 of US$80,025,000 (2011: US$59,102,000) is included in the consolidated income statement as share of profit of associates.

Hong Kong profits tax is provided at a rate of 16.5% (2011: 16.5%) on the estimated assessable profit of group companies operating in Hong Kong.

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.

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 year after adjustment of those issued ordinary shares of the Company held by a subsidiary.

	2012	2011
Profit attributable to equity holders of the Company *(US$'000)*	**358,895**	252,979
Weighted average number of ordinary shares in issue *(thousands)*	**3,121,119**	3,092,831
Basic earnings per share *(US cents per share)*	**11.50**	8.18

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 year ended 31 December 2012 and 2011, all share options issued under the option scheme have the greatest dilution effect.

	2012	2011
Profit attributable to equity holders of the Company *(US$'000)*	**358,895**	252,979
Weighted average number of ordinary shares in issue *(thousands)*	**3,121,119**	3,092,831
Adjustments for – share options *(thousands)*	**1,654**	3,096
Weighted average number of ordinary shares for diluted earnings per share *(thousands)*	**3,122,773**	3,095,927
Diluted earnings per share *(US cents per share)*	**11.49**	8.17

15 DIVIDENDS

	2012 *US$'000*	2011 *US$'000*
Interim dividend paid of HK10 cents (2011: HK10 cents) per ordinary share	**40,274**	40,263
Proposed final dividend of HK10 cents (2011: HK10 cents) per ordinary share	**40,280**	40,270
	80,554	80,533

At a meeting held on 21 March 2013, the Board proposed a final dividend of HK10 cents per ordinary share for the year ended 31 December 2012. This proposed dividend is not reflected as a dividend payable in these financial statements but will be reflected as an appropriation of retained earnings for the year ending 31 December 2013.

The proposed final dividend of US$40,280,000 for the year ended 31 December 2012 is calculated based on 3,132,182,799 shares in issue as at 21 March 2013, after elimination on consolidation the amount of US$135,000 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

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 provide 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$342,966,000 (2011: US$226,455,000). Guarantees are stated at their respective contracted amounts. The Board is of the opinion that it is not probable that the above guarantees will be called upon.

(b) Contingent liabilities

As at 31 December 2012, 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$26,052,000 (2011: US$3,397,000). The Group also executed a bank guarantee of US$3,010,000 (2011: Nil) in favour of the government authorities for the purpose of value added tax refund. These facilities were undrawn as at 31 December 2012.

(c) Charges over assets

As at 31 December 2012, bank loans of certain subsidiaries amounting to US$240,671,000 (2011: US$158,472,000) were secured by:

(i) Freehold land and construction of a subsidiary with net book value of US$37,529,000 (2011: US$38,794,000).

(ii) Land lease rights 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$140,735,000 (2011:US$152,537,000).

(iii) Legal mortgage over the property owned by two subsidiaries with an aggregate net book value of US$138,410,000 (2011: US$154,211,000).

(iv) Legal mortgage over the property owned by a subsidiary acquired during the year with net book value of US$132,565,000 (2011: Nil).

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:

	2012 ***US$'000***	2011 *US$'000*
Existing properties – Property, plant and equipment and investment properties		
Contracted but not provided for	**66,435**	112,411
Authorized but not contracted for	**39,059**	68,580
Development projects		
Contracted but not provided for	**1,402,503**	938,444
Authorized but not contracted for	**1,843,994**	2,680,283
	3,351,991	3,799,718

18 EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

(a) On 1 February 2013, the Group entered into a sale and purchase agreement with an independent third party to dispose of its entire equity interest of 51% in a project company which owns Shangri-La Hotel, Zhongshan for a cash consideration of RMB129,530,000 (equivalent to US$20,631,000). Completion of the transaction is subject to certain conditions including obtaining the necessary approvals from the local government authorities and completion of the change of registration as required by local laws. It is currently envisaged that the Group will record a marginal profit on the transaction.

(b) A wholly owned subsidiary in France executed a 5-year bank loan agreement of EUR75,000,000 (equivalent to US$98,905,000) and another 3-year bank loan agreement of EUR75,000,000 (equivalent to US$98,905,000) in January and February 2013 respectively, to refinance its outstanding bank loans maturing in early 2013. The Group also executed a 3-year and three 5-year unsecured bank loan agreements totaling an equivalent amount of US$562,903,000 at the corporate level between January and March 2013.

OPERATIONS REVIEW

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

(i) Hotel operation – Hotel ownership and operation

(ii) Hotel management – Provision of hotel management and related services to Group-owned hotels and to hotels owned by third parties

(iii) Property rentals from investment properties – Ownership and leasing of office properties, commercial properties and serviced apartments/residences

The Group currently owns and/or manages hotels under four brands:

– Shangri-La Hotels are five-star luxury hotels offering gracious hospitality and located in premier cities

– Shangri-La Resorts offer travelers and families a relaxing and engaging vacation in some of the world's most exotic destinations

– Kerry Hotels is a new five-star brand with contemporary, unique, functional designs and enthusiastic, intuitive service

– Traders Hotels are four-star business hotels which also appeal to leisure travelers

Hotel operation continued to be the Group's main source of revenue and operating profits. The Group's extensive presence in South East Asia and predominantly in Mainland China, which as a region performed relatively better than the economies of Europe and North America, enabled its owned hotels to post year on year improvement in operating results.

