

INTERIM REPORT

2014



SHANGRI-LA ASIA LIMITED

香格里拉(亞洲)有限公司

(Incorporated in Bermuda with limited liability)

Stock code: 69

CORPORATE INFORMATION

As at 20 August 2014

Board of Directors

Executive Directors

Mr KUOK Khoon Chen
(Chairman and Chief Executive Officer)
Mr LUI Man Shing (Deputy Chairman)
Mr Madhu Rama Chandra RAO
(Chief Financial Officer)
Mr Gregory Allan DOGAN
(Chief Operating Officer)

Non-executive Directors

Mr HO Kian Guan
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
Professor LI Kwok Cheung Arthur

Executive Committee

Mr KUOK Khoon Chen (chairman)
Mr LUI Man Shing
Mr Madhu Rama Chandra RAO

Remuneration Committee

Mr WONG Kai Man (chairman)
Mr KUOK Khoon Chen
Mr Alexander Reid HAMILTON
Professor LI Kwok Cheung Arthur

Nomination Committee

Mr KUOK Khoon Chen (chairman)
Mr Madhu Rama Chandra RAO
Mr Alexander Reid HAMILTON
Mr WONG Kai Man
Professor LI Kwok Cheung Arthur

Audit Committee

Mr Alexander Reid HAMILTON (chairman)
Mr WONG Kai Man
Professor LI Kwok Cheung Arthur

Company Secretary

Ms TEO Ching Leun

Auditor

PricewaterhouseCoopers
Certified Public Accountants
22/F Prince's Building
Central
Hong Kong

Head Office and Principal Place of Business

28/F Kerry Centre
683 King's Road
Quarry Bay
Hong Kong

Registered Address

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Branch Share Registrar in Hong Kong

Tricor Abacus Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Share Registrar

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

Stock Codes

00069	Hong Kong
S07	Singapore
SHALY	American Depositary Receipt

Websites

Corporate	www.ir.shangri-la.com
Business	www.shangri-la.com

Key Dates

Record date for 2014 interim dividend
25 September 2014

Payment of 2014 interim dividend

7 October 2014

The board of directors ("**Board**") of Shangri-La Asia Limited ("**Company**") wishes to announce the unaudited interim results of the Company and its subsidiaries ("**Group**"), and associates for the six months ended 30 June 2014. 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 is set out on page 3.

For the six months ended 30 June 2014, the consolidated profit attributable to equity holders of the Company before inclusion of the fair value gains of investment properties amounted to US\$35.8 million, as compared to US\$25.7 million in 2013, representing an increase of 39%. Overall, the consolidated profit attributable to equity holders of the Company for the six months ended 30 June 2014 decreased to US\$76.2 million (US2.440 cents per share) from US\$215.3 million (US6.896 cents per share) in the same period last year after accounting for the Group's share of net fair value gains of investment properties.

The Board has declared an interim dividend of **HK6 cents** per share for 2014 (2013: HK8 cents per share) payable on Tuesday, 7 October 2014, to shareholders whose names appear on the Registers of Members of the Company on Thursday, 25 September 2014.

GROUP FINANCIAL HIGHLIGHTS

Consolidated Results

		Six months ended 30 June	
		2014	2013
		Unaudited	Unaudited
Sales	<i>US\$'000</i>	1,011,966	1,006,587
Profit attributable to the equity holders of the Company			
– Profit before fair value gains of investment properties	<i>US\$'000</i>	35,827	25,659
– Share of net fair value gains of investment properties	<i>US\$'000</i>	40,357	189,607
		<hr/>	
– Total reported profit	<i>US\$'000</i>	76,184	215,266
		<hr/>	
Earnings per share	<i>US cents</i>	2.440	6.896
	equivalent to <i>HK cents</i>	18.910	53.444
Dividend per share	<i>HK cents</i>	6	8
Annualized Return on Equity		2.4%	7.1%
$\left[\frac{\text{Profit attributable to equity holders of the Company for the six months}}{\text{Average equity attributable to equity holders of the Company}} \times 2 \right]$			

Consolidated Statement of Financial Position

		As at	
		30 June	31 December
		2014	2013
		Unaudited	Audited
Total equity	<i>US\$'000</i>	6,804,724	6,867,344
Net assets attributable to the Company's equity holders	<i>US\$'000</i>	6,258,563	6,312,581
Net borrowings			
(total of bank loans, convertible bonds and fixed rate bonds less cash and bank balances)	<i>US\$'000</i>	4,104,051	3,717,986
Net assets per share attributable to the Company's equity holders	<i>US\$</i>	2.00	2.02
Net assets (total equity) per share	<i>US\$</i>	2.17	2.19
Net borrowings to total equity ratio		60.3%	54.1%



羅兵咸永道

**REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF SHANGRI-LA ASIA LIMITED**

(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 4 to 33, which comprises the interim condensed consolidated statement of financial position of Shangri-La Asia Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2014 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The Directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 August 2014

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

(All amounts in US dollar thousands)

		As at	
		30 June 2014	31 December 2013
	Note	Unaudited	Audited
ASSETS			
Non-current assets			
Property, plant and equipment	4	6,260,153	6,075,567
Investment properties	4	1,071,181	1,072,942
Leasehold land and land use rights	4	620,242	653,768
Intangible assets	4	92,464	93,065
Interest in associates		3,445,796	3,396,955
Deferred income tax assets		515	758
Derivative financial instruments	14	453	1,550
Available-for-sale financial assets	5	4,925	4,947
Other receivables	6	15,541	14,954
		11,511,270	11,314,506
Current assets			
Inventories		47,348	48,383
Properties for sale		24,056	24,439
Accounts receivable, prepayments and deposits	7	288,874	312,596
Due from associates		63,972	41,688
Due from non-controlling shareholders	15	161	160
Derivative financial instruments	14	170	443
Financial assets held for trading	8	21,639	20,952
Cash and bank balances		1,086,055	1,135,090
		1,532,275	1,583,751
Total assets		13,043,545	12,898,257
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	9	2,554,380	2,554,222
Other reserves	10	1,790,007	1,904,254
Retained earnings			
– Proposed interim/final dividend	23	24,170	16,113
– Others		1,890,006	1,837,992
		6,258,563	6,312,581
Non-controlling interests		546,161	554,763
Total equity		6,804,724	6,867,344

**CONDENSED CONSOLIDATED INTERIM
STATEMENT OF FINANCIAL POSITION** *(continued)*

(All amounts in US dollar thousands)

		As at	
		30 June	31 December
	<i>Note</i>	2014	2013
		Unaudited	Audited
LIABILITIES			
Non-current liabilities			
Bank loans	<i>11</i>	3,380,400	3,345,807
Convertible bonds	<i>12</i>	516,096	505,126
Fixed rate bonds	<i>13</i>	597,301	596,814
Derivative financial instruments	<i>14</i>	2,904	1,265
Due to non-controlling shareholders	<i>15</i>	27,394	26,896
Deferred income tax liabilities		291,406	285,452
		<hr/> 4,815,501	<hr/> 4,761,360
Current liabilities			
Accounts payable and accruals	<i>16</i>	686,299	842,991
Due to non-controlling shareholders	<i>15</i>	12,851	7,912
Current income tax liabilities		26,911	12,955
Bank loans	<i>11</i>	696,309	405,329
Derivative financial instruments	<i>14</i>	950	366
		<hr/> 1,423,320	<hr/> 1,269,553
Total liabilities		<hr/> 6,238,821	<hr/> 6,030,913
Total equity and liabilities		<hr/> 13,043,545	<hr/> 12,898,257
Net current assets		<hr/> 108,955	<hr/> 314,198
Total assets less current liabilities		<hr/> 11,620,225	<hr/> 11,628,704

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

(All amounts in US dollar thousands unless otherwise stated)

		Six months ended 30 June	
		2014	2013
	<i>Note</i>	Unaudited	Unaudited
Sales	3	1,011,966	1,006,587
Cost of sales	17	(429,798)	(438,938)
		<hr/>	
Gross profit		582,168	567,649
Other (losses)/gains – net	18	(7,173)	31,624
Marketing costs	17	(40,163)	(39,351)
Administrative expenses	17	(94,336)	(92,630)
Other operating expenses	17	(336,738)	(331,616)
		<hr/>	
Operating profit		103,758	135,676
Finance costs – net			
– Interest expense	19	(55,447)	(50,834)
– Foreign exchange (losses)/gains	19	(10,557)	7,496
Share of profit of associates	20	99,079	203,872
		<hr/>	
Profit before income tax		136,833	296,210
Income tax expense	21	(50,482)	(60,517)
		<hr/>	
Profit for the period		86,351	235,693
		<hr/>	
Profit attributable to:			
Equity holders of the Company		76,184	215,266
Non-controlling interests		10,167	20,427
		<hr/>	
		86,351	235,693
		<hr/>	
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in US cents per share)			
– basic	22	2.440	6.896
		<hr/>	
– diluted	22	2.439	6.893
		<hr/>	
Dividends	23	24,170	32,224
		<hr/>	

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

(All amounts in US dollar thousands)

	Six months ended 30 June	
	2014	2013
	Unaudited	Unaudited
Profit for the period	86,351	235,693
Other comprehensive (loss)/income:		
Items that may be reclassified subsequently to profit or loss		
Fair value changes of interest-rate swap contracts – hedging	(3,593)	1,687
Currency translation differences – subsidiaries	(48,028)	(65,303)
Currency translation differences – associates	(65,830)	(15,850)
	<hr/>	<hr/>
Other comprehensive loss for the period	(117,451)	(79,466)
	<hr/>	<hr/>
Total comprehensive (loss)/income for the period	(31,100)	156,227
	<hr/>	<hr/>
Total comprehensive (loss)/income attributable to:		
Equity holders of the Company	(38,030)	143,137
Non-controlling interests	6,930	13,090
	<hr/>	<hr/>
	(31,100)	156,227
	<hr/>	<hr/>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

