SHANGRI-LA ASIA LIMITED
香格里拉(亞洲)有限公司

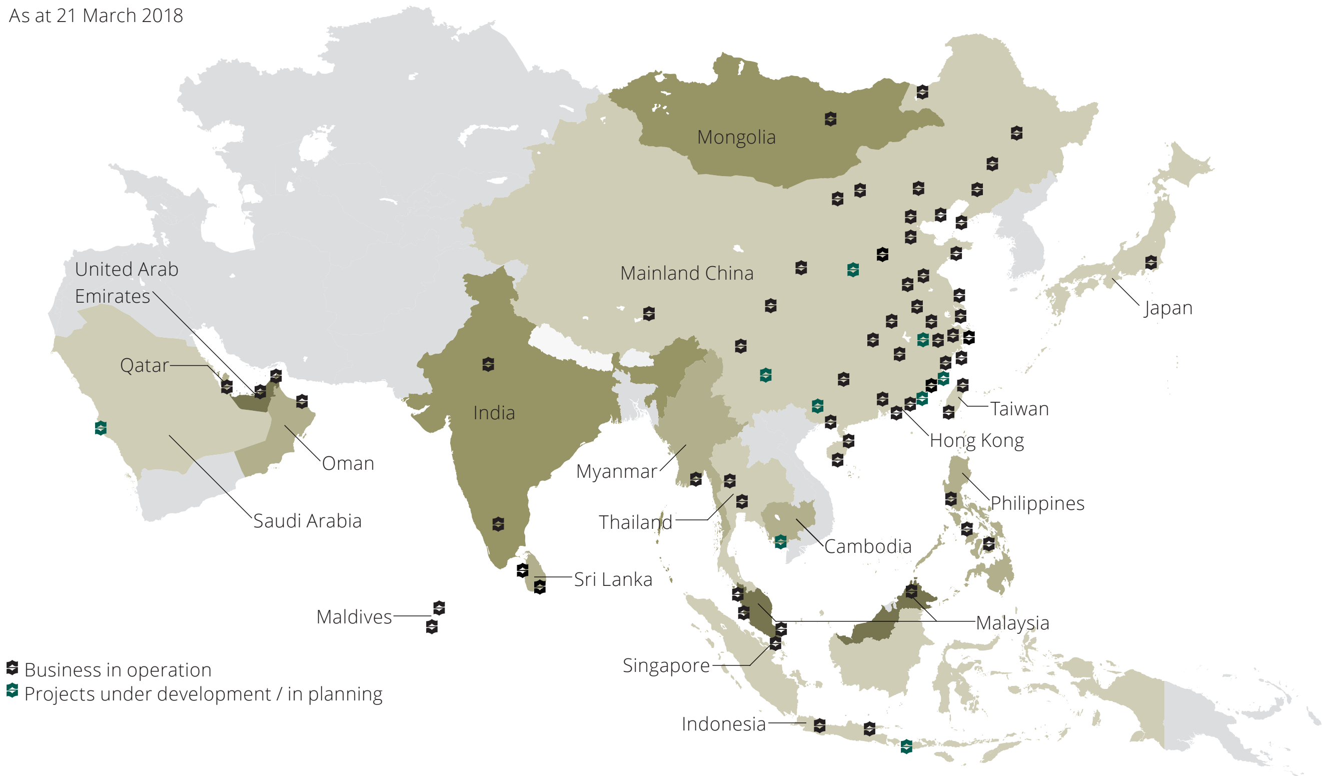
(Incorporated in Bermuda with Limited Liability)
Stock code: 69

Cover Photo – Shangri-La Hotel, Singapore's Tower Wing Lobby

Contents

THE GROUP'S BUSINESS PRESENCE

As at 21 March 2018



ASIA

Cambodia
Phnom Penh

Hong Kong

India
Bengaluru
New Delhi

Indonesia
Bali
Jakarta
Surabaya

Japan
Tokyo

Mainland China
Baotou
Beihai
Beijing
Changchun
Changzhou
Chengdu
Dalian
Diqing
Fuzhou
Guangzhou
Guilin
Haikou
Hangzhou
Harbin
Hefei
Huhhot
Jinan
Kunming
Lhasa
Manzhouli
Nanchang
Nanjing
Nanning
Ningbo
Putian
Qiantan
Qingdao
Qinhuangdao
Qufu
Sanya
Shanghai
Shenyang
Shenzhen
Suzhou
Tangshan
Tianjin
Wenzhou
Wuhan
Xiamen
Xian
Yangzhou
Yiwu
Zhengzhou
Zhoushan

Malaysia
Johor
Kota Kinabalu
Penang
Kuala Lumpur

Maldives
Malé
Villingili

Mongolia
Ulaanbaatar

Myanmar
Yangon

Oman
Muscat

Philippines
Boracay
Cebu
Manila

Qatar
Doha

Saudi Arabia
Jeddah

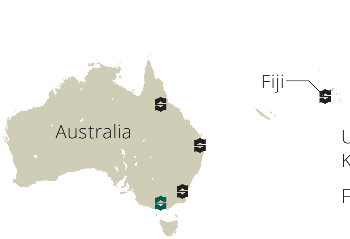
Singapore

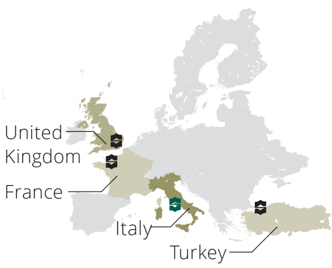
Sri Lanka
Colombo
Hambantota

Taiwan
Tainan
Taipei

Thailand
Bangkok
Chiang Mai

United Arab Emirates
Abu Dhabi
Dubai





OCEANIA

Australia
Brisbane
Cairns
Sydney
Melbourne

Fiji
Yanuca

EUROPE

France
Paris

Italy
Rome

Turkey
Istanbul

United Kingdom
London

AFRICA

Ghana
Accra

Mauritius

NORTH AMERICA

Canada
Toronto
Vancouver

The following table summarises the highlights of our financial results:

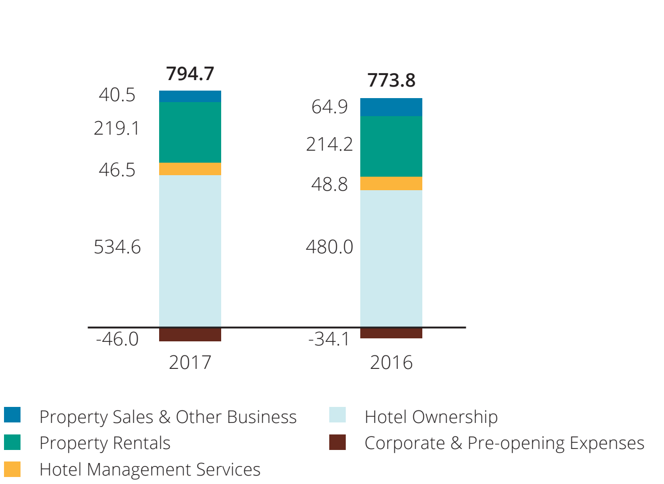
	2017 US$Million	2016 US$Million	2017/16 % Change
Sales	**2,189.8**	2,055.4	6.5%
EBITDA (Note 1) of the Company and its subsidiaries	**535.9**	523.0	2.5%
Effective share of EBITDA (Note 2) of the Company, subsidiaries and associates	**794.7**	773.8	2.7%
Profit attributable to equity holders of the Company			
- Operating items	**140.7**	137.6	2.3%
- Non-operating items	**17.3**	(31.5)	N/M
Total	**158.0**	106.1	48.9%
Earnings per share (US cents per share)	**4.43**	2.97	49.2%
Net assets attributable to the Company's equity holders	**6,602.6**	5,990.8	10.2%
Net assets per share attributable to the Company's equity holders (US$)	**1.84**	1.67	10.2%
Effective share of net borrowings (Note 3) of the Company, subsidiaries and associates	**4,335.8**	4,471.7	-3.0%

Notes:

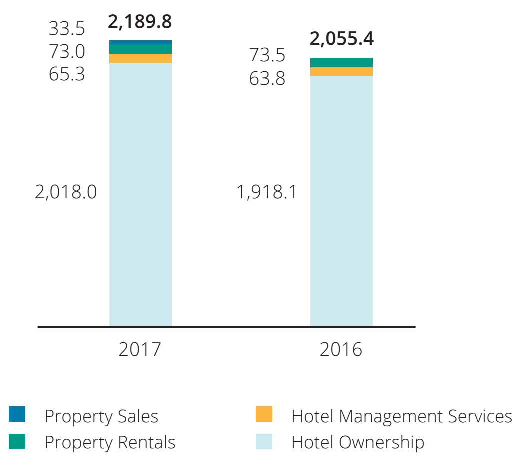
1. *EBITDA, which is a non-IFRS financial measure, is defined as the earnings before finance costs, tax, depreciation and amortisation and non-recurring items such as gain/loss on disposal of fixed assets and interest in investee companies; fair value gains/losses on investment properties and financial assets held for trading; and impairment losses on fixed assets.*
2. *Effective share of EBITDA is the aggregate total of the Company's EBITDA and the Group's share of EBITDA of subsidiaries and associates based on percentage of equity interests.*
3. *Effective share of net borrowings (balance of bank loans and fixed rate bonds less cash) is the aggregate total of the Company's net borrowings and the Group's share of net borrowings of subsidiaries and associates based on percentage of equity interests.*
4. *For information, effective share of depreciation and amortisation of the Company, subsidiaries and associates was US$362.2 million for the year ended 31 December 2017, an increase of 6.0%, compared to US$341.8 million for the year ended 31 December 2016.*

- Sales were US$2,189.8 million for the year ended 31 December 2017, an increase of 6.5%, compared to US$2,055.4 million for the year ended 31 December 2016.
- EBITDA of the Company and its subsidiaries was US$535.9 million for the year ended 31 December 2017, an increase of 2.5%, compared to US$523.0 million for the year ended 31 December 2016.
- Effective share of EBITDA of the Company, subsidiaries and associates was US$794.7 million for the year ended 31 December 2017, an increase of 2.7%, compared to US$773.8 million for the year ended 31 December 2016.
- Consolidated profit attributable to equity holders of the Company was US$158.0 million for the year ended 31 December 2017, an increase of 48.9%, compared to US$106.1 million for the year ended 31 December 2016.

EFFECTIVE SHARE OF EBITDA BY CATEGORY (US$ Million)



SEGMENT SALES BY CATEGORY (US$ Million)



CORPORATE INFORMATION

As at 21 March 2018

BOARD OF DIRECTORS

Executive Director(s)

Ms KUOK Hui Kwong *(Chairman)*
Mr LIM Beng Chee *(CEO)*
Mr LUI Man Shing

Non-executive Director(s)

Mr HO Kian Guan (alternate – Mr HO Chung Tao)

Independent Non-executive Director(s)

Mr Alexander Reid HAMILTON
Professor LI Kwok Cheung Arthur
Dr LEE Kai-Fu
Mr YAP Chee Keong

EXECUTIVE COMMITTEE

Ms KUOK Hui Kwong *(chairman)*
Mr LIM Beng Chee
Mr LUI Man Shing

NOMINATION COMMITTEE

Ms KUOK Hui Kwong *(chairman)*
Mr Alexander Reid HAMILTON
Professor LI Kwok Cheung Arthur

REMUNERATION COMMITTEE

Mr Alexander Reid HAMILTON *(chairman)*
Ms KUOK Hui Kwong
Professor LI Kwok Cheung Arthur

AUDIT & RISK COMMITTEE

Mr YAP Chee Keong *(chairman)*
Mr HO Kian Guan
Mr Alexander Reid HAMILTON
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 HM12
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

HKSE – 00069
Singapore stock exchange – S07
American Depositary Receipt – SHALY

WEBSITES

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

INVESTOR RELATIONS CONTACT

Ms Lori LINCOLN
enquiry.ir@shangri-la.com
28/F Kerry Centre
683 King's Road
Quarry Bay
Hong Kong

KEY DATES

Closure of registers of members for Annual General Meeting

28 May 2018 to 31 May 2018, both dates inclusive

Annual General Meeting

31 May 2018

Record date for 2017 final dividend

5 June 2018

Payment of 2017 final dividend

14 June 2018
(subject to Shareholders' approval at the Annual General Meeting)

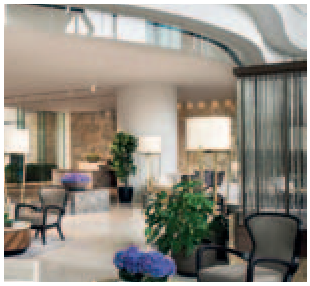
Announcement of 2018 interim results

August 2018

Shangri-La marked the opening of its 100th hotel in 2017

Songbei Shangri-La, Harbin

"Warmer Welcomes"



Kerry Hotel, Hong Kong

JANUARY

Songbei Shangri-La opened in Harbin, marking Shangri-La's second debut in the city. The hotel is located on the north bank of the Songhua River in the heart of Songbei's business district.

MARCH

"Warmer Welcomes", the first hotel-to-hotel loyalty programme, launched between **Shangri-La Hotels and Resorts** and Taj Hotels Palaces Resorts Safaris. The programme allows Shangri-La's Golden Circle and Taj's InnerCircle members to earn and redeem their preferred loyalty currency at more than 200 hotels.

APRIL

Kerry Hotel, Hong Kong opened along the shoreline of Hung Hom Bay overlooking Victoria Harbour. The 16-storey property is Shangri-La's fourth hotel in the city and features extensive meeting and event facilities.

YEAR IN REVIEW

Hotel Jen Beijing

The Group sold its 53.3% equity interest in a **Bali resort** project in Nusa Dua to its strategic partner and signed a management contract to operate the resort when it opens in 2019.

JULY

Shangri-La announced the development of an urban resort in Fujian Province. Scheduled to open in 2021, **Shangri-La Hotel, Putian** will be the Group's third property in Fujian Province.

MAY

The **Tower Wing at Shangri-La Hotel, Singapore** revealed a stunning rejuvenation with a refreshed lobby, three novel restaurant concepts, a revitalised club lounge and new rooms and suites. Five themed family suites and 19 deluxe family rooms located on a dedicated family floor and an interactive play space launched in January 2018.

Conveniently located in the centre of Beijing's central business district, the new **Hotel Jen Beijing** features a vibrant co-working hub, a gastropub with its own brewery and an industrial-chic world-class gym.

JUNE

Shangri-La signed a management contract with Malaysian property developer S P Setia Berhad Group for the **Shangri-La Hotel, Melbourne**. Scheduled to open in 2022, the hotel will be located in a two-tower development overlooking Melbourne's World Heritage-listed Carlton Gardens.

Shangri-La opened Yiwu's newest international hotel adjacent to the world-famous Yiwu International Commodity City in the city's business district. **Shangri-La Hotel, Yiwu** is an integral component of the 52-storey mixed-use Yiwu World Trade Centre.

AUGUST

Shangri-La marked the opening of its 100th hotel with the launch of **Shangri-La Hotel, Xiamen**. With a long stretch of beach on one side and urban views on the other, Shangri-La Hotel, Xiamen is in an enviable location within the city's newly developed financial and IT zone.

Shangri-La Hotel, Colombo

Hotel Jen Penang

Shangri-La Hotel, Jinan

OCTOBER

Shangri-La completed the development of 144 serviced apartments and 166 apartments in a new residential tower that is part of the **Shangri-La Residences, Dalian** and Shangri-La Hotel, Dalian complex.

NOVEMBER

Hotel Jen Penang, a 17-storey landmark in the heart of UNESCO World Heritage Site George Town, unveiled a vibrant new look following a US$14 million renovation.

Located at the exclusive One Galle Face address, **Shangri-La Hotel, Colombo** opened as part of the first phase of a 10-acre mixed-use development along Galle Face Promenade. The site incorporates an office tower offering premium office space, two residential towers with 390 apartments, and a high-end shopping mall.

DECEMBER

Shangri-La Hotel, Jinan opened in the capital of Shandong Province. Located in Jinan's central business district, the hotel is part of a multi-use complex opening in Q2 2018 that will feature an office tower and an ancillary retail centre.