On 7 August 2012, the Group completed the acquisition of the entire interest in an operating hotel in Brisbane, Australia and rebranded it as Traders Hotel, Brisbane. On 18 September 2012, the Group completed the acquisition of the entire equity interest in the investment holding companies which own the existing Shangri-La Hotel, Sydney in Australia (which has been managed by the Group since 2003). The Group also opened the wholly owned Shangri-La Hotel, Yangzhou in Mainland China on 17 December 2012.

The weighted average room yields ("**RevPAR**") for the Group's owned hotels registered a 6% increase in 2012 over the previous year. A weak global economy and continuing economic and political uncertainties in the major economies of the world constrained demand and dampened RevPAR growth. The Mainland Chinese economy where a majority of the Group's hotels are located performed relatively well in GDP growth terms. However, several cities in which the Group's hotels are located experienced the influx of competitive supply which caused RevPAR of these hotels to decline year on year.

Yields of the Group's investment properties generally registered impressive improvements over 2011 with the exception of Beijing Kerry Centre, Shanghai Kerry Centre and Shangri-La Residences, Dalian which were adversely affected by their respective renovation programmes.

The year ended on a satisfactory note for the Group in terms of its earnings metrics with both the EBITDA and consolidated profit attributable to the equity holders of the Company recording year on year improvements.

(a) Revenues

Hotel Operation

As at 31 December 2012, the Group had equity interest in 59 operating hotels (2011: 56) comprising 27,524 available guest rooms (2011: 26,457) including the Portman Ritz-Carlton Hotel, Shanghai ("**Portman**"). The 200-room Shangri-La Hotel, Tokyo ("**Shangri-La Tokyo**") is operating under a medium term operating lease.

On an unconsolidated basis and consistent with 2011, room revenues accounted for over 50% while food and beverage revenues accounted for over 43% of the total revenues from hotel operation. Both room revenues and food and beverage revenues increased by 8% to US$1,274.1 million and US$1,103.4 million, respectively over 2011.

Key performance indicators of the Group on an unconsolidated basis are:

Country	**2012 Weighted Average**			2011 Weighted Average		
	Occupancy *(%)*	**Transient Room Rate** *(US$)*	**RevPAR** *(US$)*	Occupancy *(%)*	Transient Room Rate *(US$)*	RevPAR *(US$)*
The People's Republic of China						
Hong Kong	**80**	**336**	**264**	80	327	258
Mainland China	**59**	**166**	**95**	62	155	94
Singapore	**75**	**257**	**198**	73	250	193
Malaysia	**73**	**145**	**106**	70	138	97
The Philippines	**71**	**201**	**148**	71	184	131
Japan	**70**	**521**	**355**	56	493	273
Thailand	**60**	**152**	**90**	46	155	68
France	**82**	**1,289**	**982**	55	1,296	623
Australia*	**77**	**237**	**181**	73	172	122
Other countries	**64**	**200**	**128**	67	183	121
Subsidiaries and associates	**64**	**196**	**125**	65	182	117

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

* includes the newly acquired hotels in Brisbane and Sydney from the dates these were acquired

Comments on performance by geography:

*The People's Republic of China ("**PRC**")*

Hong Kong

The two Shangri-La hotels recorded a marginal increase in weighted average room rate of 2% and an increase in RevPAR of 3%. The Traders Hotel, Hong Kong also recorded a marginal increase in weighted average room rate of 2%.

Mainland China

The 369-room Shangri-La Hotel, Yangzhou opened for business on 17 December 2012, bringing the total number of Group-owned operating hotels in Mainland China to 31.

The overall RevPAR growth in 2012 for the Mainland China hotel portfolio was a modest 1%. This was attributable to the increase in rooms supply in the competitive set in approximately half of the cities in Mainland China where Group's hotels operate. However, in cities not affected by increases in competitive supply, the Group's hotels have experienced RevPAR increases between 8% and 13%. The Kerry Hotel, Pudong, Shanghai in its second year of operation gained traction and increased RevPAR by 61% year on year. Over the past years, the market has exhibited a unique propensity to absorb the competitive supply in most cities due to a healthy GDP growth rate of the local economy. It is expected that going forward this experience will be replicated with a return to a respectable year on year RevPAR growth for the Group's hotel portfolio.

Major renovations completed in 2012 including the following:

- Function rooms and guestrooms renovations at the Kerry Hotel, Beijing;
- Guestroom renovations at the Shangri-La Hotel, Huhhot;
- Renovations of the suites at the Shangri-La Hotel, Changchun; and
- Renovations to the lobby and lobby lounge at the Pudong Shangri-La, East Shanghai.

Singapore

Since it re-opened for business in January 2011 after a complete renovation, the Shangri-La's Rasa Sentosa Resort & Spa, Singapore was very well received by the market. In 2012, the resort registered an increase in RevPAR of 16%. Major renovations at the Garden Wing at the Shangri-La Hotel, Singapore were completed by end of May 2012. The hotel's newly built CHI, The Spa at Shangri-La opened for business in December 2012.

The Philippines

All the four Group-owned hotels in the country continued to record an increase in RevPAR between 9% to 14%, led mainly by improvements in room rates.

Renovations of the guestrooms at the Atrium Wing and the ballroom at the Shangri-La's Mactan Resort & Spa, Cebu were completed in May 2012. Renovations of the Tower Wing and lobby lounge at the Edsa Shangri-La, Manila are on-going and are expected to be completed by end of 2013.

Malaysia

With the exception of the Shangri-La's Rasa Ria Resort, Kota Kinabalu where business was adversely affected by renovations to its Garden Wing guestrooms from March 2011 to May 2012, all the other five Group-owned hotels in the country recorded an increase in RevPAR. Amongst them, the Shangri-La Hotel, Kuala Lumpur recorded an increase in RevPAR of 17% on the back of buoyant corporate business. The performance of Shangri-La's Tanjung Aru Resort & Spa, Kota Kinabalu continued to improve after its major renovation in 2011, recording an increase in RevPAR of 20% in 2012.