(All amounts in US dollar thousands)

		Unaudited					
		Attributable to equity holders of the Company				Non-	
Note	Share capital	Other reserves	Retained earnings	Total	controlling interests	Total equity	
	Balance at 1 January 2013	2,553,647	1,923,620	1,547,609	6,024,876	502,674	6,527,550
	Fair value changes of interest-rate swap contracts – hedging	–	1,687	–	1,687	–	1,687
10	Currency translation differences	–	(73,816)	–	(73,816)	(7,337)	(81,153)
	Net loss recognized directly in equity	–	(72,129)	–	(72,129)	(7,337)	(79,466)
	Profit for the period	–	–	215,266	215,266	20,427	235,693
	Total comprehensive (loss)/income for the six months ended 30 June 2013	–	(72,129)	215,266	143,137	13,090	156,227
	Exercise of share options – allotment of shares	–	–	–	217	–	217
9	Exercise of share options – transfer from share option reserve to share premium	61	(61)	–	–	–	–
	Payment of 2012 final dividend	–	–	(40,280)	(40,280)	–	(40,280)
	Dividend paid and payable to non-controlling shareholders	–	–	–	–	(14,868)	(14,868)
	Difference between the consideration paid and the portion of the non-controlling interests arising from acquisition of partial equity interest in a subsidiary from a non-controlling shareholder	–	–	(11,560)	(11,560)	–	(11,560)
	Equity acquired from a non-controlling shareholder	–	–	–	–	11,560	11,560
	Equity injected by non-controlling shareholders	–	–	–	–	21,662	21,662
		278	(61)	(51,840)	(51,623)	18,354	(33,269)
	Balance at 30 June 2013	2,553,925	1,851,430	1,711,035	6,116,390	534,118	6,650,508

**CONDENSED CONSOLIDATED INTERIM
STATEMENT OF CHANGES IN EQUITY** *(continued)*

(All amounts in US dollar thousands)

		Unaudited					
		Attributable to equity holders of the Company				Non-	
<i>Note</i>		Share capital	Other reserves	Retained earnings	Total	controlling interests	Total equity
	Balance at 1 January 2014	2,554,222	1,904,254	1,854,105	6,312,581	554,763	6,867,344
	Fair value changes of interest-rate swap contracts – hedging	–	(3,593)	–	(3,593)	–	(3,593)
10	Currency translation differences	–	(110,621)	–	(110,621)	(3,237)	(113,858)
	Net loss recognized directly in equity	–	(114,214)	–	(114,214)	(3,237)	(117,451)
	Profit for the period	–	–	76,184	76,184	10,167	86,351
	Total comprehensive (loss)/income for the six months ended 30 June 2014	–	(114,214)	76,184	(38,030)	6,930	(31,100)
	Exercise of share options – allotment of shares	9	125	–	–	125	–
	Exercise of share options – transfer from share option reserve to share premium	9	33	(33)	–	–	–
	Payment of 2013 final dividend	–	–	(16,113)	(16,113)	–	(16,113)
	Dividend paid and payable to non-controlling shareholders	–	–	–	–	(18,846)	(18,846)
	Equity injected by non-controlling shareholders	–	–	–	–	3,314	3,314
		158	(33)	(16,113)	(15,988)	(15,532)	(31,520)
	Balance at 30 June 2014	2,554,380	1,790,007	1,914,176	6,258,563	546,161	6,804,724

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

(All amounts in US dollar thousands)

	Six months ended 30 June	
	2014	2013
	Unaudited	Unaudited
Cash flows from operating activities	56,699	29,166
Cash flows from investing activities		
– purchases of property, plant and equipment, investment properties and land use rights	(380,369)	(242,323)
– proceeds on disposal of property, plant and equipment	293	1,119
– deposit received on disposal of a subsidiary	–	12,379
– land cost refund received	8,961	78,206
– increase in short-term bank deposits with more than 3 months maturity	(21,041)	(78,108)
– capital contribution and net movement of loans to associates	(44,576)	(20,530)
– dividends received from associates	7,985	30,015
– other investing cash flow – net	7,080	5,937
Net cash used in investing activities	(421,667)	(213,305)
Cash flows from financing activities		
– dividend paid	(31,088)	(53,151)
– net proceeds from issuance of ordinary shares	125	217
– net increase in bank loans	330,177	353,810
– net increase in loans and capital from non-controlling shareholders	3,314	50,531
Net cash generated from financing activities	302,528	351,407
Net (decrease)/increase in cash and cash equivalents	(62,440)	167,268
Cash and cash equivalents at 1 January	1,111,435	821,284
Exchange losses on cash and cash equivalents	(7,636)	(6,542)
Cash and cash equivalents at 30 June	1,041,359	982,010
Analysis of balances of cash and cash equivalents		
Cash at bank and in hand	562,841	380,595
Short-term bank deposits	523,214	697,157
Cash and bank balances	1,086,055	1,077,752
Less: Short-term bank deposits with more than 3 months maturity	(44,696)	(95,742)
Cash and cash equivalents	1,041,359	982,010

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(All amounts in US dollar thousands unless otherwise stated)

1. General information

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

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

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

These condensed consolidated interim financial statements were approved by the Board for issue on 20 August 2014. These condensed consolidated interim financial statements have been reviewed by the Company's auditor.

2. Basis of preparation and accounting policies

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2014 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 2013, 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 2013 with the addition of certain amendments to standards and new interpretations which are relevant to the Group's operation and are mandatory for the financial year ending 31 December 2014. These amendments to standards and new interpretations had no material impact on the Group's financial statements.

3. Segment information

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

i. Hotel ownership (including those under lease)

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

ii. Property rentals (ownership and leasing of offices, commercial and serviced apartments/residences)

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

iii. Hotel management services

The Group also engaged in other businesses including the sale of residential units, wines trading and golf course operation. These other businesses did not have a material impact on the Group's results.

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

3. Segment information (continued)

Segment income statement

For the six months ended 30 June 2014 and 2013 (US\$ million)

	2014		2013	
	Sales (Note b)	Profit/(Loss) after tax (Note a)	Sales (Note b)	Profit/(Loss) after tax (Note a)
Hotel ownership				
Hong Kong	136.9	36.3	130.7	33.8
Mainland China	342.8	(15.5)	369.5	2.5
Singapore	99.3	20.2	93.5	17.4
Malaysia	74.6	9.1	75.4	8.3
The Philippines	101.5	7.6	103.1	8.8
Japan	28.5	(3.2)	26.1	(5.4)
Thailand	26.1	1.1	34.8	3.5
Australia	49.9	(2.1)	50.0	(1.2)
France	32.2	(10.6)	23.9	(13.2)
United Kingdom	4.7	(6.2)	–	–
Other countries (Note c)	54.4	1.1	44.1	(5.4)
	950.9	37.8	951.1	49.1
Property rentals				
Mainland China	14.3	51.1	13.2	38.6
Singapore	7.3	5.8	7.7	6.2
Malaysia	3.7	1.0	3.7	1.0
Other countries	11.2	1.1	9.4	1.6
	36.5	59.0	34.0	47.4
Hotel management services	70.4	9.7	63.3	5.3
Other businesses	–	1.7	–	–
Total	1,057.8	108.2	1,048.4	101.8
Less: Hotel management – Inter-segment sales	(45.8)		(41.8)	
Total external sales	1,012.0		1,006.6	
Corporate finance costs (net)		(30.7)		(29.5)
Land cost amortization and pre-opening expenses for projects		(29.0)		(33.7)
Corporate expenses		(7.9)		(8.5)
Exchange (losses)/gains of corporate investment holding companies		(1.9)		3.5
Profit before non-operating items		38.7		33.6
Non-operating items				
Fair value gains on investment properties		40.4		189.6
Unrealized gains/(losses) on equity securities		0.6		(5.0)
Fair value losses on interest-rate swap contracts – non-hedging		–		(0.1)
Fair value adjustments on loans from non-controlling shareholders and security deposit on leased premises		(0.4)		(0.4)
(Provision)/reversal of provision for impairment loss for a property under development and leasehold land		(3.1)		1.5
Reversal of deferred tax credit of an associate in prior year		–		(0.5)
Provision for taxation relating to a rationalization of the ownership structure of an associate		–		(3.4)
Profit attributable to equity holders of the Company		76.2		215.3

Notes:

- Profit/(Loss) after tax includes net of tax results from both associates and subsidiaries after share of non-controlling interests.
- Sales exclude sales of associates.
- The operating result of the hotel in Turkey is included in the segment "Other countries" in the current period while it was separately disclosed in the 2013 interim financial statements.

4. Capital expenditure

	Property, plant and equipment	Investment properties	Leasehold land and land use rights	Intangible assets
Opening net book amount as at 1 January 2014	6,075,567	1,072,942	653,768	93,065
Additions	384,871	21,694	–	–
Provision for impairment loss (<i>Note 18</i>)	(2,288)	–	(920)	–
Fair value loss (<i>Note 18</i>)	–	(12,078)	–	–
Exchange differences	(51,535)	(8,429)	(15,265)	(212)
Disposals	(1,272)	(2,948)	(8,961)	–
Depreciation/amortization charge (<i>Note 17</i>)	(145,190)	–	(8,380)	(389)
Closing net book amount as at 30 June 2014	6,260,153	1,071,181	620,242	92,464
Opening net book amount as at 1 January 2013	5,908,344	956,412	686,093	93,511
Additions	211,810	54,282	1,097	–
Reversal of provision for impairment loss (<i>Note 18</i>)	2,759	–	–	–
Fair value gain (<i>Note 18</i>)	–	27,718	–	–
Exchange differences	(76,115)	(16,572)	1,011	(114)
Disposals	(2,425)	(207)	–	–
Depreciation/amortization charge (<i>Note 17</i>)	(153,734)	–	(8,270)	(390)
Classified as held for sale	(50,155)	–	(20,475)	–
Closing net book amount as at 30 June 2013	5,840,484	1,021,633	659,456	93,007

5. Available-for-sale financial assets

	As at 30 June 2014	31 December 2013
Equity securities:		
Overseas unlisted shares, at cost	2,562	2,562
– exchange differences	284	295
	2,846	2,857
Club debentures, at fair value	2,079	2,090
	4,925	4,947

There were no disposals of available-for-sale financial assets during the six months ended 30 June 2014 and 2013. The maximum exposure to credit risk at the reporting date is the fair value of the club debentures mentioned above.