AWARDS OF THE YEAR

READERS' CHOICE

- **Top Leisure Hotel Brand**
  Cathay Pacific Marco Polo Readers' Choice Award 2017 (Hong Kong)
- **Best Hotel Brand for Business and one of the Top 5 Best Hotel Brands for Leisure,**
  DestinAsian Readers' Choice Awards 2017 (Asia)
- **Best Upscale Hotel Brand,**
  Business Travel Awards 2017 (UK)
- **Best Hotel Brand in China,**
  Business Traveller China Awards 2017
- **Best Business Hotel Brand in Asia-Pacific,**
  Business Traveller Asia-Pacific Awards 2017
- **Hotel Brand Most Favoured by Chinese Families for Outbound Travel 2017,**
  Global Times – The 9th Chinese Families' Pick for Outbound Travel Award
- **Top 10 Hotel Brands in Asia,**
  SmartTravelAsia.com Best in Travel Poll 2017 (Hong Kong)

INDUSTRY ACCOLADES

- **Best Luxury Hotel Brand,**
  TTG Travel Awards 2017 (Asia)
- **Best Hotel Chain (Worldwide),**
  Globe Travel Awards 2017, *Travel Weekly* (UK)
- **Best Hotel/Resort Group,**
  2017 National Travel Industry Awards, The Australian Federation of Travel Agents
- **Best Hotel Group,**
  10th Golden Chair Award of China MICE Industry (China)
- **Best Luxury Hotel Brand in Greater China,** The 10th Annual *TTG China* Travel Awards 2017
- **Best Corporate Social Responsibility Programme,** *Business Travel* Awards *2017* (UK)
- **"Rooted In Nature" Initiative – Positive Community Impact,**
  HICAP 2017 Sustainable Hotel Award
- **2017 Responsible Brand Award,**
  China Charity Festival
- **2017 Public Welfare Project Award for Shangri-La's EMBRACE and EMBRACE++ project,** China Charity Festival
- **Best CSR Initiative 2017,**
  PL4Y International (France)
- **Most Influential Hotel Group 2017,**
  Sina Weibo Awards (China)
- **The Most Successful Hospitality Brand on Social Media 2017,** *Sprinklr* (US)

Dear Shareholders,

On behalf of the Board, I am pleased to present the annual results of Shangri-La Asia Limited for the financial year ended 31 December 2017.

In 2017, consolidated revenues increased by 6.5% to US$2,189.8 million. Our consolidated profit attributable to equity stakeholders of the Company (before non-operating items) increased by 2.3% to US$140.7 million. The relatively flat increase was impacted by pre-opening and opening expenses for six owned hotels launched in 2017. Consolidated profit attributed to equity holders of the Company (after non-operating items) increased by 48.9% to US$158.0 million.

A final dividend of HK11 cents per ordinary share has been proposed, which when added to the interim dividend will amount to a total dividend of HK17 cents per share for the Financial Year.

In 2017, Shangri-La marked the opening of its 100th hotel in August with the launch of Shangri-La Hotel, Xiamen and opened its second hotel in Harbin, fourth in Hong Kong and fifth in Beijing. In addition, we opened one of Sri Lanka's most anticipated luxury hotels in the capital of Colombo and a rejuvenated Tower Wing at our flagship Shangri-La Hotel, Singapore following a major eight-month renovation.

Along with Shangri-La hotels in Yiwu and Jinan, in total five properties opened in Mainland China, where the hotel market continued to strengthen – especially in Tier 1 and Tier 2 cities where 75% of the Group's inventory is located. In Tier 1 cities, demand is outgrowing supply, resulting in improved revenues for the Group's hotels. Our hotel portfolio in Mainland China generated a net profit of US$17.1 million in the year, compared to a net loss of US$12.5 million at year ended 31 December 2016.

Property sales in 2017 declined compared to 2016 as less inventory was available for sale. In 2018, property sales are anticipated to make a positive contribution to the Group's results as we recognise profits from the sale of residences in Shangri-La's One Galle Face development in Colombo. These residences are expected to be handed over to buyers at the end of 2018.

The Group saw relatively small growth in rental property income in 2017 in China. However, with the continued stability of the RMB, this is expected to gradually improve, particularly with the opening of the final stage of China World Trade Center Phase IIIB in 2018.

Strengthening our competitive position

In 2017, we began building the foundation to facilitate future growth and compete in today's fast-changing global environment.

The Group's leadership team was strengthened with the addition of new senior executives, including President & Chief Operating Officer Oliver Bonke who joined in September. One of our key priorities is attracting, developing and retaining top talent. We will continue to invest in training in order to develop our people and provide the best hospitality and experience to our guests.

In order to develop and leverage on technology to improve our cost and operational efficiency, the Technology Development Centre (TDC) was established in Beijing. Built by the TDC, the Shangri-La Mobile App relaunched in January 2018 and is a major step forward in our effort to improve customer engagement and support our book direct strategy. The TDC will continually enhance our app and is also working on the relaunch of our desktop and mobile booking sites.

We are targeting to open our 50th hotel in Mainland China – Jinji Lake Shangri-La, Suzhou – in 2018. In addition, we are undertaking asset enhancements of Shangri-La's Fijian Resort & Spa, Shangri-La Hotel, The Marina, Cairns and China World Hotel, Beijing, as well as planning for the future asset enhancements of some of our most iconic properties to ensure they remain market leaders in their respective markets.

I would like to thank all our staff and management for their commitment and hard work and my fellow Directors for their continued support and guidance. In addition, we would like to thank our shareholders for their valued support and ongoing trust. By building upon our proven expertise as a developer, owner and operator of hotels, residential developments and commercial properties, we are building a strong future for Shangri-La.

KUOK Hui Kwong
Chairman

21 March 2018

EXECUTIVE DIRECTOR(S)

KUOK Hui Kwong

Aged 40, Malaysian
Executive Director
Chairman

Period of service with the Group

- NED from October 2014 to June 2016
- ED and Deputy Chairman from June 2016 to December 2016
- ED and Chairman since January 2017

Other current major position(s) held within the Group

- Executive Committee – chairman
- Nomination Committee – chairman
- Remuneration Committee – member

Directorship of listed companies in the past three years

- China World Trade Center Company Limited (listed on the Shanghai stock exchange), an associate of the Company – director since April 2015
- SCMP Group Limited (currently known as Great Wall Pan Asia Holdings Limited) (listed on HKSE with stock code 00583) – executive director from February 2004 to June 2016
- The Post Publishing Public Company Limited (listed on the Thailand stock exchange) – director from November 2012 to June 2016

Other current major appointments

- Kerry Group Kuok Foundation (Hong Kong) Limited (charitable organisation) – governor

Other experience and previous major appointments

- SCMP Group Limited (currently known as Great Wall Pan Asia Holdings Limited) – managing director and chief executive officer from January 2009 to June 2012

Academic/professional qualification(s)

- Bachelor's degree in East Asian Studies – Harvard University, United States

Relationship with significant shareholders

- **Shareholding interest**
  - KGL (Substantial Shareholder) – deemed interest of more than 5%
  - Kuok Brothers Sdn Berhad (Other Major Shareholder) – deemed interest of less than 5%
  - Kuok (Singapore) Limited (Other Major Shareholder) – deemed interest of less than 5%
- **Directorship/office/employment**
  - KGL (Substantial Shareholder) – director
  - KHL (Substantial Shareholder) – director

Relationship with Directors and Senior Management

- TEO Ching Leun (company secretary) is her cousin

BOARD OF DIRECTORS, COMPANY SECRETARY AND SENIOR MANAGEMENT

LIM Beng Chee

Aged 50, Singaporean
Executive Director
CEO

Period of service with the Group

- NED from September 2016 to December 2016
- ED and CEO since January 2017

Other current major position(s) held within the Group

- Executive Committee – member

Directorship of listed companies in the past three years

- Raffles Medical Group Limited (listed on the Singapore stock exchange) – independent director since July 2015

Other current major appointments

- SCPG Holdings Co, Limited – non-executive director

Other experience and previous major appointments

- CapitaLand Mall Asia Limited (formerly known as CapitaMalls Asia Limited) – chief executive officer
- has more than 15 years of experience in retail real estate investment, development, mall operations, asset management and fund management in Asia

Academic/professional qualification(s)

- Bachelor's degree in Physics (Hons) – University of Oxford, United Kingdom
- MBA (Accountancy) – Nanyang Technological University, Singapore