Thailand

The performance of the two hotels continued to improve. The Shangri-La Hotel, Bangkok recorded an increase in weighted average RevPAR of 34%, supported by increased visitor arrivals into the city with continuing improvement in the political environment. The Shangri-La Hotel, Chiang Mai also recorded an increase in weighted average RevPAR of 21%.

Japan

With the pick-up in domestic demand and an increase in overseas visitor arrivals following the weakening of the Japanese Yen, Shangri-La Tokyo registered an increase in weighted average occupancy, room rate and RevPAR of 14 percentage points, 6% and 30%, respectively.

France

Performance of the Shangri-La Hotel, Paris improved significantly, registering an increase in occupancy and RevPAR of 27 percentage points and 58%, respectively. Construction of its 20-room extension is on-going and is expected to be completed in mid 2013.

Australia

The Shangri-La Hotel, The Marina, Cairns registered an increase in RevPAR of 16%. On a full year basis, the Shangri-La Hotel, Sydney registered an increase in occupancy and room rate of 2 percentage points and 4%, respectively. The 191-room Traders Hotel, Brisbane is centrally located adjacent to the Brisbane Transit Centre and next to Roma Street Parklands.

Other Countries

The resort in Fiji recorded a marginal decrease in RevPAR of 3%. Performance of the Shangri-La Hotel, Jakarta continued to improve, registering an increase in RevPAR of 9%, mainly led by an increase in room rate.

The Traders Hotel, Yangon continued to experience improved results with a more liberal political environment in Myanmar and recorded an increase in RevPAR of 124%. It is envisaged that the hotel will further benefit from the strong interest from business and leisure travelers to Myanmar. The hotel is currently undergoing a phased major renovation which is expected to continue into early 2014.

The two Group-owned hotels in Maldives recorded a decrease in RevPAR of 9% as a result of flight connectivity issues which are being addressed.

Hotel Management

Except for the Portman, all the other 58 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 31 December 2012.

As at 31 December 2012, SLIM also had hotel management agreements in respect of 19 operating hotels (6,347 available rooms) owned by third parties located in Toronto, Vancouver, Mumbai, New Delhi, Oman, Manila, Abu Dhabi (2 hotels), Dubai (2 hotels), Putrajaya and Kuala Lumpur (in Malaysia), Taipei and Tainan (in Taiwan); and Beijing, Changzhou (2 hotels), Haikou and Suzhou (in Mainland China). There were four new hotels that opened for business in 2012. In October 2012, the Shangri-La Hotel, Toronto and the Shangri-La Hotel, Changzhou opened for business. The Shangri-La Hotel, Haikou in Mainland China and the Shangri-La Hotel, Mumbai opened for business in November 2012 and December 2012, respectively.

Overall weighted average RevPAR for these 19 hotels decreased marginally by 3%. Revenue of SLIM on consolidation, after elimination of revenue earned from fellow subsidiaries, recorded an increase of 15%.

In April 2012, SLIM signed a new management agreement in respect of a hotel under development in Guiyang City, Guizhou Province in Mainland China. Subsequently however in December 2012, SLIM was advised by the developer that it was unsuccessful in securing the necessary governmental approvals to incorporate a hotel in the mixed use development that was being built. Accordingly, SLIM decided to terminate this management agreement. As at 31 December 2012, SLIM had management agreements on hand for 7 new hotels under development which were owned by third parties.

Property Rentals

The Group's major investment properties are located principally in Shanghai and Beijing and these are owned by associates.

Excepting the serviced apartments and commercial spaces in Beijing Kerry Centre and Shanghai Kerry Centre and the serviced apartments in Shangri-La Residences, Dalian which were under phased renovation programmes, the other investment properties in Mainland China recorded favourable increase in yields. Notably, all different components of the China World Trade Center in Beijing, the Group-owned largest investment property complex, recorded significant growth in yields ranging from 8% to 50% as compared to 2011. The Kerry Parkside, Pudong in Shanghai (a 23.2% owned high-end composite development which commenced business in February 2011) recorded increase in yields of commercial spaces (83%), office spaces (153%) and serviced apartments (333%). The yields of the office spaces and commercial spaces of the Shangri-La Centre in Qingdao also recorded an increase of 59% and 73%, respectively.

In general, the yields of the investment properties in other countries were stable or recorded marginal improvement with the exception of the UBN Apartments in Malaysia which registered a decrease of 9%.

(b) Segment Results

Details of the segment information are provided in Note 3 to the consolidated financial statements included in this announcement. Net profit before non-operating items in 2012 increased by 13.5% to US$154.3 million.

Net profit attributable to equity holders of the Company from hotel operation, property rental from investment properties and hotel management increased by US$9.9 million, US$19.6 million and US$10.3 million, respectively.

Hotels in Hong Kong, Mainland China and Singapore continued to be the key profit contributors of the Group. Overall results of the hotels in Hong Kong remained flat as compared to 2011 principally affected by a modest increase in RevPAR which was offset by inflationary increases in labour costs. Profit contribution from the hotels in Mainland China have been adversely affected by the start-up losses of the hotels newly opened for business in 2010 and 2011 and a reduction in RevPAR of the hotels in cities which experienced the emergence of competitive supply or due to specific local economic problems. The 2011 segment results of the hotels in Mainland China were also favourably affected by US$28.1 million of foreign exchange gains arising from foreign currency loans due to the continued appreciation of the Renminbi relative to the United States dollar. The corresponding amount reduced to a mere US$2.0 million in 2012. Overall performance of the hotels in Singapore improved significantly benefiting from the performance of the Shangri-La's Rasa Sentosa Resort & Spa. Performance of the hotels in Tokyo and Paris improved significantly and resulted in a large reduction in their operation losses.