6. Other receivables

	As at	
	30 June 2014	31 December 2013
Security deposit on leased premises	15,541	14,954

An interest-free security deposit amounting to JPY1,751,000,000 (equivalent to US\$17,285,000) (31 December 2013: JPY1,751,000,000 (equivalent to US\$16,681,000)) was paid to the lessor of the leased premises and will only be recoverable after expiry of the lease. The effective interest rate applied to calculate the fair value upon initial recognition of the deposit is 0.556% per annum.

The fair values of these 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 other receivables mentioned above.

7. Accounts receivable, prepayments and deposits

	As at	
	30 June 2014	31 December 2013
Trade receivables – net	93,102	92,235
Value-added tax receivable under a reorganization scheme	–	67,568
Prepayments and other deposits	89,407	59,386
Other receivables	106,365	93,407
	288,874	312,596

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

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

	As at	
	30 June 2014	31 December 2013
0 – 3 months	80,772	82,603
4 – 6 months	3,946	3,670
Over 6 months	8,384	5,962
	93,102	92,235

8. Financial assets held for trading

	As at	
	30 June 2014	31 December 2013
Equity securities, at market value		
Shares listed in Hong Kong	19,218	18,686
Shares listed outside Hong Kong	2,421	2,266
	<u>21,639</u>	<u>20,952</u>

9. Share capital

	No. of shares (‘000)	Amount		
		Ordinary shares	Share premium	Total
Authorized – Ordinary shares of HK\$1 each				
At 31 December 2013 and 30 June 2014	5,000,000	646,496	–	646,496
Issued and fully paid				
– Ordinary shares of HK\$1 each				
At 1 January 2013	3,132,097	404,398	2,149,249	2,553,647
Exercise of share options				
– allotment of shares	136	17	200	217
– transfer from option reserve	–	–	61	61
At 30 June 2013	3,132,233	404,415	2,149,510	2,553,925
Exercise of share options				
– allotment of shares	152	20	216	236
– transfer from option reserve	–	–	61	61
At 31 December 2013 and 1 January 2014	3,132,385	404,435	2,149,787	2,554,222
Exercise of share options				
– allotment of shares	80	10	115	125
– transfer from option reserve	–	–	33	33
At 30 June 2014	3,132,465	404,445	2,149,935	2,554,380

As at 30 June 2014, 10,501,055 ordinary shares in the Company were held by a subsidiary which was acquired in late 1999. The cost of these shares was recognized to equity as in prior years.

9. Share capital *(continued)*

Share options

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

Details of the 2002 Option Scheme and 2012 Option Scheme are set out under the section headed "SHARE OPTION SCHEMES" of the Company's 2013 Annual Report.

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

	Number of option shares issued			Total Consideration US\$'000
	At HK\$11.60 per option share	At HK\$14.60 per option share	At HK\$12.11 per option share	
In year 2014				
January	–	–	80,000	125
For the six months ended 30 June 2014	–	–	80,000	125
For the six months ended 30 June 2013	100,000	36,000	–	217
For the year ended 31 December 2013	190,000	46,000	52,000	453

The closing price of the shares immediately before the date on which the options were exercised for the six months ended 30 June 2014 was HK\$15.00 (weighted average for the six months ended 30 June 2013: HK\$16.75).

9. Share capital *(continued)*

Share options *(continued)*

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 2014		For the year ended 31 December 2013	
	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	12.32	26,591,000	12.85	8,169,000
Granted	–	–	12.11	19,000,000
Exercised	12.11	(80,000)	12.17	(288,000)
Lapsed	12.36	(522,500)	13.31	(290,000)
At 30 June/31 December	12.32	25,988,500	12.32	26,591,000

As at 30 June 2014 and 31 December 2013, outstanding option shares are as follows:

Last exercisable date	Exercise price in HK\$ per option share	Number of outstanding option shares as at	
		30 June 2014	31 December 2013
27 April 2015	11.60	4,575,000	4,575,000
15 June 2016	14.60	3,165,500	3,218,000
22 August 2023	12.11	18,248,000	18,798,000
		25,988,500	26,591,000

No new option was granted during the six months ended 30 June 2014 and 2013.

Options on 80,000 shares with exercise price of HK\$12.11 per share have lapsed subsequent to 30 June 2014 and up to the approval date of the financial statements.

10. Other reserves

	Share option reserve	Hedging reserve	Convertible bonds reserve	Capital redemption reserve	Exchange fluctuation reserve	Capital reserve	Other reserve	Contributed surplus	Total
At 1 January 2013	4,859	(848)	44,518	10,666	871,826	601,490	1,368	389,741	1,923,620
Currency translation differences	-	-	-	-	(73,816)	-	-	-	(73,816)
Exercise of share options									
– transfer to share premium	(61)	-	-	-	-	-	-	-	(61)
Fair value changes of interest-rate swap contracts	-	1,687	-	-	-	-	-	-	1,687
At 30 June 2013	4,798	839	44,518	10,666	798,010	601,490	1,368	389,741	1,851,430
Currency translation differences	-	-	-	-	45,492	-	-	-	45,492
Granting of share options									
– value of employee service	7,870	-	-	-	-	-	-	-	7,870
Exercise of share options									
– transfer to share premium	(61)	-	-	-	-	-	-	-	(61)
Fair value changes of interest-rate swap contracts	-	(477)	-	-	-	-	-	-	(477)
At 31 December 2013 and 1 January 2014	12,607	362	44,518	10,666	843,502	601,490	1,368	389,741	1,904,254
Currency translation differences	-	-	-	-	(110,621)	-	-	-	(110,621)
Exercise of share options									
– transfer to share premium	(33)	-	-	-	-	-	-	-	(33)
Fair value changes of interest-rate swap contracts	-	(3,593)	-	-	-	-	-	-	(3,593)
At 30 June 2014	12,574	(3,231)	44,518	10,666	732,881	601,490	1,368	389,741	1,790,007

11. Bank loans

	As at	
	30 June 2014	31 December 2013
Bank loans – secured (<i>Note 24 (c)</i>)	301,787	311,268
Bank loans – unsecured	3,774,922	3,439,868
	<hr/>	<hr/>
Total	4,076,709	3,751,136
Less: Non-current portion	(3,380,400)	(3,345,807)
	<hr/>	<hr/>
Current portion	696,309	405,329
	<hr/>	<hr/>

The maturity of bank loans is as follows:

	As at	
	30 June 2014	31 December 2013
Within 1 year	696,309	405,329
Between 1 and 2 years	1,033,588	861,885
Between 2 and 5 years	2,252,627	2,428,660
	<hr/>	<hr/>
Repayable within 5 years	3,982,524	3,695,874
Over 5 years	94,185	55,262
	<hr/>	<hr/>
Total	4,076,709	3,751,136
	<hr/>	<hr/>

The effective interest rates at the date of the statement of financial position are as follows:

	30 June 2014								
	HK\$	RMB	US\$	JPY	Pesos	Euros	SGD	AUD	GBP
Bank loans	1.33%	6.32%	1.70%	1.45%	2.02%	2.11%	1.27%	4.02%	1.93%
	<hr/>								
	31 December 2013								
	HK\$	RMB	US\$	JPY	Pesos	Euros	SGD	AUD	GBP
Bank loans	1.30%	6.33%	1.60%	1.46%	1.20%	2.12%	1.31%	3.96%	2.59%

11. Bank loans *(continued)*

The carrying amounts of the bank loans approximate their fair values and are denominated in the following currencies:

	As at	
	30 June 2014	31 December 2013
Hong Kong dollars	1,512,981	1,409,755
United States dollars	1,159,745	1,112,010
Renminbi	698,008	515,923
Euros	272,224	283,220
Australian dollars	182,243	175,676
Singapore dollars	84,189	86,911
British Pounds	76,936	74,160
Japanese Yen	49,358	47,632
Philippines Pesos	41,025	45,849
	<hr/> 4,076,709	<hr/> 3,751,136

The Group has the following undrawn borrowing facilities:

	As at	
	30 June 2014	31 December 2013
Floating rate		
– expiring within one year	230,817	171,893
– expiring beyond one year	726,070	544,812
Fixed rate		
– expiring within one year	161	1,386
– expiring beyond one year	122,025	105,745
	<hr/> 1,079,073	<hr/> 823,836

12. 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\$28.02 per ordinary share of the Company on 7 October 2013. Unless previously redeemed, converted or purchased and cancelled, these bonds will be redeemed at 111.84% of their principal amount on the Maturity Date.

The initial fair values of the liability component and the equity conversion component, based on net proceeds, were determined at issuance of the bonds. The fair value of the liability component, included under non-current liabilities, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in shareholders’ equity in other reserves (Note 10).

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

	As at	
	30 June 2014	31 December 2013
Face value of convertible bonds issued on 12 May 2011	500,000	500,000
Issuing expenses	(4,400)	(4,400)
Equity component credited to the equity	(44,518)	(44,518)
	<hr/>	<hr/>
Liability component on initial recognition at 12 May 2011	451,082	451,082
Accumulated interest expense	65,014	54,044
	<hr/>	<hr/>
Liability component	516,096	505,126

The face value of outstanding bonds at 30 June 2014 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 2014 and up to the date of this report. The carrying amount of the liability component which approximates to its fair value is calculated using cash flows discounted at an initial market interest rate of 4.34% per annum.