LUI Man Shing

Aged 74, Chinese
Executive Director

Period of service with the Group

- ED since March 2002
- Deputy Chairman from March 2007 to June 2016

Other current major position(s) held within the Group

- Executive Committee – member

Directorship of listed companies in the past three years

- Shangri-La Hotel Public Company Limited (listed on the Thailand stock exchange), a subsidiary of the Company – vice chairman since May 1994; managing director since May 2013

Other experience and previous major appointments

- has significant management and consultancy experience in the hospitality and property development industries since 1990

Relationship with significant shareholders

- **Shareholding interest**
  - KGL (Substantial Shareholder) – less than 5%
  - Kuok (Singapore) Limited (Other Major Shareholder) – less than 5%

NON-EXECUTIVE DIRECTOR(S)

HO Kian Guan

Aged 72, Singaporean
Non-executive Director

Period of service with the Group

- NED since May 1993

Other current major position(s) held within the Group

- Audit & Risk Committee – member

Directorship of listed companies in the past three years

- Keck Seng (Malaysia) Berhad (listed on the Malaysia stock exchange) – executive chairman since September 1970
- Keck Seng Investments (Hong Kong) Limited (listed on HKSE with stock code 00184) – executive chairman since December 1979
- Parkway Life REIT (listed on the Singapore stock exchange) – independent director since October 2016 and chairman since April 2017

Academic/professional qualification(s)

- Bachelor's degree in Business Administration and Commerce – Nanyang University, Singapore

Relationship with Directors and Senior Management

- HO Chung Tao (his alternate) is his son

HO Chung Tao

Aged 43, Singaporean
Alternate Director
(to HO Kian Guan)

Period of service with the Group

- alternate Director since October 2016

Directorship of listed companies in the past three years

- Keck Seng Investments (Hong Kong) Limited (listed on HKSE with stock code 00184) – executive director since October 2008
- Keck Seng (Malaysia) Berhad (listed on the Malaysia stock exchange) – alternate director since June 2014

Other experience and previous major appointments

- worked for a major US investment bank based in Japan focusing on real estate acquisitions, a venture capital firm in Japan and a securities firm in Singapore

Academic/professional qualification(s)

- Bachelor's degree in Hotel Administration – Cornell University, United States

Relationship with Directors and Senior Management

- he is the son of HO Kian Guan (NED)

INDEPENDENT NON-EXECUTIVE DIRECTOR(S)

Alexander Reid HAMILTON

Aged 76, British
Independent Non-executive Director

Period of service with the Group

- INED since November 2001

Other current major position(s) held within the Group

- Nomination Committee – member
- Remuneration Committee – chairman
- Audit & Risk Committee – member

Directorship of listed companies in the past three years

- Esprit Holdings Limited (listed on HKSE with stock code 00330) – independent non-executive director since August 1995
- COSCO SHIPPING International (Hong Kong) Co, Limited (formerly known as COSCO International Holdings Limited) (listed on HKSE with stock code 00517) – independent non-executive director since June 2011
- JP Morgan China Region Fund Inc (a US-registered closed-end fund quoted on the New York stock exchange) – independent non-executive director from December 1994 to July 2016
- CITIC Limited (listed on HKSE with stock code 00267) – independent non-executive director from May 1994 to June 2015

Other current major appointments

- Octopus Cards Limited – independent non-executive director

Other experience and previous major appointments

- Price Waterhouse (currently known as PricewaterhouseCoopers) – partner for 16 years

Academic/professional qualification(s)

- Member – Institute of Chartered Accountants of Scotland
- Fellow – Hong Kong Institute of Certified Public Accountants
- Fellow – Institute of Directors

LI Kwok Cheung Arthur

Aged 72, Chinese
Independent Non-executive Director

Period of service with the Group

- INED since March 2011

Other current major position(s) held within the Group

- Nomination Committee – member
- Remuneration Committee – member
- Audit & Risk Committee – member

Directorship of listed companies in the past three years

- The Bank of East Asia, Limited (listed on HKSE with stock code 00023) – non-executive director since January 2008; non-executive deputy chairman since April 2009
- Nature Home Holding Company Limited (listed on HKSE with stock code 02083) – independent non-executive director since May 2011
- CaixaBank, SA (listed on the Spain stock exchange) – director from November 2014 to December 2015

Other current major appointments

- The Executive Council of the Hong Kong Special Administrative Region – member
- Council for Sustainable Development of the Government of the Hong Kong Special Administrative Region – chairman
- The National Committee of the Chinese People's Political Consultative Conference – member
- The Chinese University of Hong Kong – emeritus professor of surgery
- The University of Hong Kong – council chairman

Other experience and previous major appointments

- The Chinese University of Hong Kong – vice-chancellor (president) from 1996 to 2002
- Education and Manpower Bureau of the Hong Kong Special Administrative Region – Secretary for Education and Manpower from 2002 to June 2007

Academic/professional qualification(s)

- Medical degree – University of Cambridge, United Kingdom

LEE Kai-Fu

Aged 56, Taiwanese
Independent Non-executive Director

Period of service with the Group

- INED since November 2015

Directorship of listed companies in the past three years

- LightInTheBox Holding Company, Limited (listed on NASDAQ) – independent director since June 2013
- Sinovation (Beijing) Enterprise Management Limited (listed on National Equities Exchange and Quotations) – chairman since September 2015
- Hon Hai Precision Industry Company, Limited (listed on the Taiwan stock exchange) – independent director since July 2016
- Meitu, Inc (listed on HKSE with stock code 01357) – non-executive director since August 2016
- Fosun International Limited (listed on HKSE with stock code 00656) – independent non-executive director since March 2017

Other current major appointments

- Innovation Works (China) – chairman and chief executive officer

Other experience and previous major appointments

- Google Greater China – president
- Microsoft Corp – corporate vice president
- Microsoft Research Asia (China) – founder and managing director
- Silicon Graphics Inc – vice president

Academic/professional qualification(s)

- Honorary Doctorate degree of Business Practice – Carnegie Mellon University, United States
- Honorary Doctorate degree – City University of Hong Kong
- Doctor of Philosophy in Computer Science – Carnegie Mellon University, United States
- Bachelor's degree in Computer Science – Columbia University, United States
- Fellow – Institute of Electrical and Electronics Engineers

BOARD OF DIRECTORS, COMPANY SECRETARY AND SENIOR MANAGEMENT

YAP Chee Keong

Aged 57, Singaporean
Independent Non-executive Director

Period of service with the Group

- INED since December 2017

Other current major position(s) held within the Group

- Audit & Risk Committee – chairman

Directorship of listed companies in the past three years

- The Straits Trading Company Limited (listed on the Singapore stock exchange) – director since May 2009 and currently a non-executive director
- Olam International Limited (listed on the Singapore stock exchange) – independent non-executive director since December 2015
- Malaysia Smelting Corporation Berhad – (listed on both the Malaysia and the Singapore stock exchanges) – non-executive director since May 2016
- Sembcorp Industries Limited (listed on the Singapore stock exchange) – independent non-executive director since October 2016
- Tiger Airways Holdings Limited (delisted from the Singapore stock exchange in May 2016) – independent non-executive director from December 2009 and May 2016
- InterOil Corporation (delisted from the New York stock exchange in February 2017) – independent non-executive director from March 2015 to February 2017
- ARA Asset Management Limited (delisted from the Singapore stock exchange in April 2017) – non-executive director from January 2014 to April 2017

Other current major appointments

- Citibank Singapore Limited – independent non-executive director
- Certis CISCO Security Pte Limited – independent non-executive director
- MediaCorp Pte Limited – independent non-executive director

Other experience and previous major appointments

- The Straits Trading Company Limited – executive director
- Singapore Power Limited – chief financial officer

Academic/professional qualification(s)

- Bachelor's degree in Accountancy – National University of Singapore
- Fellow – CPA, Australia
- Fellow – Institute of Singapore Chartered Accountants

COMPANY SECRETARY

TEO Ching Leun

Aged 57, Singaporean
Company Secretary

Period of service with the Group

- company secretary since March 2008

Academic/professional qualification(s)

- LLB (Hons) degree – National University of Singapore
- LLM degree in Laws – University of London, United Kingdom
- Solicitor – Hong Kong
- Solicitor – Supreme Court of England and Wales
- Advocate and solicitor – Supreme Court of Singapore

Relationship with Directors and Senior Management

- she is the cousin of KUOK Hui Kwong (ED)

SENIOR MANAGEMENT

KUOK Hui Kwong

Aged 40, Malaysian
Chairman

- The biography is set out in the previous subsection.