Net profit from hotel management increased due to higher fee incomes following the opening for business of new hotels and project management services from hotels under development or renovation.

The Mainland China segment continued to be the key profit contributor for the Group's investment properties portfolio. Net profit of the Mainland China properties increased by US$17.7 million, due mainly to the US$18.5 million incremental profit from the China World Trade Center in Beijing and the Kerry Parkside, Pudong in Shanghai.

(c) EBITDA and Consolidated Profits

In 2012, the EBITDA in respect of the Company and its subsidiaries increased by US$58.5 million to US$608.1 million and the EBITDA to Consolidated Sales ratio increased to 29.56% from 28.74%. The adjusted EBITDA to Consolidated Sales ratio of 2012 was 29.75% after excluding the results of the two newly acquired hotels in Australia and the newly opened Shangri-La Hotel, Yangzhou in Mainland China. The Group's share of EBITDA of its associates amounted to US$156.4 million, representing an increase of US$30.1 million or 23.89% year on year. Some of these associates are also substantially owned by subsidiaries of the controlling shareholder of the Company. The aggregate EBITDA (EBITDA of the Company and its subsidiaries and effective share of EBITDA of its associates) amounted to US$764.5 million in 2012 compared to US$675.9 million in 2011.

Following an increase in the consolidated gross profit margin of the hotel segment (from 57.7% in 2011 to 58.3% in 2012), the overall consolidated gross profit margin improved to 57.2% from 56.1%. Total labour cost increased by 9.9% from US$565.1 million to US$621.4 million. However, the adjusted comparative labour cost increased by 7.9% after excluding the labour cost of the two Australian hotels acquired in 2012 and that of the newly opened Shangri-La Hotel, Yangzhou in Mainland China.

Consolidated operating profit before finance costs for 2012 increased from US$239.5 million to US$302.0 million including the net credit of non-operating items (before tax and share of non-controlling interests) of US$58.1 million (2011: US$37.0 million) recorded under "Other gains – net" as detailed in Note 10 of the consolidated financial statements included in this announcement. The key non-operating items in the income statement of the Company and its subsidiaries in 2012 were the gross fair value gains on investment properties of US$16.5 million, unrealized gain on financial assets held for trading and realized gain on disposal of fixed rate corporate bonds aggregating to US$18.3 million, interest income (including coupon interest from fixed rate corporate bonds investment) of US$15.9 million, negative goodwill of US$16.0 million arising from the acquisition of the investment holding companies which own the Shangri-La Hotel, Sydney and the provision for impairment loss of hotel properties and properties under development of US$8.6 million.

The consolidated finance cost for 2012 increased by US$35.5 million over 2011 on account of the convertible bonds issued in May 2011 and the fixed rate bonds issued in April 2012.

The share of profits after tax for the year in respect of associates included a net credit after tax of US$183.3 million (2011: US$105.9 million) for fair value gains of investment properties and a credit of US$6.6 million (2011: US$5.4 million) for negative goodwill arising from acquisition of an associate.

Aided by the large increase in the share of profits after tax of associates of US$96.0 million, the Group recorded a 41.9% increase in consolidated profits attributable to the equity holders of the Company.

CORPORATE DEBT AND FINANCIAL CONDITIONS

On 10 April 2012, the Group issued 5-year fixed rate bonds due April 2017 in the aggregate principal amount of US$600 million at a fixed rate of 4.75% per annum. The net proceeds from the issue, after deduction of fees and commissions, were approximately US$595.1 million. A large portion of the net proceeds were used to finance new development projects. Pending investment into new projects, part of the bonds proceeds of US$172.9 million were temporarily invested in good quality bonds issued by large multinational enterprises with annual average yields in excess of 4% per annum, to reduce the interest burden. US$90 million was used to repay corporate bank loans maturing in 2012 and US$64 million was used to temporarily repay revolving corporate bank loans. The Group disposed of all its holding in corporate bonds to realize funds to meet its project needs before the year end and recorded realized gains of US$9.1 million.

At the corporate level, the Group executed the following bank loan agreements during 2012 for securing project funding as well as refinancing of loans maturing in 2012:

– seven 3-year unsecured bank loan agreements totaling HK$4,350 million (approximately US$561.3 million) and US$75 million; and

– four 5-year unsecured bank loan agreements totaling HK$1,200 million (approximately US$154.8 million), JPY5,000 million (approximately US$58.1 million) and US$100 million.

At the subsidiary level, the Group executed the following unsecured bank loan agreements during 2012:

– one 2-year agreement of Renminbi 65 million (approximately US$10.4 million), one 3-year agreement of Renminbi 70 million (approximately US$11.2 million) and one 7-year agreement of Renminbi 200 million (approximately US$32.1 million) to refinance outstanding bank loans matured in 2012;

– one 4-year agreement of S$65 million (approximately US$53.5 million) to finance a hotel renovation programme;

– one 5-year agreement of Renminbi 250 million (approximately US$40.1 million) and one 5-year agreement of GBP30 million (approximately US$48.4 million) to finance project developments; and

– one 3-year agreement of HK$360 million (approximately US$46.5 million) to refinance outstanding bank loans matured in 2012.