13. Fixed rate bonds

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

	As at	
	30 June 2014	31 December 2013
Face value of fixed rate bonds issued on 10 April 2012	600,000	600,000
Issuing expenses	(4,859)	(4,859)
	<hr/>	<hr/>
Net bonds proceeds received	595,141	595,141
Accumulated amortization of issuing expenses	2,160	1,673
	<hr/>	<hr/>
Carrying value of fixed rate bonds	597,301	596,814
	<hr/>	<hr/>

As at 30 June 2014, the outstanding interest payable for the fixed rate bonds included in accounts payable and accruals is US\$6,333,000. The carrying amount of the bonds approximates to its fair value.

14. Derivative financial instruments

	As at	
	30 June 2014	31 December 2013
Interest-rate swap contracts – hedging		
– included in non-current assets	453	1,550
– included in current assets	170	443
	<hr/>	<hr/>
	623	1,993
	<hr/>	<hr/>
Interest-rate swap contracts – hedging		
– included in non-current liabilities	2,904	1,265
– included in current liabilities	950	366
	<hr/>	<hr/>
	3,854	1,631
	<hr/>	<hr/>

14. Derivative financial instruments (continued)

The Group has endeavored to hedge its medium term interest rate risk by entering into fixed HIBOR and LIBOR interest-rate swap contracts and all interest-rate swap contracts qualify for hedge accounting.

All the interest-rate swap contracts were initially recognized at fair value on the date the contract was entered and are subsequently re-measured at fair value at each date of statement of financial position. The recorded fair value could be an asset or liability depending on the prevailing financial market conditions and the anticipated interest rate environment.

The notional principal amounts of the outstanding HIBOR and LIBOR interest-rate swap contracts at 30 June 2014 are as follows:

- HK\$2,200,000,000 (31 December 2013: HK\$2,200,000,000) with fixed interest rates vary from 0.940% to 1.635% per annum (31 December 2013: 0.940% to 1.635% per annum);
- US\$206,000,000 (31 December 2013: US\$206,000,000) with fixed interest rates vary from 1.420% to 1.785% per annum (31 December 2013: 1.420% to 1.785% per annum).

15. Balances with non-controlling shareholders

- (a) Due to non-controlling shareholders (non-current portion) are unsecured and with the following terms:

	As at	
	30 June 2014	31 December 2013
– interest-free and not payable within 12 months	27,394	26,896

The effective interest rate applied to calculate the fair value upon initial recognition of the interest-free portion of the amounts due to non-controlling shareholders is 4.1% per annum.

- (b) Due to/(from) non-controlling shareholders (current portion) are unsecured and with the following terms:

	As at	
	30 June 2014	31 December 2013
– interest-free with no fixed repayment terms	12,851	7,912
– interest-free with no fixed repayment terms	(161)	(160)

The fair value of the amounts due to/(from) non-controlling shareholders (both current and non-current portion under (a) and (b) above) are not materially different from their carrying values.

16. Accounts payable and accruals

	As at	
	30 June 2014	31 December 2013
Trade payables	101,468	94,958
Value-added tax payable under a reorganization scheme	–	67,568
Construction cost payable and accrued expenses	584,831	680,465
	686,299	842,991

The ageing analysis of the trade payables is as follows:

	As at	
	30 June 2014	31 December 2013
0 – 3 months	83,829	85,570
4 – 6 months	12,587	5,294
Over 6 months	5,052	4,094
	101,468	94,958

17. 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 2014	30 June 2013
Depreciation of property, plant and equipment (net of amount capitalized of US\$98,000 (2013: US\$95,000)) (Note 4)	145,092	153,639
Amortization of leasehold land and land use rights (Note 4)	8,380	8,270
Amortization of trademark and website development (Note 4)	389	390
Employee benefit expenses	321,858	318,665
Cost of inventories sold or consumed in operation	130,009	132,482
Loss/(gain) on disposal of property, plant and equipment and partial replacement of investment properties	600	(86)
Discarding of property, plant and equipment and investment properties due to renovation	2,952	1,304

18. Other (losses)/gains – net

	For the six months ended	
	30 June 2014	30 June 2013
Net unrealized gains/(losses) on financial assets held for trading	687	(4,711)
Fair value losses on interest-rate swap contracts – non-hedging	–	(82)
Interest income	6,618	5,342
Fair value (loss)/gain of an investment property	(12,078)	27,718
(Provision)/reversal of provision for impairment loss for a property under development and leasehold land	(3,208)	2,759
Dividend income	658	589
Others	150	9
	(7,173)	31,624

19. Finance costs – net

	For the six months ended	
	30 June 2014	30 June 2013
Interest expense		
– bank loans	50,643	48,237
– interest-rate swap contracts – hedging	3,140	195
– convertible bonds	10,970	10,509
– fixed rate bonds	14,740	14,740
– other loans	1,294	1,294
	80,787	74,975
Less: amount capitalized	(25,340)	(24,141)
	55,447	50,834
Net foreign exchange losses/(gains)	10,557	(7,496)
	66,004	43,338

The effective capitalization rate used to determine the amount of borrowing costs eligible for capitalization is 3.18% per annum for the period (2013: 3.26%).

20. Share of profit of associates

	For the six months ended	
	30 June 2014	30 June 2013
Share of profit before tax of associates before share of net fair value gains of investment properties	70,179	40,857
Share of net fair value gains of investment properties	60,558	237,325
Share of profit before tax of associates	130,737	278,182
Share of associates' taxation before provision for deferred tax liabilities on fair value gains of investment properties	(16,519)	(14,979)
Share of provision for deferred tax liabilities on fair value gains of investment properties	(15,139)	(59,331)
Share of associates' taxation	(31,658)	(74,310)
Share of profit of associates	99,079	203,872

21. 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% (2013: 16.5%) on the estimated assessable profits for the period. Taxation outside Hong Kong includes withholding tax paid and payable on dividends from subsidiaries and tax provided at the prevailing rates on the estimated assessable profits of group companies operating outside Hong Kong.

	For the six months ended	
	30 June 2014	30 June 2013
Current income tax		
– Hong Kong profits tax	8,906	7,482
– overseas taxation	34,214	32,735
Deferred income tax	7,362	20,300
	50,482	60,517

22. 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 2014	30 June 2013
Profit attributable to equity holders of the Company (US\$'000)	76,184	215,266
Weighted average number of ordinary shares in issue (thousands)	3,121,961	3,121,680
Basic earnings per share (US cents per share)	2.440	6.896

Diluted

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

For the six months ended 30 June 2014, share options of HK\$11.60 issued under the 2002 Option Scheme and HK\$12.11 issued under the 2012 Option Scheme have the greatest dilution effect. For the six months ended 30 June 2013, all the share options issued under the 2002 Option Scheme have the greatest dilution effect.

	For the six months ended	
	30 June 2014	30 June 2013
Profit attributable to equity holders of the Company (US\$'000)	76,184	215,266
Weighted average number of ordinary shares in issue (thousands)	3,121,961	3,121,680
Adjustments for share options (thousands)	1,720	1,486
Weighted average number of ordinary shares for diluted earnings per share (thousands)	3,123,681	3,123,166
Diluted earnings per share (US cents per share)	2.439	6.893

23. Dividends

	For the six months ended	
	30 June 2014	30 June 2013
Interim dividend of HK6 cents (2013: HK8 cents) per ordinary share	24,170	32,224

Notes:

- (a) At a meeting held on 19 March 2014, the Board proposed a final dividend of HK4 cents per ordinary share for the year ended 31 December 2013, which was paid on 13 June 2014, and has been reflected as a charge against retained earnings for the six months ended 30 June 2014.
- (b) At a meeting held on 20 August 2014, the Board declared an interim dividend of HK6 cents per ordinary share for the year ending 31 December 2014. This declared dividend is not reflected as a dividend payable in these financial statements but reflected as an appropriation of retained earnings for the year ending 31 December 2014. The declared interim dividend of US\$24,170,000 for the six months ended 30 June 2014 is calculated based on 3,132,464,799 shares of the Company in issue as at 20 August 2014 after elimination on consolidation the amount of US\$81,000 for the 10,501,055 ordinary shares in the Company held by a subsidiary of the Company (Note 9).

24. Financial guarantees, contingencies and charges over assets

(a) Financial guarantees

As at 30 June 2014, the Group executed proportionate guarantees in favour of banks for securing banking facilities granted to certain associates. The Group also provided suretyship in favour of an associate in relation to the payment obligations under its banking facility which in return provided counter guarantee to the Company such that any amounts paid by the Company under the suretyship agreement should be proportionate to its respective shareholding in the associate. The utilized amount of such facilities covered by the Group's guarantees for these associates amounts to US\$389,298,000 (31 December 2013: US\$387,724,000). The Board is of the opinion that it is not probable that such guarantees will be called upon.

(b) Contingent liabilities

As at 30 June 2014, 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\$9,657,000 (31 December 2013: US\$9,897,000). The Group also executed a bank guarantee of US\$3,103,000 (31 December 2013: US\$3,148,000) in favour of the government authorities for the purpose of value-added tax refund and a bank guarantee of US\$408,000 (31 December 2013: nil) in favour of a business partner relating to a marketing sponsorship program. These facilities were undrawn as at 30 June 2014.

(c) Charges over assets

As at 30 June 2014, bank borrowings of certain subsidiaries amounting to US\$301,787,000 (31 December 2013: US\$311,268,000) are secured by:

- (i) Land use 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\$131,546,000 (31 December 2013: US\$136,557,000).
- (ii) Legal mortgage over the property owned by five subsidiaries with an aggregate net book value of US\$607,414,000 (31 December 2013: US\$601,780,000).