LIM Beng Chee

Aged 50, Singaporean
CEO

- The biography is set out in the previous subsection.

SENIOR MANAGEMENT (CONTINUED)

Sven Oliver BONKE

Aged 53, American
President & COO

Period of service with the Group

- joined the Group in September 2017 as President & COO

Other experience and previous major appointments

- has 30 years of experience in the hospitality industry
- Loews Hotels group – chief commercial officer
- InterContinental Hotels group – chief commercial officer
- Starwood Hotels & Resorts group – senior vice president, sales & marketing in Asia Pacific, Europe, the Middle East and Africa

Academic/professional qualification(s)

- Advanced Management Program – Harvard University School of Business, United States
- Bachelor of Arts in Business Administration & Sociology – Loyola University New Orleans, United States

TOH Hup Hock

Aged 52, Singaporean
CFO

Period of service with the Group

- joined the Group in April 2016 as CFO

Directorship of listed companies in the past three years

- Sands China Limited (listed on HKSE with stock code 01928) – executive director from June 2010 to April 2016

Other major appointments

- Tourism Development Committee of the Macau Special Administrative Region Government – member from June 2015 to April 2016

Other experience and previous major appointments

- Sands China Limited – chief financial officer, executive vice president and executive director
- General Electric Company – chief financial officer or similar position in Asia, including GE Lighting Asia, GE Consumer Products Asia, GE Consumer & Industrial Asia and GE Plastics Greater China

Academic/professional qualification(s)

- MBA – University of Queensland, Australia
- Bachelor of Science in Accounting – Murdoch University, Australia
- Fellow – CPA, Australia

DISCUSSION AND ANALYSIS

Hotel Jen Beijing

DISCUSSION AND ANALYSIS

The principal activities of the Group remain the same as in 2016. The Group's business is organised into four main segments:

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

The Group continues to develop hotels, investment properties for rental purpose and properties for sales for the above mentioned business segments.

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

- **Shangri-La Hotels and Resorts**
- **Kerry Hotels**
- **Hotel Jen**
- **Traders Hotels**

The following table summarises the hotels and rooms of the Group as at 31 December 2017:

	Owned/Leased		Managed		Total Operating Hotels		Hotels Under Development	
	Hotels	Rooms in '000	Hotels	Rooms in '000	Hotels	Rooms in '000	Owned Hotels	Hotels under Management contracts
SHANGRI-LA HOTELS and RESORTS	71	30.9	15	4.7	86	35.6	4	7
KERRY HOTELS	3	1.6	—	—	3	1.6	—	—
HOTEL JEN By Shangri-La	8	3.0	2	0.6	10	3.6	—	1
TRADERS HOTELS	—	—	3	1.2	3	1.2	1	—
Other (Note)	1	0.6	—	—	1	0.6	—	—
Total	**83**	**36.1**	**20**	**6.5**	**103**	**42.6**	**5**	**8**

Note: Other hotel refers to the Portman Ritz-Carlton Hotel, Shanghai (the Group has 30% equity interest)

The following table summarises the total Gross Floor Area ("**GFA**") of the operating investment properties owned by subsidiaries and associates:

			Total GFA of the operating investment properties as at 31 December 2017		
(in square metres)		Group's equity interest	Office spaces	Commercial spaces	Serviced apartments
Mainland China	China World Trade Center				
	– Phase I	40.32%-50%	92,634	38,811	80,124
	– Phase II	43.23%	74,700	16,044	—
	– Phase IIIA	40.32%	143,088	45,851	—
	– Phase IIIB	40.32%	83,419	62,498	—
			393,841	163,204	80,124
	Century Tower, Beijing	50%	—	—	43,445
	Beijing Kerry Centre	23.75%	92,723	12,831	36,161
	Shanghai Centre	30%	29,955	9,847	53,033
	Jing An Kerry Centre – Phase I	24.75%	38,611	13,009	17,812
	Jing An Kerry Centre – Phase II	49%	117,823	80,967	—
	Kerry Parkside Shanghai Pudong	23.2%	94,995	49,319	34,907
	Shangri-La Centre, Chengdu	80%	41,519	4,097	—
	Shangri-La Residences, Dalian	100%	—	—	51,699
	Shangri-La Centre, Qingdao	100%	31,911	8,029	—
	Tianjin Kerry Centre	20%	—	81,240	—
	Hangzhou Kerry Centre	25%	12,425	100,617	—
			853,803	523,160	317,181
Malaysia	UBN Apartments, Malaysia	52.78%	—	—	17,356
	UBN Tower, Malaysia	52.78%	45,175	8,530	—
			45,175	8,530	17,356
Singapore	Shangri-La Apartments, Singapore	100%	—	—	13,794
	Shangri-La Residences, Singapore	100%	—	—	10,941
	Tanglin Mall, Singapore	44.6%	—	21,267	—
	Tanglin Place, Singapore	44.6%	3,291	1,666	—
			3,291	22,933	24,735
Australia	The Pier Retail Complex, Cairns	100%	515	11,370	—
Mongolia	Central Tower, Ulaanbaatar	51%	23,114	4,510	—
	Shangri-La Centre, Ulaanbaatar	51%	18,241	16,728	19,585
			41,355	21,238	19,585
Myanmar	Shangri-La Residences, Yangon	55.86%	—	—	56,834
	Sule Square, Yangon	59.28%	37,635	11,807	—
			37,635	11,807	56,834
TOTAL			981,774	599,038	435,691

DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Sales

Consolidated sales consisted of the following:

	Year ended 31 December		2017/16
	2017	2016	% change
	US$ Million	US$ Million	
Hotel ownership			
Revenue from rooms	**1,042.5**	986.4	5.7%
Food and beverage sales	**861.1**	824.5	4.4%
Rendering of ancillary services	**114.4**	107.2	6.7%
Sub-total of hotel ownership	**2,018.0**	1,918.1	5.2%
Hotel management and related services			
Gross revenue (including revenue earned from subsidiaries)	**159.7**	151.8	5.2%
Less: Inter-segment sales elimination with subsidiaries	**(94.4)**	(88.0)	-7.3%
Net amount after elimination	**65.3**	63.8	2.4%
Property rentals	**73.0**	73.5	-0.7%
Property sales	**33.5**	—	N/M
Consolidated sales	**2,189.8**	2,055.4	6.5%

Consolidated sales were US$2,189.8 million for the year ended 31 December 2017, an increase of 6.5%, compared to US$2,055.4 million for the year ended 31 December 2016. The increase in sales was mainly driven by the opening of new hotels during the year and the improvement in Room Yields ("**RevPAR**") but partially offset by the reduction in sales following the closure of the Tower Wing of Shangri-La Hotel, Singapore for major renovation from August 2016 to 26 May 2017.

Shangri-La Hotel, Jinan

Shangri-La Hotel, Xiamen

(i) Hotel ownership

Revenue from rooms

Consolidated revenue from rooms for the year ended 31 December 2017 was US$1,042.5 million, an increase of 5.7%, compared to US$986.4 million for the year ended 31 December 2016. The increase was primarily driven by the opening of Kerry Hotel, Hong Kong; Songbei Shangri-La, Harbin and hotels' RevPAR improvement in China, Malaysia, Thailand and Australia.