An outstanding bank loan of Euro 83 million (approximately US$109.4 million) maturing in 2022 was acquired when the Group acquired the entire equity interest in a local company in Italy in May 2012.

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 financial year.

With the increased capital expenditure in 2012, 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 34.7% as at 31 December 2011 to 54.0% as at 31 December 2012.

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

The analysis of borrowings outstanding as at 31 December 2012 is as follows:

	Maturities of Borrowings Contracted as at 31 December 2012				
			Repayment		
(US$ million)	**Within 1 year**	**In the 2nd year**	**In the 3rd to 5th year**	**After 5 years**	**Total**
Borrowings					
Corporate borrowings					
– unsecured bank loans	**86.5**	**38.7**	**1,920.5**	**–**	**2,045.7**
– convertible bonds	**–**	**–**	**483.9**	**–**	**483.9**
– fixed rate bonds	**–**	**–**	**595.8**	**–**	**595.8**
Project bank loans					
– secured	**91.8**	**58.3**	**43.7**	**46.9**	**240.7**
– unsecured	**350.3**	**369.3**	**266.9**	**12.8**	**999.3**
Total	**528.6**	**466.3**	**3,310.8**	**59.7**	**4,365.4**
Undrawn but committed facilities					
Bank loans and overdrafts	**167.9**	**47.8**	**591.8**	**25.6**	**833.1**

Subsequent to the year end, the wholly owned subsidiary in France executed a 5-year bank loan agreement of Euro 75 million (approximately US$98.9 million) and a 3-year bank loan agreement of Euro 75 million (approximately US$98.9 million) to refinance outstanding bank loans maturing in early 2013. The Group also executed a 3-year and three 5-year unsecured bank loan agreements totaling an equivalent amount of approximately US$562.9 million at the corporate level and it is currently negotiating with certain banks to finalize additional long term loan facilities for refinancing maturing loans as well as project funding.

The currency-mix of the borrowings and cash and bank balances as at 31 December 2012 is as follows:

(US$ million)	**Borrowings**	**Cash and Bank Balances**
In United States dollars	1,657.1	169.5
In Hong Kong dollars	1,607.2	107.4
In Renminbi	583.3	359.1
In Euros	296.8	10.1
In Philippine Pesos	63.0	25.8
In Australian dollars	56.8	63.5
In Singapore dollars	48.1	42.9
In Japanese Yen	46.5	2.0
In Thai Baht	4.2	17.1
In Malaysian Ringgit	2.4	6.6
In Fiji dollars	–	16.6
In Mongolia Tugrik	–	7.6
In Sri Lankan Rupee	–	4.7
In Maldive Rufiyaa	–	3.2
In British Pound	–	2.7
In other currencies	–	0.1
	4,365.4	838.9

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

Details of financial guarantees, contingencies and charges over assets as at 31 December 2012 are disclosed in Note 16 to the consolidated financial statements included in this announcement.

TREASURY POLICIES

Treasury policies aimed at minimizing interest and currency risk have been consistently followed by the Group:

(a) Minimize Interest Risk

Intra-group financing between subsidiaries in Mainland China by way of entrusted loan agreements through local banks increased to RMB620 million (approximately US$99.5 million) as at 31 December 2012. The Group will continue to arrange entrusted loans utilizing the cash surplus of operating hotels to finance the development of its new projects in Mainland China.

The Group has also endeavoured to hedge its medium term interest rate risk by entering into interest-rate swap contracts. As at 31 December 2012, the outstanding HIBOR interest-rate swap contracts are:

i) Contracts executed in prior years with principal amount of HK$900 million (at fixed rates ranging between 4.28% and 4.63% per annum maturing during August 2013 to January 2014) which did not qualify for hedging accounting. US$0.9 million fair value losses were recorded during the year on these contracts.

ii) Contract executed in 2012 with principal amount of HK$300 million (at a fixed rate of 1.087% per annum maturing in December 2016) which qualified for hedge accounting in order to fix the effective interest expenses under a corporate bank loan agreement of the same principal amount.

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 31 December 2012.

(b) Minimize Currency Risk

There is a natural economic hedge to the extent that most of the Group-owned hotels derive their revenues (and most of the expenses associated therewith) in local currencies. The Group's hotels are quoting room tariffs in the local currency in view of the general appreciation of the Asian currencies against the United States dollar. It is the Group's endeavour, wherever and to the extent possible, to quote tariffs in the stronger currency and maintain bank balances in that currency, if legally permitted.

In general, the Group has not felt it appropriate to substantially hedge against currency risks through currency forward contracts on a consideration of the currency risks involved and the cost of obtaining such cover. In 2012, the Company has entered into currency forward contracts to buy Australian dollars 418 million and sell equivalent United States dollars to hedge the currency risks associated with the forecast foreign currency payment obligations under the sale and purchase agreements to acquire an operating hotel in Brisbane and the entire equity interest in a group of companies which own the Shangri-La Hotel, Sydney as detailed under the section headed "Acquisitions and New Joint Ventures" of this announcement. These contracts qualified for hedge accounting.

INVESTMENT PROPERTIES VALUATIONS

Investment properties of subsidiaries and associates continue to be stated at fair value and are reviewed annually (including those properties being constructed for future use as investment properties of which fair value becomes reliably determinable at 31 December 2012). All changes in the fair value of investment properties (including those under construction) are recorded in the income statement. The Group's share of the net increase in their fair value over their book value (net of provision for deferred taxation) amounted to US$185.0 million and this was credited to the consolidated income statement during the year.