25. Commitments

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

	As at	
	30 June 2014	31 December 2013
Existing properties – Property, plant and equipment and investment properties		
– contracted but not provided for	66,202	40,524
– authorized but not contracted for	79,442	92,435
Development projects		
– contracted but not provided for	712,649	1,044,283
– authorized but not contracted for	1,410,321	1,245,047
	2,268,614	2,422,289

26. Related party transactions

Kerry Group Limited ("KGL"), which owns approximately 49.11% of the Company's issued ordinary shares as recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance as at 30 June 2014, has significant influence over the Company.

The following transactions were carried out with related parties:

	For the six months ended	
	30 June 2014	30 June 2013
(a) Transactions with subsidiaries of KGL (other than subsidiaries of the Company)		
Receipt of hotel management and related services fees and royalty fees	4,110	1,404
Reimbursement of office expenses and payment of administration and related expenses	1,059	1,564
Payment of office rental, management fees and rates	4,147	3,542
Purchase of wines	1,444	588

26. Related party transactions *(continued)*

	For the six months ended	
	30 June 2014	30 June 2013
(b) Transactions with associates of the Group		
Receipt of hotel management and related services fees and royalty fees	8,817	8,394
Receipt of laundry services fees	353	371
	As at	
	30 June 2014	31 December 2013
(c) Financial assistance provided to subsidiaries of KGL (other than subsidiaries of the Company)		
Balance of loan to associates of the Group	124,799	97,864
Balance of guarantees executed in favour of banks for securing bank loans/facilities granted to associates of the Group	313,303	323,295
	As at	
	30 June 2014	31 December 2013
(d) Financial assistance provided to associates of the Group (excluding item (c) above)		
Balance of loan to associates of the Group	91,196	101,986
Balance of guarantees executed in favour of banks for securing bank loans/facilities granted to associates of the Group	75,995	64,428

There are no material changes to the terms of the above transactions during the period.

	For the six months ended	
	30 June 2014	30 June 2013
(e) Key management compensation		
Fees, salaries and other short-term employee benefits of executive directors	1,351	1,195
Post employment benefits of executive directors	63	57
	1,414	1,252

27. Financial instruments measured at fair value

The Group measures financial assets and liabilities using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1 – Quoted market prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

The definitions, the valuation technique and inputs used in the fair value measurements for financial assets and liabilities under Level 1 and Level 2 are consistent with those used in the Group's annual financial statements for the year ended 31 December 2013.

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2014.

	Level 1	Level 2	Total
Assets			
Derivative financial instruments			
– interest-rate swap contracts	–	623	623
Available-for-sale financial assets			
– club debentures	2,079	–	2,079
Financial assets held for trading			
– equity securities	21,639	–	21,639
	<hr/>	<hr/>	<hr/>
	23,718	623	24,341
	<hr/>	<hr/>	<hr/>
Liabilities			
Derivative financial instruments			
– interest-rate swap contracts	–	3,854	3,854
	<hr/>	<hr/>	<hr/>
	–	3,854	3,854
	<hr/>	<hr/>	<hr/>

27. Financial instruments measured at fair value (continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2013.

	Level 1	Level 2	Total
Assets			
Derivative financial instruments			
– interest-rate swap contracts	–	1,993	1,993
Available-for-sale financial assets			
– club debentures	2,090	–	2,090
Financial assets held for trading			
– equity securities	20,952	–	20,952
	<hr/>		
	23,042	1,993	25,035
	<hr/>		
Liabilities			
Derivative financial instruments			
– interest-rate swap contracts	–	1,631	1,631
	<hr/>		
	–	1,631	1,631
	<hr/>		

During the six months ended 30 June 2014, there was no transfer between Level 1 and Level 2 of the Group's financial assets and liabilities.

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

- (a) In June 2014, the Group entered into a shareholders' agreement with an independent third party to establish a joint venture company in Mauritius for the acquisition of an operating resort in that country in which the Group would have 26% equity interest. Pursuant to the shareholders' agreement, the Group's share of the investment amount in this joint venture company is US\$28,600,000. The Group completed the transaction on 4 August 2014.
- (b) Subsequent to 30 June 2014 and up to the approval date of the financial statements, the Group executed a 5-year bank loan agreement of RMB133,000,000 (equivalent to US\$21,407,000).

OPERATIONS REVIEW

(Performance compared to the corresponding period last year)

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

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

The Group has equity interests in certain companies which are engaged in businesses other than the above-mentioned three main business segments. These included the sale of the residential units, wines trading business and operation of a golf course by associates. These other businesses did not have a material impact on the Group's consolidated results for the six months ended 30 June 2014.

Revenues

(a) Hotel ownership

- Continued to be the main source of revenue and operating profit.
- As at 30 June 2014, the Group has equity interest in 63 operating hotels (including the Portman Ritz Carlton Hotel, Shanghai) and 2 hotels under operating lease, representing a room inventory of 29,100 across Asia Pacific and Europe. The Group has a substantial development pipeline with upcoming projects in Hong Kong, Mainland China, Indonesia, Mongolia, Myanmar, the Philippines, Sri Lanka and Ghana.
- The Group's first hotel in United Kingdom – Shangri-La Hotel, At The Shard, London (under operating lease) opened on 6 May 2014. The 202-room hotel is the Group's third hotel in Europe, following the openings of Shangri-La Hotel, Paris and Shangri-La Bosphorus, Istanbul in 2010 and 2013, respectively.
- The 262-room and 17-suite Shangri-La Hotel, Lhasa (a 100% owned hotel) in Mainland China opened on 17 April 2014.
- In April 2014, the former Traders Hotel, Yangon in Myanmar was rebranded as the Sule Shangri-La, Yangon following the completion of an extensive renovation programme to its facilities.
- As at 30 June 2014, the total number of Group-owned operating hotels in Mainland China was 34. The challenging business environment confronting the luxury hotel segment in Mainland China continues. The overall weighted average room yields ("**RevPAR**") for this segment registered a 4% decrease when compared to the same period last year. This was largely due to a decline in the weighted average room rate of 7%.

OPERATIONS REVIEW *(continued)*

Revenues *(continued)*

(a) Hotel ownership *(continued)*

- Hotels in Hong Kong, Singapore and Malaysia generally benefited from the continuing robust demand from both leisure and business travel and registered improvements in weighted average RevPAR of 6%, 5% and 1%, respectively.
- Affected by the political environment in the country, the two hotels in Thailand recorded a decrease in weighted average RevPAR and weighted average occupancies of 26% and 16 percentage points, respectively.
- Room rates of the hotels in the Philippines were affected by the 7% depreciation of the Philippines Peso. Consequently, the overall weighted average RevPAR expressed in US dollars decreased by 4% as compared to the same period last year.
- The performance of the hotel in Tokyo continued to improve. Supported by both increase in occupancy and room rate, the hotel registered a remarkable increase in RevPAR of 19% as compared to the same period last year.
- With an increase of 13 percentage points in occupancy, the hotel in Paris registered an increase in RevPAR of 18% as compared to the same period last year.
- The three hotels in Australia recorded a marginal decrease in weighted average RevPAR of 1% as a result of a 4% decline in weighted average room rate in US dollar terms following a 9% depreciation of the Australian dollar against the US dollar.
- The overall weighted average RevPAR for the six months ended 30 June 2014 increased by a modest 1% as compared to the same period last year.

(b) Hotel management services

- As at 30 June 2014, the Group's wholly owned subsidiary, SLIM International Limited and its subsidiaries ("**SLIM**"), managed 83 properties including 19 operating hotels with room inventory of 6,200 under third parties' hotel management agreements in Asia Pacific, North America and the Middle East.
- Overall weighted average RevPAR of those hotels under third parties' hotel management agreements registered an increase of 7%.
- Revenue of SLIM on consolidation, after elimination of revenue earned from fellow subsidiaries, recorded an increase of 14%.
- In August 2014, SLIM took over the hotel management of Le Touessrok Resort in Mauritius following the completion of the Group's acquisition of a 26% equity interest in this resort. Upon completion of its extensive renovations around September 2015, the resort will be rebranded as Shangri-La's Le Touessrok Resort & Spa, Mauritius.

OPERATIONS REVIEW *(continued)*

Revenues *(continued)*

(c) Property rentals

- The Group's investment properties are located principally in Shanghai and Beijing and are owned by associates.
- The investment properties in Mainland China generally experienced continuous growth in yields as compared to the same period last year. In Shanghai, the newly opened Jing An Kerry Centre (Phase II) registered an average occupancy of 61% for office spaces and 93% for commercial spaces. The Kerry Parkside, Pudong in Shanghai recorded further growth in yields for commercial spaces (21%), office spaces (2%) and serviced apartments (9%) as compared to the same period last year. Most properties of the China World Trade Center in Beijing recorded improvement in yields ranging from 2% to 16% as compared to the same period last year. The Beijing Kerry Centre registered occupancies of 87% and 98% for its commercial spaces and office spaces, respectively. The serviced apartments in this Centre re-opened for business in April 2014 after completion of major renovations. The office spaces of the Chengdu Shangri-La Centre and Shangri-La Centre, Qingdao recorded an increase in yields of 2% and 4%, respectively. The yields of the commercial spaces in these two centres however recorded a 4% decline. The yield of Shangri-La Residences, Dalian also recorded an increase of 42% as compared to the same period last year upon completion of its phased renovations in January 2014.
- The yield of the Group's serviced apartments in Singapore recorded a marginal increase of 3% for the Shangri-La Apartments but a decrease of 17% for the Shangri-La Residences. The commercial spaces in Singapore however recorded steady improvement in yields of 5% and 7% for Tanglin Mall and Tanglin Place, respectively.
- In Malaysia, the UBN Apartments and the office spaces of the UBN Tower recorded a marginal decrease in yields of 5% and 3%, respectively. The yield of the office spaces of the Central Tower in Ulaanbaatar, the Republic of Mongolia was negatively impacted by the depreciation of Mongolian Tugrik resulting in a significant decrease of 22% as compared to the same period last year in US dollar terms.
- The Phase II of Shangri-La Residences in Yangon, Myanmar (a 55.86% Group-owned serviced apartments) opened for business in August 2014.