The following table summarises the results for the year:

	Year ended 31 December		2017/16
	2017 US$ Million	2016 US$ Million	% change
The People's Republic of China			
Hong Kong	**156.9**	131.4	19.4%
Mainland China	**357.6**	333.3	7.3%
Singapore	**104.1**	111.0	-6.2%
Malaysia	**69.8**	66.0	5.8%
The Philippines	**96.4**	97.9	-1.5%
Japan	**38.5**	37.5	2.7%
Thailand	**40.8**	36.8	10.9%
France	**23.7**	21.8	8.7%
Australia	**73.2**	68.0	7.6%
United Kingdom	**29.3**	27.4	6.9%
Mongolia	**5.8**	6.9	-15.9%
Sri Lanka	**7.0**	2.6	169.2%
Other countries	**39.4**	45.8	-14.0%
Consolidated revenue from rooms	**1,042.5**	986.4	5.7%

In 2017, the following six Group-owned new hotels were opened for business:

- The 344-room Songbei Shangri-La, Harbin opened for business on 10 January 2017 (the Group has 100% equity interest)
- The 546-room Kerry Hotel, Hong Kong opened for business on 28 April 2017 (the Group has 100% equity interest)
- The 450-room Hotel Jen Beijing opened for business on 22 May 2017 (the Group has 40.32% equity interest)
- The 325-room Shangri-La Hotel, Xiamen opened for business on 21 August 2017 (the Group has 100% equity interest)
- The 500-room Shangri-La Hotel, Colombo opened for business on 16 November 2017 (the Group has 90% equity interest)
- The 364-room Shangri-La Hotel, Jinan opened for business on 13 December 2017 (the Group has 45% equity interest)

The Traders Hotel, Beijing (part of China World Trade Center in which the Group has 50% equity interest) ceased its operation on 15 April 2017. Disposal of the Golden Flower Hotel, Xian (wholly owned by the Group) was completed in February 2017.

DISCUSSION AND ANALYSIS

At 31 December 2017, the Group had equity interest in 80 operating hotels (including the Portman Ritz-Carlton Hotel, Shanghai ("**Portman**") (2016: 76) and 3 hotels under operating lease (2016: 3), representing a room inventory of 36,056 (2016: 34,705) across Asia Pacific, Europe and Africa. Details of these 83 hotels are as follows:

		Group's equity interest	Available rooms
(A)	**Hotels owned by the Group**		
	Hong Kong		
	Kowloon Shangri-La, Hong Kong	100%	688
	Island Shangri-La, Hong Kong	80%	565
	Hotel Jen Hong Kong	30%	283
	Kerry Hotel, Hong Kong	100%	546
	Mainland China		
	Shangri-La Hotel, Beijing	38%	670
	China World Hotel, Beijing	50%	584
	China World Summit Wing, Beijing	40.32%	278
	Hotel Jen Beijing	40.32%	450
	Kerry Hotel, Beijing	23.75%	485
	Pudong Shangri-La, East Shanghai	100%	951
	Jing An Shangri-La, West Shanghai	49%	508
	Kerry Hotel Pudong, Shanghai	23.2%	574
	Portman Ritz-Carlton Hotel, Shanghai	30%	593
	Shangri-La Hotel, Shenzhen	72%	522
	Futian Shangri-La, Shenzhen	100%	528
	Shangri-La Hotel, Xian	100%	393
	Shangri-La Hotel, Hangzhou	45%	380
	Shangri-La Hotel, Beihai	100%	362
	Shangri-La Hotel, Changchun	100%	382
	Hotel Jen Shenyang	100%	407
	Shangri-La Hotel, Shenyang	25%	383
	Shangri-La Hotel, Qingdao	100%	702
	Shangri-La Hotel, Dalian	100%	560
	Shangri-La Hotel, Wuhan	92%	441
	Shangri-La Hotel, Harbin	100%	404
	Shangri-La Hotel, Fuzhou	100%	414
	Shangri-La Hotel, Guangzhou	80%	690
	Shangri-La Hotel, Chengdu	80%	593
	Shangri-La Hotel, Wenzhou	75%	409
	Shangri-La Hotel, Ningbo	95%	562
	Shangri-La Hotel, Guilin	100%	439
	Shangri-La Hotel, Baotou	100%	360
	Shangri-La Hotel, Huhhot	100%	365
	Shangri-La Hotel, Manzhouli	100%	236
	Shangri-La Hotel, Yangzhou	100%	369
	Shangri-La Hotel, Qufu	100%	322
	Shangri-La Hotel, Lhasa	100%	289
	Shangri-La's Sanya Resort & Spa, Hainan	100%	496

	Group's equity interest	Available rooms
Shangri-La Hotel, Nanjing	55%	450
Shangri-La Hotel, Qinhuangdao	100%	328
Shangri-La Hotel, Hefei	100%	400
Shangri-La Resort, Shangri-La (formerly Hylandia by Shangri-La, Diqing)	100%	228
Shangri-La Hotel, Tianjin	20%	304
Shangri-La Hotel, Nanchang	20%	473
Shangri-La Hotel, Tangshan	35%	301
Midtown Shangri-La, Hangzhou	25%	417
Songbei Shangri-La, Harbin	100%	344
Shangri-La Hotel, Xiamen	100%	325
Shangri-La Hotel, Jinan	45%	364
Singapore		
Shangri-La Hotel, Singapore	100%	792
Shangri-La's Rasa Sentosa Resort & Spa	100%	454
Hotel Jen Tanglin Singapore	44.6%	565
Malaysia		
Shangri-La Hotel, Kuala Lumpur	52.78%	662
Shangri-La's Rasa Sayang Resort & Spa, Penang	52.78%	303
Golden Sands Resort, Penang	52.78%	387
Hotel Jen Penang	31.67%	443
Shangri-La's Rasa Ria Resort & Spa, Kota Kinabalu	64.59%	499
Shangri-La's Tanjung Aru Resort & Spa, Kota Kinabalu	40%	492
The Philippines		
Makati Shangri-La, Manila	100%	696
Edsa Shangri-La, Manila	100%	630
Shangri-La's Mactan Resort & Spa, Cebu	93.95%	530
Shangri-La's Boracay Resort & Spa	100%	219
Shangri-La at the Fort, Manila	40%	576
Thailand		
Shangri-La Hotel, Bangkok	73.61%	802
Shangri-La Hotel, Chiang Mai	73.61%	277
Australia		
Shangri-La Hotel, Sydney	100%	565
Shangri-La Hotel, The Marina, Cairns	100%	255
Hotel Jen Brisbane	100%	191
France		
Shangri-La Hotel, Paris	100%	101
Maldives		
Shangri-La's Villingili Resort & Spa, Maldives	70%	132
Hotel Jen Malé, Maldives	100%	114

		Group's equity interest	Available rooms
	Other areas		
	Shangri-La Bosphorus, Istanbul	50%	186
	Shangri-La's Fijian Resort & Spa, Yanuca, Fiji	71.64%	442
	Sule Shangri-La, Yangon	59.16%	474
	Shangri-La Hotel, Jakarta, Indonesia	25%	619
	Shangri-La Hotel, Surabaya, Indonesia	11.34%	365
	Shangri-La Hotel, Ulaanbaatar	51%	290
	Shangri-La's Le Touessrok Resort & Spa, Mauritius	26%	203
	Shangri-La's Hambantota Golf Resort & Spa, Sri Lanka	90%	274
	Shangri-La Hotel, Colombo, Sri Lanka	90%	500
	Total of 80 owned hotels		35,155
(B)	**Hotels under operating lease agreements**		
	Shangri-La Hotel, Tokyo		200
	Shangri-La Hotel, At The Shard, London		202
	Hotel Jen Orchardgateway Singapore		499
	Total of 3 leased hotels		901
	Grand total		36,056

The key performance indicators of the Group-owned hotels (including hotels under lease) on an unconsolidated basis for the years ended 31 December 2017 and 2016 are as follows:

	2017 Weighted Average			2016 Weighted Average		
Country	**Occupancy (%)**	**Room Rate (US$)**	**RevPAR (US$)**	Occupancy (%)	Room Rate (US$)	RevPAR (US$)
The People's Republic of China						
Hong Kong	**77**	**290**	**222**	77	300	232
Mainland China	**67**	**123**	**82**	62	124	77
Singapore	**68**	**208**	**142**	70	210	148
Malaysia	**73**	**127**	**93**	72	123	89
The Philippines	**67**	**183**	**123**	70	189	132
Japan	**87**	**538**	**466**	85	531	451
Thailand	**69**	**152**	**105**	62	148	93
France	**58**	**1,139**	**663**	52	1,136	596
Australia	**91**	**220**	**199**	89	208	184
United Kingdom	**79**	**517**	**407**	75	502	377
Mongolia	**24**	**231**	**54**	29	227	67
Sri Lanka	**39**	**145**	**56**	32	134	42
Other countries	**54**	**186**	**99**	52	188	98
Weighted Average	**67**	**162**	**109**	65	160	104

Note: Performance indicators for 2017 in respect of hotels in Hong Kong included the newly opened Kerry Hotel, Hong Kong and in Mainland China included the newly opened Songbei Shangri-La, Harbin; Hotel Jen Beijing; Shangri-La Hotel, Xiamen; and Shangri-La Hotel, Jinan. The newly opened Shangri-La Hotel, Colombo was included in Sri Lanka. Hotels in Mainland China excluded the Portman as well as the Traders Hotel, Beijing (ceased business in 2017) and Golden Flower Hotel, Xian (sold in 2017).