Investment properties are stated at professional valuations carried out by independent firms of professional valuers as at 31 December 2012.

FINANCIAL ASSETS HELD FOR TRADING – TRADING SECURITIES

The equity securities within the investment portfolio remained unchanged during the year. The Group recorded net unrealized fair value gains of US$9.2 million (US$9.0 million after share of non-controlling interests) and dividend income of US$0.9 million (US$0.8 million after share of non-controlling interests) during the year.

The Company also acquired fixed rate bonds during the year which were all disposed before the year end. Net realized gain on sale of these bonds of US$9.1 million and interest income thereon of US$4.9 million were recorded during the year.

DEVELOPMENT PROGRAMMES

(a) On-going Projects

Construction work on the following projects is on-going:

(i) Hotel Developments

	Group's Equity Interest	Hotel Rooms	Serviced Apartments/ Villas	Projected Opening
In Mainland China				
Shangri-La Hotel, Qufu	100%	482	–	Mid 2013
Jing An Shangri-La, West Shanghai (part of Jing An Kerry Centre, Shanghai)	49%	508	–	Mid 2013
Shangri-La Hotel, Shenyang (part of Shenyang Kerry Centre, Shenyang)	25%	424	38	Mid 2013
Shangri-La Hotel, Lhasa	100%	285	–	Late 2013
Shangri-La's Sanya Resort & Spa, Hainan	100%	506	18 Villas	Mid 2014
Shangri-La Hotel, Diqing	100%	225	–	2014
Shangri-La Hotel, Hefei	100%	498	–	2014
Shangri-La Hotel, Qinhuangdao	100%	326	–	2014
Shangri-La Hotel, Tianjin (part of Tianjin Kerry Centre, Tianjin)	20%	468	39	2014
Shangri-La Hotel, Nanjing (part of the composite development project in Nanjing City)	55%	503	40	2014
Shangri-La Hotel, Tangshan (part of the composite development project in Tangshan City)	35%	436	–	2014
Shangri-La Hotel, Nanchang (part of composite development project in Nanchang City)	20%	468	–	2014
Shangri-La Hotel, Xiamen	100%	599	34	2015
Extension of Shangri-La Hotel, Dalian	100%	113	–	2015
Shangri-La Harbin, Songbei	100%	583	41	2015
Shangri-La Hotel, Hangzhou (part of Hangzhou Kerry Centre, Hangzhou)	25%	417	–	2015
Shangri-La Hotel, Jinan (part of composite development project in Jinan City)	45%	400	–	2016
In other countries				
Shangri-La Bosphorus, Istanbul, Turkey	50%	186	–	Mid 2013
Extension of Shangri-La Hotel, Paris, France	100%	20	–	Mid 2013
Shangri-La Hotel, at The Shard, London, the United Kingdom	Operating lease	202	–	Mid 2013
Shangri-La's Nusa Dua Resort & Spa, Bali, Indonesia *(Note 1)*	49%	232	38 Villas	Late 2013
Shangri-La Hotel, Ulaanbaatar, The Republic of Mongolia	51%	290	–	2014
Traders Orchard Gateway, Singapore	Operating lease	502	–	2014
Shangri-La's Hambantota Resort & Spa, Sri Lanka	90%	374	29 Villas	2014
Extension of the Ocean Wing of Shangri-La's Rasa Ria Resort, Kota Kinabalu, Malaysia	64.59%	81	–	2015
Shangri-La at the Fort, Manila (part of composite development project in Bonifacio Global City, Metro Manila, The Philippines)	40%	576	–	2015
Shangri-La Hotel, Colombo, Sri Lanka (part of the composite development project in Colombo)	90%	527	20	2016

Note 1: Projected opening in 2013 refers to the opening of the golf course and phased opening of the villas only.

(ii) Composite Developments and Investment Properties Developments

	Group's Equity Interest	Total gross floor area upon completion (excluding hotel component) *(approximate in square meters)* Residential	Office	Commercial	Serviced Apartments	Projected Opening
In Mainland China						
Jing An Kerry Centre, Shanghai	49%	–	113,739	66,469	–	Mid 2013
Tangshan City Project	35%	231,688	–	18,460	–	Late 2013
Shenyang Kerry Centre, Shenyang	25%	731,701	195,732	374,625	–	2014
Tianjin Kerry Centre, Tianjin	20%	175,532	120,342	111,126	22,000	2014
Nanjing City Project	55%	–	–	871	–	2014
Nanchang City Project	20%	81,998	71,012	9,204	–	2015
Jinan City Project	45%	–	32,470	6,083	–	2015
Hangzhou Kerry Centre, Hangzhou	25%	–	11,670	105,141	33,512	2016
In other countries						
Shangri-La Residences in Yangon, Myanmar	55.86%	–	–	–	55,233	Late 2013
Bonifacio Global City, Metro Manila, The Philippines	40%	37,522	–	4,405	17,554	2015
Traders Square in Yangon, Myanmar	59.28%	–	24,225	8,028	–	2015
Composite development project in Colombo, Sri Lanka	90%	52,000	30,000	56,000	–	2016
		1,310,441	599,190	760,412	128,299	

The Group has also acquired land use rights and leasehold land in Mainland China and The Republic of Ghana in recent years. The Group is now finalizing the development plan for these projects:

– Zhoushan, Mainland China (hotel development)
– Wolong Bay in Dalian, Mainland China (hotel development)
– Zhuhai, Mainland China (hotel and training centre development)
– Accra, The Republic of Ghana (hotel development)

The Group has also paid the cost for a piece of land in Fuzhou, Mainland China for the extension of the Shangri-La Hotel, Fuzhou.