OPERATIONS REVIEW *(continued)*

Consolidated Profits

- Owing to weak market conditions in Mainland China as well as the additional start-up losses of the new hotels, the net profit attributable to equity holders of the Company from the hotel ownership segment decreased by US\$11.3 million from US\$49.1 million in 2013 to US\$37.8 million. The reduction in net profit was largely attributable to the decrease in profits of US\$18.0 million from the Mainland China hotels mainly caused by the startup losses of the new hotels that opened in 2013 and 2014 (US\$13.4 million) and the increase in exchange losses arising from foreign currency borrowings (US\$11.9 million) due to recent weakening of the Renminbi. The improved operating results of Shangri-La Hotel, Tokyo and Shangri-La Hotel, Paris were offset by the startup loss of US\$6.2 million recorded by the newly opened Shangri-La Hotel, At The Shard, London. After a year of operation, the Shangri-La Bosphorus, Istanbul in Turkey registered encouraging operating results and had turned from a loss of US\$4.1 million in the same period last year to a profit of US\$0.6 million in the current period. The investment properties rental segment, especially the properties in Mainland China, continued to be the key profit contributor. The incremental net profit during the period from property rental was US\$11.6 million, mainly contributed by the newly opened Jing An Kerry Centre (Phase II) in Shanghai (US\$9.3 million). All the principal properties in Mainland China recorded an increase in net profit during the period. The hotel management services segment, benefiting from the opening of new hotels and increased project management services revenues, improved its contribution by US\$4.4 million. Details of the segment information are provided in Note 3 to the condensed consolidated interim financial statements included in this report.
- In line with the decrease in the profit contribution from the Mainland China hotel ownership segment, the earnings before interest expenses, tax, depreciation, amortization and non-operating items (“**EBITDA**”) of the Group for the current period decreased by US\$15.9 million to US\$265.1 million due to additional pre-opening expenses of US\$6.0 million and additional net foreign exchange losses of US\$18.1 million as compared to the same period last year. The EBITDA to Consolidated Sales ratio of the Group was 26.2% as compared to 27.9% for the same period last year. The Group’s share of EBITDA of its associates for the current period however increased by US\$42.7 million to US\$113.8 million due to improved performance from its investment properties portfolio.
- The consolidated finance costs for the current period increased by US\$4.6 million on account of the increase in bank loans and the additional interest expenses arising from the new interest-rate swap contracts – hedging executed in the second half of 2013. The Group recorded a consolidated net exchange loss of US\$10.6 million in the current period, due mainly to the exchange losses arising from foreign currency borrowings of its Mainland China properties, as compared to a net gain of US\$7.5 million in the same period last year.
- The Group’s share of fair value gains on investment properties (net of tax) substantially decreased to US\$40.4 million during the current period from US\$189.6 million in the same period last year. The amount of fair value gains in 2013 included US\$182.3 million contributed by the newly opened Jing An Kerry Centre (Phase II) in Shanghai. Consequently, net credit from non-operating items during the current period decreased to US\$37.5 million from US\$181.7 million in the same period last year.

CORPORATE DEBT AND FINANCIAL CONDITIONS

At the corporate level, the Group executed a 5-year unsecured bank loan agreement of HK\$1,000 million (approximately US\$129.0 million) during the current period. The Group cancelled an undrawn corporate bank loan facility of US\$70 million due to its relatively high interest margin. The Group is currently negotiating with certain banks for additional long term loan facilities for refinancing maturing loans as well as meeting project funding requirements.

At the subsidiary level, the Group executed the following bank loan agreements during the six months ended 30 June 2014:

- one 5-year agreement of US\$32 million, two 3-year agreements totaling US\$29 million and two 3-year agreements totaling RMB180 million (approximately US\$29.0 million) to refinance outstanding bank loans that matured in 2014
- three 5-year agreements totaling RMB980 million (approximately US\$157.7 million), one 7-year agreement of RMB429 million (approximately US\$69.0 million), one 8-year agreement of RMB450 million (approximately US\$72.4 million), one 5-year agreement of HK\$2,000 million (approximately US\$258.1 million) and two 8-year agreements totaling US\$80 million to finance project developments and hotel renovations

Subsequent to the period end and up to the date of this report, the Group executed a 5-year agreement of RMB133 million (approximately US\$21.4 million) to finance project developments.

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

The net borrowings (total of bank loans, convertible bonds and fixed rate bonds less cash and bank balances) to total equity ratio, i.e. the gearing ratio, increased from 54.1% as at 31 December 2013 to 60.3% as at 30 June 2014.

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

CORPORATE DEBT AND FINANCIAL CONDITIONS *(continued)*

The analysis of borrowings outstanding as at 30 June 2014 is as follows:

<i>(US\$ million)</i>	Maturities of Borrowings Contracted as at 30 June 2014				Total
	Within 1 year	In the 2nd year	Repayment In the 3rd to 5th year	After 5 years	
Borrowings					
Corporate borrowings					
– unsecured bank loans	422.9	645.2	1,350.3	–	2,418.4
– convertible bonds	–	516.1	–	–	516.1
– fixed rate bonds	–	–	597.3	–	597.3
Project bank loans					
– secured	52.3	16.0	207.9	25.6	301.8
– unsecured	221.1	372.4	694.4	68.6	1,356.5
Total	696.3	1,549.7	2,849.9	94.2	5,190.1
Undrawn but committed facilities					
Bank loans and overdrafts	231.0	25.2	728.1	94.8	1,079.1

The currency–mix of the borrowings and cash and bank balances as at 30 June 2014 is as follows:

<i>(US\$ million)</i>	Borrowings	Cash and Bank Balances
In United States dollars	2,273.1	164.9
In Hong Kong dollars	1,513.0	133.2
In Renminbi	698.0	555.1
In Euros	272.2	5.3
In Australian dollars	182.3	28.8
In Singapore dollars	84.2	72.2
In British Pound	76.9	21.3
In Japanese Yen	49.4	8.1
In Philippines Pesos	41.0	33.8
In Malaysian Ringgit	–	18.9
In Thai Baht	–	22.4
In Mongolian Tugrik	–	3.9
In Fiji dollars	–	16.5
In Maldives Rufiyaa	–	1.0
In other currencies	–	0.7
	5,190.1	1,086.1

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

Details of financial guarantees, contingencies and charges over assets as at 30 June 2014 are disclosed in Note 24 to the condensed consolidated interim financial statements included in this report.

TREASURY POLICIES

The Group has consistently followed all treasury policies aimed at minimizing interest and currency risk as disclosed in the 2013 Annual Report.

Intra-group financing between subsidiaries in Mainland China by way of entrusted loan agreements through local banks increased from RMB605 million (approximately US\$99.8 million) as at 31 December 2013 to RMB726.5 million (approximately US\$116.9 million) as at 30 June 2014. 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 endeavoured to hedge its medium term interest rate risk by entering into interest-rate swap contracts. No new contract was executed during the current period. As at 30 June 2014, the outstanding HIBOR and LIBOR interest-rate swap contracts are:

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

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 44% of its borrowings outstanding as at 30 June 2014.

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

INVESTMENT PROPERTIES VALUATIONS

Investment properties of subsidiaries and associates continue to be stated at fair value (including those properties being constructed for future use as investment properties of which fair value becomes reliably determinable at 30 June 2014). All changes in the fair value are recorded in the income statement. For the six months ended 30 June 2014, the Group's share of the net fair value gains on investment properties (including those under construction) being owned by a subsidiary and certain associates (net of deferred taxation) amounted to US\$40.4 million based on the opinion from independent professional valuers as obtained by the Group and the major shareholder of certain associates.

FINANCIAL ASSETS HELD FOR TRADING – TRADING SECURITIES

The equity securities within the investment portfolio remained unchanged during the period. The Group recorded net unrealized fair value gains of US\$0.7 million (US\$0.6 million after share of non-controlling interests) and dividend income of US\$0.7 million (US\$0.6 million after share of non-controlling interests) for these equity securities.

DEVELOPMENT PROGRAMMES

On 8 August 2014, the 304-room Shangri-La Hotel, Tianjin (part of Tianjin Kerry Centre in which the Group has 20% equity interest) in Mainland China opened for business.