Overall, the weighted average RevPAR and the weighted Average Room Rate ("**ADR**") increased by 5% and 1%, respectively, during the year.

Comments on performance by geography:

The People's Republic of China

Hong Kong

The hotels benefited from a 5.0% increase in overall overnight visitors to Hong Kong and a 6.7% increase in overnight visitor arrivals from Mainland China during the year. The weighted average RevPAR of the two Shangri-La hotels and the RevPAR of the Hotel Jen Hong Kong increased by 3% and 14%, respectively. However, the overall Hong Kong hotel ownership segment registered a decrease in weighted average RevPAR of 4% mainly due to the newly opened Kerry Hotel, Hong Kong, which had a relatively low occupancy and ADR during its initial start-up stage.

Mainland China

The Group had equity interest in 45 operating hotels in Mainland China as at 31 December 2017.

Overall, the hotels in Mainland China registered a year-on-year weighted average occupancy growth of 5 percentage points and the weighted average RevPAR increased by 7%. In 2017, four new hotels opened and one hotel (Traders Hotel, Beijing) ceased operation. The hotel market continued to strengthen, especially in Tier 1 and Tier 2 cities where 75% of the Group's inventory is based. Below is our hotels' performance in different tier cities;

- In Tier 1 cities, the occupancy for 2017 was 77%, an increase of 5.0 percentage points, compared to 72% for 2016. The RevPAR was US$131.4 for 2017, an increase of US$9.7 or 7.9% compared to 2016. If adjusted for the exchange rate impact, the RevPAR would have been US$133.2, an increase of US$11.4 or 9.4%.

- In Tier 2 cities, the occupancy for 2017 was 67%, an increase of 7.1 percentage points, compared to 60% for 2016. The RevPAR was US$65.2 for 2017, an increase of US$6.1 or 10.2% compared to 2016. If adjusted for the exchange rate impact, the RevPAR would have been US$66.1, an increase of US$6.9 or 11.7%.

- In Tier 3 and Tier 4 cities, the occupancy for 2017 was 54%, an increase of 1.8 percentage points, compared to 52% for 2016. The RevPAR was US$47.7 for 2017, an increase of US$2.9 or 6.4% compared to 2016. If adjusted for the exchange rate impact, the RevPAR would have been US$48.4, an increase of US$3.5 or 7.8%.

Singapore

The overall weighted average RevPAR of the four hotels in the country registered a decrease of 4%, largely due to a 17% reduction of Shangri-La Hotel, Singapore's RevPAR due to the major renovation of its Tower Wing. All guestrooms in the Tower Wing were closed down in the second half of 2016 and re-opened for business again in mid May 2017.

Malaysia

Major renovation of Shangri-La Hotel, Kuala Lumpur's banqueting facilities and all-day dining restaurant and the phased renovation of Hotel Jen Penang's guestrooms were completed by the end of February 2017 and the end of June 2017, respectively. Major renovation of Shangri-La's Tanjung Aru Resort & Spa's function rooms, grand ball room and Tanjung Wing's guestrooms/suites in Kota Kinabalu was also completed by end of June 2017. The upgraded facilities largely improved the performance of the Malaysia hotel segment in the second half of the year. The overall weighted average RevPAR of the hotels and resorts in the country increased by 5% as compared to last year, mainly supported by a 27% increment in the weighted average RevPAR of the Hotel Jen Penang.

Thailand

Performance of the hotels in Bangkok and Chiang Mai continued to improve with increased visitor arrivals to the country. Shangri-La Hotel, Bangkok recorded an increase in ADR and RevPAR of 1% and 15%, respectively. Occupancy increased by 9 percentage points. Shangri-La Hotel, Chiang Mai also recorded an increase in RevPAR of 8%, mainly supported by an increase in ADR of 7%. Overall, the weighted average RevPAR of the two hotels in the country increased by 13% as compared to last year.

The Philippines

Performance of the hotels in Manila continued to be affected by the influx of new hotel supply and the depreciation of the Philippines peso. The Edsa Shangri-La, Manila, the Makati Shangri-La, Manila and the Shangri-La at the Fort, Manila registered a decrease in weighted average RevPAR of 1%, 10% and 23%, respectively. Performance of the two resorts in the country was relatively better. The resort in Boracay and in Mactan registered an increase in weighted average RevPAR of 1% and 3%, respectively. The overall weighted average RevPAR of the hotels and resorts in the Philippines registered a decrease of 7%.

Japan

The exchange rate of the Japanese yen remained at a relatively weak position and visitor arrivals to the country continued to increase. Shangri-La Hotel, Tokyo recorded a further increase in RevPAR of 3% during the year, after an 11% increment in 2016. Net profit for the year increased by US$0.7 million to US$1.5 million.

France

Visitor arrivals to Paris broke a record high in 2017 with continuing confidence in the city's security environment. Shangri-La Hotel, Paris recorded an increase in RevPAR of 11% during the year, mainly supported by an increase in occupancy of 6 percentage points. The net loss of the hotel, however, only decreased marginally by US$0.2 million during the year as the 2016 result included a credit of US$0.9 million for insurance claims related to the recovery of business interruption.

Australia

The three hotels in the country registered an increase in RevPAR ranging from 2% to 12%. Overall weighted average RevPAR increased by 8%, mainly supported by an overall increase in weighted average ADR of 6%. The overall net profit of the hotels in Australia increased by US$0.4 million to US$4.3 million in the year.

The United Kingdom

Shangri-La Hotel, At the Shard, London recorded an increase in ADR of 3% and an increase in RevPAR of 8%. Occupancy also increased by 4 percentage points to 79% during the year. As a result, net loss of the hotel was reduced by US$3.4 million to US$15.2 million.

Mongolia

The country's economy remained weak. Shangri-La Hotel, Ulaanbaatar registered a decrease in occupancy of 5 percentage points which led to a decrease in RevPAR of 19% during the year. Net loss of the hotel, however, decreased by US$2.6 million as a result of the incremental profit contribution from its health and sports club, which opened for business in the second half of 2016, and sharing of some operating expenses by the newly opened Phase II investment properties.

Sri Lanka

Shangri-La's Hambantota Golf Resort & Spa, Sri Lanka (opened for business in June 2016) recorded an increase in occupancy of 9 percentage points and ADR of 3% during the year. However, the occupancy of the resort remained at 41%. Shangri-La Hotel, Colombo registered an occupancy rate of 32% since its opening on 16 November 2017.

Overall, net loss for the year increased by US$4.1 million after accounting for the increase in proportionate depreciation charges and interest expenses.

Other Countries

Affected by the influx of new hotel supply and the political environment in the country, the two hotels in the Maldives recorded a decrease in weighted average RevPAR of 3% during the year. Net loss of the two hotels increased marginally by US$0.1 million.

With the improvement of the city's political environment, Shangri-La Bosphorus, Istanbul in Turkey recorded a remarkable increase in RevPAR of 29%, primarily supported by an increase in occupancy of 18 percentage points during the year. As a result, net loss of the hotel decreased by US$3.6 million.

The resort in Fiji registered a decrease in occupancy and ADR of 6 percentage points and 4%, respectively, due to its renovation. RevPAR of the resort decreased by 14% accordingly. The performance of Sule Shangri-La, Yangon in Myanmar continued to be affected by weak demand growth and increasing supply in the market. The hotel recorded a decrease in occupancy and ADR of 5 percentage points and 11%, respectively. RevPAR of the hotel decreased by 19%. Both properties recorded a net loss of US$1 million during the year as compared to a net profit of US$0.8 million in 2016.

The resort in Mauritius also recorded a large increase in RevPAR of 23%, mainly supported by an increase in occupancy of 16 percentage points. The resort's financial results turned around from a net loss of US$0.5 million in 2016 to a marginal net profit of US$0.1 million.