As disclosed in the 2011 Annual Report of the Company, the Group has acquired a 45% and 40% equity interest in composite developments in Zhengzhou City and Putian City respectively, in Mainland China by entering into the relevant master joint venture agreements. The respective project companies have been formed in 2012 and these developments are in the planning stage.

(b) Acquisitions and New Joint Ventures

(i) Hung Hom, Hong Kong

In mid January 2012, the Group completed the acquisition of a leasehold land site in Hung Hom, Hong Kong at a cash consideration of HK$2,328 million (approximately US$300.4 million). The Group has finalized the development plan to build a composite development including a Shangri-La hotel and retail facilities. Approvals for the development plans have been sought from the relevant government authorities.

(ii) Traders Hotel, Brisbane, Australia

On 17 February 2012, the Group entered into a sale and purchase agreement with a third party to acquire 100% interest in an operating hotel in Brisbane, Australia at a cash consideration of A$47.95 million (approximately US$48.56 million) which approximated the fair value of the assets being acquired. The acquisition was completed on 7 August 2012. The hotel has been rebranded as Traders Hotel, Brisbane.

(iii) Rome, Italy

In May 2012, the Group acquired the entire equity interest in a local company in Italy which owns a very well located building in Rome at a cash consideration of EUR31,431,000 which approximated the fair value of the assets being acquired. The Group intends to convert the building into an approximately 110-room Shangri-La hotel after all the existing tenants are vacated. Under the agreement, the Group paid EUR1,611,000 (approximately US$2.0 million) to the vendor in May 2012 and the balance of the cash consideration of EUR29,820,000 (approximately US$39.3 million based on exchange rate prevailing at year end 2012) is payable once the remaining tenants are vacated. The Group provided a bank guarantee of EUR30.60 million (approximately US$40.4 million) issued in favour of the vendor to secure the payment of the balance of the cash consideration.

(iv) Kunming City, Yunnan Province, Mainland China

On 13 June 2012, the joint venture company formed between the Group, a wholly owned subsidiary of Kerry Properties Limited ("**KPL**") and Moneyeasy Holdings Limited ("**MHL**") won the land bid for the land use rights of the project sites in Kunming City, Yunnan Province in Mainland China which are designated for hotel and commercial uses. Pursuant to the master joint venture agreements, the joint venture company was established and owned as to 45% by the Group, 35% by KPL and 20% by MHL. The Group's 45% share of the maximum total investment amount will be Renminbi 481.5 million (approximately US$77.3 million). KPL is a subsidiary of the Company's controlling shareholder, Kerry Group Limited. The Group is now discussing the conceptual design for this development with KPL and MHL.

(v) ***Shangri-La Hotel, Sydney***

On 22 June 2012, the Group entered into a sale and purchase agreement with the hotel owner to acquire 100% equity interest in a group of project companies which own the existing Shangri-La Hotel, Sydney at a cash consideration of A$352.5 million (approximately US$371.0 million). The acquisition was completed on 18 September 2012. The Group recorded in its consolidated income statement a negative goodwill of US$16.0 million, being the excess of the fair value of the net identifiable assets of the acquired subsidiaries over the cash consideration, and an expense of US$18.8 million for stamp duty payment.

(vi) ***Hangzhou City, Mainland China***

The Group entered into a sale and purchase agreement on 31 December 2010 with a wholly owned subsidiary of KPL for the acquisition of 25% equity interest in a project company which owns the land use rights in respect of a land site in Hangzhou City in Mainland China for a high-end composite development comprising a hotel, office, serviced apartments and a large-scale commercial retail mall complex. Completion of the acquisition is subject to certain conditions. On 23 December 2011, the Group and KPL entered into a supplemental agreement to extend the long stop date for fulfilling the conditions precedent for completion of the transfer of equity interests by one year to 31 December 2012. Following the obtaining of necessary approvals from the local government authorities and completion of certain changes in local registration, the acquisition was completed in mid September 2012 and the Group recorded in its consolidated income statement a negative goodwill of US$6.6 million, being the excess of the fair value of the net identifiable assets of the acquired associate over the cash consideration. The Group's 25% share of the maximum total investment amount will be Renminbi 1,500 million (approximately US$240.8 million). Development work is on-going.

The estimated incremental funding required directly by the subsidiaries and the Group's share of the funding obligations of the associates for all the projects and other renovations involving fund commitments as at 31 December 2012 is estimated at US$3,352 million including US$1,488 million payable in the next 12 months which is expected to be sourced from the recurring operating cashflow, available and new bank facilities and cash balances.

DISPOSAL AND DILUTION OF INTEREST

(a) Hambantota and Colombo, Sri Lanka

The Group acquired land sites in Colombo for a high-end composite development and in Hambantota for resort development in recent years and commenced construction in February 2012. In September and November 2012, the project companies for these two projects issued new shares to certain subsidiaries of Wilmar International Limited ("**WIL**") and the Group diluted its interest in these two projects to 90%. The dilution will strengthen the co-operation between the Group and WIL.