Construction work on the following projects is on-going:

(i) Hotel Developments

	Group's Equity Interest	Hotel Rooms	Serviced Apartments/ Villas	Projected Opening
Hotels in the People's Republic of China				
Shangri-La Hotel, Qinhuangdao	100%	331	–	2014
Shangri-La's Sanya Resort & Spa, Hainan	100%	506	8 Villas	2014
Shangri-La Hotel, Nanjing	55%	522	40	2014
Shangri-La Hotel, Nanchang (part of composite development project in Nanchang City)	20%	474	–	2015
Shangri-La Hotel, Tangshan (part of composite development project in Tangshan City)	35%	398	38	2015
Shangri-La Hotel, Hefei	100%	402	–	2015
Shangri-La Hotel, Diqing	100%	226	–	2015
Midtown Shangri-La, Hangzhou (part of Kerry Central, Hangzhou)	25%	417	–	2015
Shangri-La Hotel, Jinan (part of composite development project in Jinan City)	45%	411	–	2016
Shangri-La Hotel, Xiamen	100%	425	15	2016
Shangri-La Harbin, Songbei District	100%	451	33	2016
Shangri-La Hotel, Hunghom Bay, Hong Kong	100%	544	–	2016
Hotels in other countries				
Hotel Jen Orchardgateway, Singapore	Operating lease	502	–	17 Sep 2014
Shangri-La Hotel, Ulaanbaatar, the Republic of Mongolia	51%	290	–	2014
Extension of the Ocean Wing of Shangri-La's Rasa Ria Resort, Kota Kinabalu, Malaysia	64.59%	83	–	2015
Shangri-La Hotel, At The Fort, Manila (part of composite development project in Bonifacio Global City, Metro Manila, the Philippines)	40%	576	–	2015
Shangri-La's Hambantota Resort & Spa, Sri Lanka	90%	300	–	2015
Lakeside Shangri-La, Yangon, Myanmar	55.86%	373	24	2016
Shangri-La Hotel, Colombo, Sri Lanka (part of composite development project in Colombo)	90%	503	41	2017

DEVELOPMENT PROGRAMMES *(continued)*

(ii) Composite Developments and Investment Properties Developments

	Group's Equity Interest	Total gross floor area upon completion (excluding hotel component) <i>(approximate in square meters)</i>				Projected Opening
		Residential	Office	Commercial	Serviced Apartments	
In Mainland China						
Shenyang Kerry Centre	25%	731,701	195,732	389,199	–	2014-2022*
Phase II of Arcadia Court, Tangshan City	35%	109,178	–	22,808	–	2014
Tianjin Kerry Centre	20%	149,165	70,015	117,985	31,420	2014
Nanchang City Project	20%	81,998	70,545	9,144	–	2014
Phase II of Shangri-La Hotel, Dalian	100%	18,631	–	4,600	12,150	2015
Kerry Central, Hangzhou	25%	–	11,670	103,341	33,512	2015
Jinan City Project	45%	–	35,983	4,705	–	2016
Putian City Project	40%	263,675	–	6,945	–	2016
In other countries						
Bonifacio Global City, Metro Manila, The Philippines	40%	37,522	–	4,405	17,554	2015
Traders Square in Yangon, Myanmar	59.28%	–	37,779	11,808	–	2016
Composite development project in Colombo, Sri Lanka	90%	111,100	60,176	74,607	–	2016-2017
		<u>1,502,970</u>	<u>481,900</u>	<u>749,547</u>	<u>94,636</u>	

* Being developed in phases. First phase opened in 2014. All phases are expected to be completed by 2022.

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

Hotel development

- Zhoushan, Mainland China (wholly owned by the Group)
- Wolong Bay in Dalian, Mainland China (wholly owned by the Group)
- Kunming, Mainland China (45% equity interest owned by the Group)
- Accra, the Republic of Ghana (wholly owned by the Group)
- Bali, Indonesia (53.3% equity interest owned by the Group)

Composite development

- Zhengzhou, Mainland China (45% equity interest owned by the Group)

The Group acquired the entire equity interest in a local company which owns a very well located building in Rome in May 2012. The Group intends to convert the building into a Shangri-La hotel after the existing tenants are vacated. The seller is still negotiating with the remaining tenants in order to deliver vacant possession of the premises in accordance with the terms of the sale and purchase agreement. The balance of the cash consideration of EUR29.8 million (approximately US\$40.5 million) is not payable until then.

DEVELOPMENT PROGRAMMES *(continued)*

The Group has executed a termination agreement with the local government in relation to the acquisition of a piece of land in Zhuhai, Mainland China. Pursuant to the agreement, 10% of the land cost representing RMB6.2 million (approximately US\$1.0 million) was forfeited and the Group has already received the refund of the remaining 90% of the land cost of RMB55.5 million (approximately US\$9.0 million) from the local government.

NEW INVESTMENT

In June 2014, the Group entered into a shareholders' agreement with an independent third party to establish a joint venture company in Mauritius for the acquisition of an operating resort in that country in which the Group would have 26% equity interest. Pursuant to the shareholders' agreement, the Group's share of the investment amount in this joint venture company is US\$28.6 million. The Group completed the transaction on 4 August 2014. The resort will be renovated and rebranded thereafter as a Shangri-La resort.

HOTEL MANAGEMENT

Effective 1 August 2014, the Group has completed all the preparatory work to launch an exciting new brand "Hotel Jen". The first hotel under this brand will open for business on 17 September 2014 (Hotel Jen Orchardgateway) in Singapore. It is envisaged that progressively many of the Traders hotels in the Group's portfolio will be rebranded as Hotel Jen. It is the Group's intent to add to the portfolio of this brand of hotels by pursuing suitable management contract opportunities with third party owners/developers.

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

In addition, the Group has agreements on hand for the management of 5 new hotels. The new hotel projects are located in Shaoxing (Mainland China), Bengaluru, India (2 hotels) and Doha, Qatar (2 hotels).

PROSPECTS

The Group's financial performance this year has been weighted down by the difficult operating environment faced by our hotels in Mainland China where the market has been characterized by weak demand and emergence of additional competitive supply in most cities. The political uncertainties in Thailand and a weakening of key currencies such as the Renminbi, Australian dollar and the Philippines Peso relative to the US dollar have also been important contributory factors. These market weaknesses and political factors are expected to continue to be a drag on the Group's profitability for the rest of this year. Besides, start-up costs of newly opened hotels will also erode the Group's profit contribution.

The Group is conscientiously pursuing opportunities to optimize operating costs to protect its profit margins while driving for increased market share. Newly opened hotels are being closely monitored to ramp up performance and attain stable operating conditions within the shortest possible time. The recurring profit contribution from its portfolio of investment properties is expected to show a steady growth. Overall, however, the operating performance of the Group is not expected to show any remarkable improvement for the remainder of this year.

HUMAN RESOURCES

As at 30 June 2014, the Company and its subsidiaries had approximately 27,100 employees. The headcount of all the Group's managed hotels and resorts totaled approximately 42,100.

Remuneration policies, share option schemes, share award scheme and training schemes have been consistently applied by the Group as disclosed in the 2013 Annual Report.

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.

Directors Handbook

On 19 March 2012, the Board adopted a composite handbook ("**Directors Handbook**") comprising (amongst other things) a set of principles for securities transactions by Directors or any non-Directors of the Company ("**Securities Principles**") and a set of corporate governance principles of the Company ("**CG Principles**") terms of both of which align with or are stricter than the requirements set out in, respectively, the Model Code for Securities Transactions by Directors of Listed Issuers ("**Securities Model Code**") as contained in Appendix 10 to the Rules Governing the Listing of Securities ("**Listing Rules**") on The Stock Exchange of Hong Kong Limited ("**HKSE**") and the code provisions under the Corporate Governance Code and Corporate Governance Report ("**CG Model Code**") as contained in Appendix 14 to the Listing Rules save for the positions of the Chairman and the Chief Executive Officer of the Company may be served by the same person. The Directors Handbook serves as a comprehensive guidebook for all Directors.

During the underlying six-month period, the Securities Principles and the CG Principles were the codes for the Directors' securities transactions and the Company's corporate governance respectively.

Code on Securities Transactions

The Company has made specific enquiry of each of the Directors and all the Directors have confirmed compliance with the Securities Principles throughout the underlying six-month period.

CORPORATE GOVERNANCE *(continued)*

Code on Corporate Governance

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

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

Changes in Directors' Information

There have been changes in the information of some of the Directors since the date of the Company's 2013 Annual Report. Details of the changes as required to be disclosed under Rule 13.51B(1) of the Listing Rules are as follows:

1. Mr Roberto V ONGPIN ceased to act as a director of Petron Corporation (listed on The Philippine Stock Exchange, Inc) on 20 May 2014.
2. Mr Roberto V ONGPIN retired by rotation as a Non-executive Director of the Company on 29 May 2014.
3. Mr Michael Wing-Nin CHIU retired by rotation as an Independent Non-executive Director of the Company on 29 May 2014.
4. Mr KUOK Khoon Ean ceased to act as a Non-executive Director of the Company on 1 July 2014.
5. As part of the regular annual salary review, the Remuneration Committee of the Board has approved the adjustment in the monthly salary of the Executive Directors for 2014. Such adjustments were in the range of 0% to 19% and were considered as normal annual increments.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2014, the interests and short positions of those persons (other than the Directors) in shares and underlying shares in the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance ("SFO") or as ascertained by the Company after reasonable enquiry were as follows:

Name	Capacity	Number of ordinary shares held	Approximate % of total issued share capital of the Company
Substantial shareholders			
Kerry Group Limited (" KGL ") (Note 1)	Interest of controlled corporations	1,538,200,110	49.11
Kerry Holdings Limited (" KHL ") (Notes 1 and 2)	Beneficial owner	76,332,421	2.44
	Interest of controlled corporations	1,354,279,851	43.23
Caninco Investments Limited (" Caninco ") (Note 2)	Beneficial owner	497,497,599	15.88
	Interest of controlled corporation	137,620,204	4.39
Paruni Limited (" Paruni ") (Note 2)	Beneficial owner	335,041,480	10.70
	Interest of controlled corporation	22,018,019	0.70
Persons other than substantial shareholders			
Darmex Holdings Limited (" Darmex ") (Note 2)	Beneficial owner	233,684,562	7.46
Kuok Brothers Sdn Berhad	Beneficial owner	73,886,095	2.36
	Interest of controlled corporation	144,135,415	4.60

Notes:

1. KHL is a wholly owned subsidiary of KGL and accordingly, the shares in which KHL is shown as interested are also included in the shares in which KGL is shown as interested.
2. Caninco, Paruni and Darmex are wholly owned subsidiaries of KHL and accordingly, the shares in which Caninco, Paruni and Darmex are shown as interested are also included in the shares in which KHL is shown as interested.