(b) Bayuquan, Yingkou City, Liaoning Province, Mainland China

On 19 December 2012, the Group and a wholly owned subsidiary of KPL entered into sale and purchase agreements pursuant to which the KPL subsidiary will acquire from the Group its entire holding of 25% of the equity interest in each of the project companies which own the land use rights of two land sites in Bayuquan, Yingkou City, Liaoning Province in Mainland China for a high-end composite development for an aggregate cash consideration of Renminbi 100,268,000 (approximately US$16.1 million). Completion of the disposal is subject to certain conditions including obtaining the necessary approvals from the local government authorities and completion of the change of registration as required by local laws. The aggregate consideration was arrived at based on arm's length negotiations by reference to the net asset value of the project companies and the market value of the land sites and property under development. As KPL, the major shareholder of the project companies, has proposed that the hotel element will only form a relatively small part of the entire project, the Group concluded that this no longer conforms to its investment strategy. While it is currently estimated that the Group will not record a loss on disposal, this disposal will allow the Group to retain cash resources for other investment opportunities.

(c) Shangri-La Hotel, Zhongshan, Mainland China

Subsequent to the year end, on 1 February 2013, the Group entered into a sale and purchase agreement with an independent third party to dispose of its entire holding of 51% equity interest in a project company which owns Shangri-La Hotel, Zhongshan for a cash consideration of RMB129,530,000 (approximately US$20.6 million). Completion of the disposal is subject to certain conditions including obtaining the necessary approvals from the local government authorities and completion of the change of registration as required by local laws. The Group will terminate the hotel management agreement shortly after completion of the transaction. After considering the hotel's historical financial performance and its prospects, the Group agreed to dispose of the investment at a fair price. It is currently envisaged that the Group will record a marginal profit on disposal.

MANAGEMENT CONTRACTS FOR HOTELS OWNED BY THIRD PARTIES

As at the date of this announcement, the Group has 19 management agreements in respect of operating hotels owned by third parties.

Currently the Group has agreements on hand for development of 7 new hotels owned by third parties. The development projects are located in Bengaluru (2 hotels) and Chennai (India), Chongqing (Mainland China), Doha (2 hotels) (Qatar) and Iskandar (Malaysia).

The Group adjusts its development plans from time to time. The Group continues to review proposals it receives for management opportunities and intends to secure management agreements for third party owned hotels that do not require capital commitments in locations/cities which it considers to be of long-term strategic interest.

PROSPECTS

Uncertainties continue to plague the recovery of the global economy. The economies of the Euro zone are still confronting the challenges posed by the austerity measures imposed on several constituent governments which will inevitably depress prospects for an early recovery of these economies. The world's largest economy, the United States of America, which is showing feeble signs of economic recovery is now struggling with the effects of a reduction in the national debt ceiling. Several global corporations continue to exercise a conservative attitude towards travel and associated spending, although the general outlook is more favourable than it was a year ago. The Mainland Chinese economy continues to maintain a good GDP growth rate and with the newly appointed leadership and the government focused on stimulating the domestic economy as its principal economic priority, the Group should be well positioned to benefit from the effects of this policy. The rest of the South East Asian economies are generally enjoying stable growth rates.

On the supply front, the Group's hotels in several Mainland Chinese cities have confronted the emergence of new competition. However, this has not resulted in alarming declines of RevPAR in these cities. Given the Group's long experience in the hotel sector in Mainland China, it is confident that with robust GDP growth rates of several cities in which its hotels are operating, the additional competitive supply will be absorbed by the demand growth within the shortest possible time.

The operating performance of the Group's recently opened hotels in Paris and Tokyo has shown remarkable turnaround and these hotels have established an enviable reputation for the brand with impeccable product and service standards.

The Group remains cautiously optimistic about the operating performance of its hotel portfolio for 2013.

Net profit after tax from the Group's investment properties continues to register impressive year on year growth as the newly opened mixed use complexes in Mainland China ramp up yields. The Group's share of the net profit after tax for all of the Group's investment properties whether held through subsidiaries or associates (excluding revaluation gains) grew by 31.6% in 2012 to US$81.5 million. It is expected that this number will continue to grow over the next few years as the new investments open for business and the older ones mature in terms of their yield potential. This will provide an important source of material and recurring profit streams which will provide greater stability to the Group's future earnings.

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

During the year ended 31 December 2012, 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 accepted practices and standards.

On 19 March 2012, the Board adopted a composite handbook ("**Directors Handbook**"), comprising, among other principles, a set of corporate governance principles for the Group ("**CG Principles**") terms of which align with or are stricter than the requirements set out in 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 positions of the chairman and the chief executive officer ("**CEO**") of the Company may be served by the same person. The Directors Handbook serves as a comprehensive guidebook for all directors as well as a good orientation set for any new director of the Company.

During the year ended 31 December 2012, the CG Model Code and the CG Principles were the codes for the Company's corporate governance respectively for the period before and after the adoption of the Directors Handbook and the Company has met the respective codes except for the deviation summarized below:

CG Model Code		Deviation and reason
A.2.1	The roles of the chairman and the CEO of the Company should be separate and should not be performed by the same individual	Mr KUOK Khoon Ean serves as both the chairman and the CEO 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.
C.3.7	The audit committee of the Comapny should review arrangements employees can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal controls or other matters (should have been fulfilled by 1 April 2012)	Before 1 April 2012, the audit committee of the Company has formulated a whistleblowing policy (for internal users) which accommodates such requirement. The policy was subsequently issued in June 2012.

QUALIFICATION FOR PROPOSED FINAL DIVIDEND

The proposed final dividend of HK10 cents per share in the Company for 2012 (subject to shareholders' approval at the forthcoming annual general meeting of the Company) will be payable on 18 June 2013 to shareholders whose names appear on the registers of members of the Company on 6 June 2013.

To qualify for the proposed final dividend, all share transfers must be lodged with the Company's branch share registrar in Hong Kong, Tricor Abacus Limited of 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 pm on 6 June 2013.

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

Hong Kong, 21 March 2013

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 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*