DIRECTORS' INTERESTS

As at 30 June 2014, the interests and short positions of the Directors in shares, underlying shares and debentures in/of the Company and its associated corporations (within the meaning of Part XV of the SFO) ("**Associated Corporation(s)**") as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and HKSE pursuant to the Securities Model Code were as follows:

(A) Long positions in shares in the Company and Associated Corporations

Name of company	Name of Director	Class of shares	Number of shares held				Total	Approximate % of total issued share capital of the relevant company
			Personal interests	Family interests	Corporate interests	Other interests		
The Company	KUOK Khoon Chen	Ordinary	-	-	1,706,421 <i>(Note 1)</i>	256,037 <i>(Note 2)</i>	1,962,458	0.063
	LUI Man Shing	Ordinary	902,777	-	-	-	902,777	0.029
	Madhu Rama Chandra RAO	Ordinary	33,278	-	-	-	33,278	0.001
	Gregory Allan DOGAN	Ordinary	28,166	-	-	-	28,166	0.001
	KUOK Khoon Ean	Ordinary	474,791	86,356 <i>(Note 3)</i>	2,802,196 <i>(Note 4)</i>	256,037 <i>(Note 2)</i>	3,619,380	0.116
	HO Kian Guan	Ordinary	735,977	-	127,651,755 <i>(Note 5)</i>	-	128,387,732	4.099
	HO Kian Hock (alternate to HO Kian Guan)	Ordinary	-	-	127,651,755 <i>(Note 5)</i>	-	127,651,755	4.075
Associated Corporation Shangri-La Hotel Public Company Limited	LUI Man Shing	Ordinary	10,000	-	-	-	10,000	0.008

Notes:

- 1,463,651 shares were held through a company which was wholly owned by Mr KUOK Khoon Chen.
242,770 shares were held through companies in which Mr KUOK Khoon Chen was entitled to exercise or control the exercise of one-third or more of voting power at their respective general meetings.
- These shares were held through discretionary trusts the contingent beneficiaries of which include Mr KUOK Khoon Chen and Mr KUOK Khoon Ean.
- These shares were held by the spouse of Mr KUOK Khoon Ean.
- These shares were held through a company which was wholly owned by Mr KUOK Khoon Ean and his spouse.
- 83,595,206 shares were held through companies which were owned as to 50% by each of Mr HO Kian Guan and Mr HO Kian Hock.
5,014,445 shares were held through a company which was owned as to 25% by each of Mr HO Kian Guan and Mr HO Kian Hock.
4,683,540 shares were held through a company which was owned as to 13.33% and 7.08% by Mr HO Kian Guan and Mr HO Kian Hock, respectively.
34,358,564 shares were held through companies which were owned as to 6.75% and 6.93% by Mr HO Kian Guan and Mr HO Kian Hock, respectively.

(B) Long positions in underlying shares in the Company and Associated Corporations

As at 30 June 2014, there were share options held by the Directors with rights to subscribe for shares in the Company. Details of such options are set out in the section headed "SHARE OPTIONS" of this Report.

SHARE OPTIONS

The share options having been granted by the Company and remaining outstanding during the underlying six-month period were granted under the Company's 2 share option schemes adopted by the shareholders of the Company respectively on 24 May 2002 ("**2002 Option Scheme**") and 28 May 2012 ("**2012 Option Scheme**"). Details and movements of such option shares during the underlying six-month period are as follows:

Grantees	Date of grant	Tranche	Number of option shares						Held as at 30 Jun 2014	Exercise price per option share HK\$	Exercise period
			Held as at 1 Jan 2014	Granted during the period	Transferred from other category during the period	Transferred to other category during the period	Exercised during the period	Lapsed during the period			
2002 Option Scheme											
1. Directors											
LUI Man Shing	16 Jun 2006	II	60,000	-	-	-	-	-	60,000	14.60	16 Jun 2008 – 15 Jun 2016
Madhu Rama Chandra RAO	28 Apr 2005	II	250,000	-	-	-	-	-	250,000	11.60	28 Apr 2007 – 27 Apr 2015
	16 Jun 2006	I	50,000	-	-	-	-	-	50,000	14.60	16 Jun 2007 – 15 Jun 2016
	16 Jun 2006	II	50,000	-	-	-	-	-	50,000	14.60	16 Jun 2008 – 15 Jun 2016
Gregory Allan DOGAN	28 Apr 2005	II	50,000	-	-	-	-	-	50,000	11.60	28 Apr 2007 – 27 Apr 2015
	16 Jun 2006	I	37,500	-	-	-	-	-	37,500	14.60	16 Jun 2007 – 15 Jun 2016
	16 Jun 2006	II	37,500	-	-	-	-	-	37,500	14.60	16 Jun 2008 – 15 Jun 2016
Roberto V ONGPIN	28 Apr 2005	I	75,000	-	-	(75,000)	-	-	-	11.60	28 Apr 2006 – 27 Apr 2015
	28 Apr 2005	II	75,000	-	-	(75,000)	-	-	-	11.60	28 Apr 2007 – 27 Apr 2015
	16 Jun 2006	I	30,000	-	-	(30,000)	-	-	-	14.60	16 Jun 2007 – 15 Jun 2016
	16 Jun 2006	II	30,000	-	-	(30,000)	-	-	-	14.60	16 Jun 2008 – 15 Jun 2016
Timothy David DATTELS	28 Apr 2005	I	75,000	-	-	-	-	-	75,000	11.60	28 Apr 2006 – 27 Apr 2015
	28 Apr 2005	II	75,000	-	-	-	-	-	75,000	11.60	28 Apr 2007 – 27 Apr 2015
	16 Jun 2006	I	30,000	-	-	-	-	-	30,000	14.60	16 Jun 2007 – 15 Jun 2016
	16 Jun 2006	II	30,000	-	-	-	-	-	30,000	14.60	16 Jun 2008 – 15 Jun 2016
2. Employees											
	28 Apr 2005	I	1,230,000	-	-	-	-	-	1,230,000	11.60	28 Apr 2006 – 27 Apr 2015
	28 Apr 2005	II	1,465,000	-	-	-	-	-	1,465,000	11.60	28 Apr 2007 – 27 Apr 2015
	16 Jun 2006	I	842,500	-	-	-	-	(20,000)	822,500	14.60	16 Jun 2007 – 15 Jun 2016
	16 Jun 2006	II	934,000	-	-	-	-	(32,500)	901,500	14.60	16 Jun 2008 – 15 Jun 2016
3. Other participants											
	28 Apr 2005	I	640,000	-	75,000	-	-	-	715,000	11.60	28 Apr 2006 – 27 Apr 2015
	28 Apr 2005	II	640,000	-	75,000	-	-	-	715,000	11.60	28 Apr 2007 – 27 Apr 2015
	16 Jun 2006	I	436,500	-	30,000	-	-	-	466,500	14.60	16 Jun 2007 – 15 Jun 2016
	16 Jun 2006	II	650,000	-	30,000	-	-	-	680,000	14.60	16 Jun 2008 – 15 Jun 2016
Sub-total			7,793,000	-	210,000	(210,000)	-	(52,500)	7,740,500		

SHARE OPTIONS (continued)

Grantees	Date of grant	Tranche	Number of option shares							Exercise price per option share HK\$	Exercise period
			Held as at 1 Jan 2014	Granted during the period	Transferred from other category during the period	Transferred to other category during the period	Exercised during the period	Lapsed during the period	Held as at 30 Jun 2014		
2012 Option Scheme											
1. Directors											
KUOK Khoon Chen	23 Aug 2013	-	350,000	-	-	-	-	-	350,000	12.11	23 Aug 2013 – 22 Aug 2023
LUI Man Shing	23 Aug 2013	-	350,000	-	-	-	-	-	350,000	12.11	23 Aug 2013 – 22 Aug 2023
Madhu Rama Chandra RAO	23 Aug 2013	-	350,000	-	-	-	-	-	350,000	12.11	23 Aug 2013 – 22 Aug 2023
Gregory Allan DOGAN	23 Aug 2013	-	350,000	-	-	-	-	-	350,000	12.11	23 Aug 2013 – 22 Aug 2023
KUOK Khoon Ean	23 Aug 2013	-	350,000	-	-	(350,000)	-	-	-	12.11	23 Aug 2013 – 22 Aug 2023
HO Kian Guan	23 Aug 2013	-	100,000	-	-	-	-	-	100,000	12.11	23 Aug 2013 – 22 Aug 2023
Roberto V ONGPIN	23 Aug 2013	-	100,000	-	-	(100,000)	-	-	-	12.11	23 Aug 2013 – 22 Aug 2023
Alexander Reid HAMILTON	23 Aug 2013	-	100,000	-	-	-	-	-	100,000	12.11	23 Aug 2013 – 22 Aug 2023
Timothy David DATTELS	23 Aug 2013	-	100,000	-	-	-	-	-	100,000	12.11	23 Aug 2013 – 22 Aug 2023
WONG Kai Man	23 Aug 2013	-	100,000	-	-	-	-	-	100,000	12.11	23 Aug 2013 – 22 Aug 2023
Michael Wing-Nin CHIU	23 Aug 2013	-	100,000	-	-	(100,000)	-	-	-	12.11	23 Aug 2013 – 22 Aug 2023
LI Kwok Cheung Arthur	23 Aug 2013	-	100,000	-	-	-	-	-	100,000	12.11	23 Aug 2013 – 22 Aug 2023
2. Employees	23 Aug 2013	-	16,228,000	-	-	-	(80,000)	(470,000)	15,678,000	12.11	23 Aug 2013 – 22 Aug 2023
3. Other participants	23 Aug 2013	-	120,000	-	550,000	-	-	-	670,000	12.11	23 Aug 2013 – 22 Aug 2023
Sub-total			18,798,000	-	550,000	(550,000)	(80,000)	(470,000)	18,248,000		
Total			26,591,000	-	760,000	(760,000)	(80,000)	(522,500)	25,988,500		

Note: No options were cancelled during the underlying six-month period.

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

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

QUALIFICATION FOR INTERIM DIVIDEND

In order to qualify for the interim dividend, all share transfers accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Abacus Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 pm on 25 September 2014.

On behalf of the Board
KUOK Khoon Chen
Chairman

Hong Kong, 20 August 2014