While the Shangri-La Hotel, Jakarta recorded an increase in RevPAR of 2%, the net profit of the hotel for the year decreased by US$3.4 million as 2016 results included its share of a US$4.0 million tax credit under a local tax incentive scheme.

Food and Beverage Sales

Consolidated sales from food and beverage for the year ended 31 December 2017 were US$861.1 million, an increase of 4.4%, compared to US$824.5 million for the year ended 31 December 2016.

The following table summarises the results of our food and beverage activity:

	Year ended 31 December		2017/16
	2017 **US$ Million**	2016 US$ Million	% change
The People's Republic of China			
Hong Kong	**144.3**	117.1	23.2%
Mainland China	**379.4**	365.7	3.7%
Singapore	**72.6**	79.1	-8.2%
Malaysia	**44.7**	42.4	5.4%
The Philippines	**75.5**	77.8	-3.0%
Japan	**23.1**	23.3	-0.9%
Thailand	**25.4**	22.1	14.9%
France	**17.5**	17.0	2.9%
Australia	**25.9**	25.1	3.2%
United Kingdom	**17.4**	19.3	-9.8%
Mongolia	**6.6**	6.8	-2.9%
Sri Lanka	**5.1**	1.7	200.0%
Other countries	**23.6**	27.1	-12.9%
Consolidated food and beverage sales	**861.1**	824.5	4.4%

(ii) Hotel management and related services

Gross revenue from the Group's hotel management and related services for the year ended 31 December 2017 were US$159.7 million, an increase of 5.2%, compared to US$151.8 million for the year ended 31 December 2016. The revenue of 2016 included a net credit of US$13.4 million arising from the fair value changes of the points anticipated to expire and the actual points expired under the Group's guest loyalty programme on contracts executed directly with third-party strategic partners. Such credit reduced by US$9.5 million to US$3.9 million in 2017. Excluding such credit, the management fee income earned from hotels in 2017 and 2016 was US$155.8 million and US$138.4 million, respectively, representing an actual increase of US$17.4 million (or 12.5%) for the year. This was mainly driven by the increase in newly opened hotels and the better performance of hotels in general. Likewise, net profit of hotel management and related services marginally decreased by US$0.5 million as compared to last year after the negative impact from the reduction of net credit arising from the above mentioned guest loyalty programme on contracts executed with third-party strategic partners.

As at 31 December 2017, the Group's wholly owned subsidiary, SLIM International Limited and its subsidiaries ("**SLIM**") managed a total of 102 hotels and resorts:

– 79 Group-owned hotels (Portman is the only exception)

– 3 hotels under lease agreements

– 20 hotels owned by third parties

In respect of the hotels owned by third parties, the 362-room Shangri-La Hotel, Yiwu in Mainland China opened for business on 24 June 2017. Shangri-La Barr Al Jissah Resort & Spa, Sultanate of Oman has apportioned part of the property to form a new resort known as Shangri-La Al Husn Resort & Spa. In December 2017, SLIM ceased the management of Putrajaya Shangri-La, Malaysia. The 20 operating hotels (6,492 available rooms) owned by third parties are located in the following cities:

- Canada: Toronto and Vancouver
- The Philippines: Manila
- Oman: Muscat (2 hotels)
- Qatar: Doha
- UAE: Abu Dhabi (2 hotels) and Dubai
- Malaysia: Johor and Kuala Lumpur
- India: New Delhi and Bengaluru
- Taiwan: Taipei and Tainan
- Mainland China: Changzhou (2 hotels), Haikou, Suzhou and Yiwu

For the year ended 31 December 2017, overall weighted average RevPAR of the hotels under third-party hotel management agreements registered an increase of 8% in US dollar terms as compared to last year.

During the year, SLIM signed two new management agreements with third parties for the management and operation of two hotels under development in Melbourne (Australia) and Bali (Indonesia). As at 31 December 2017, SLIM had management agreements on hand for eight new hotel projects which were owned by third parties.

(iii) Property Rentals

The sales of subsidiaries' property rentals for the year ended 31 December 2017 were US$73.0 million, a decrease of 0.7%, compared to US$73.5 million for the year ended 31 December 2016.

At 31 December 2017, the Group's subsidiaries and associates owned a portfolio comprising operating investment properties with 2,016,503 square metres of GFA* and investment properties under development with approximately 687,963 square metres GFA upon completion.

	Total GFA* of operating investment properties as at 31 December 2017		
(in square metres)	Office spaces	Commercial spaces	Serviced apartments
Mainland China	853,803	523,160	317,181
Singapore	3,291	22,933	24,735
Malaysia	45,175	8,530	17,356
Mongolia	41,355	21,238	19,585
Other countries	38,150	23,177	56,834
Total	981,774	599,038	435,691

* Being the total GFA owned by subsidiaries and associates.

The above mentioned total GFA included 15,687 square metres for the serviced apartments in Shangri-La Residences, Dalian's new North Tower, which was launched by phases in the fourth quarter of 2017.

Mainland China

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

In Beijing, the increase in supply following the completion of the Phase IIIB development of the China World Trade Center exerted short-term pressure on the occupancies and rental rates of the premises. Phase IIIB provided new leasable area of 26,200 square metres of commercial spaces and approximately 43,000 square metres of office spaces by end of 2016 and April 2017, respectively. Excluding all the new spaces of Phase IIIB, the "Yields" (rental rate per available leasable area) of the office spaces and commercial spaces at the Center decreased by 4% and 9%, respectively. For Phase IIIB, the weighted average occupancy of the commercial spaces and office spaces increased to 74% and 92%, respectively. Yields of the serviced apartments at the Center decreased by 7% primarily due to the decline in occupancy by 9 percentage points, while Yields of the serviced apartments at the Century Towers, Beijing increased marginally by 1%. Major renovations to the Center's original exhibition hall and its connecting area were ongoing at year end. These spaces are being converted into a shopping mall which will provide approximately 25,591 square metres leasable area in the second quarter of 2018. For Beijing Kerry Centre, Yields of the office spaces and serviced apartments increased by 5% and 10%, respectively, while the Yields of the commercial spaces decreased marginally by 2%.

In Shanghai, most of the investment properties generally performed well. Yields of the office spaces, commercial spaces and serviced apartments at Shanghai Centre registered increases ranging from 8% to 10%. Yields of the office spaces and commercial spaces at Kerry Parkside Shanghai Pudong increased by 10% and 11%, respectively, while Yields of its serviced apartments decreased marginally by 1%. For Jing An Kerry Centre, Yields of both the office spaces and the serviced apartments in Phase I increased by 3%, while Yields of both the office spaces and commercial spaces in Phase II increased by 4%. Yields of the commercial spaces in Phase I, however, decreased by 3%.

The net profit from the investment properties in Beijing and Shanghai decreased marginally by US$0.7 million.

Compared to the interim results, performance of the Shangri-La Centre, Chengdu and Shangri-La Centre, Qingdao improved slightly. Yields of the commercial spaces and office spaces at Shangri-La Centre, Chengdu recorded decreases of 14% and 24%, respectively, during the year. While Yields of the commercial spaces at Shangri-La Centre, Qingdao remained at the same level as last year, Yields of the office spaces at the Centre decreased by 8%.

In other cities, Shangri-La Residences, Dalian and the commercial spaces of Tianjin Kerry Centre recorded a decrease in Yields of 9% and 26%, respectively. However, the office spaces and commercial spaces at Hangzhou Kerry Centre recorded remarkable improvement in Yields of 8% and 25%, respectively, and recorded a net profit of US$2.5 million compared to a loss of US$2.7 million in 2016.

Overall, the Group's share of net profit from the investment properties in Mainland China for the year increased by US$7.3 million.

Singapore

In comparison, investment properties in Singapore generally experienced a decline in Yields during the year. Yields of Shangri-La Apartments decreased by 3%, primarily due to the drop in occupancy of 4 percentage points. Yields of Shangri-La Residences decreased by 15% due to a 10 percentage points decrease in occupancy and a 5% decrease in rental rate. Likewise, the commercial spaces at Tanglin Mall and Tanglin Place recorded declines in Yields of 8% and 18%, respectively. Yields of the office spaces at Tanglin Place decreased marginally by 1%.

The Group's share of net profit from the investment properties in Singapore decreased by US$1.9 million during the year.

Malaysia

In Kuala Lumpur, Yields of the commercial spaces at UBN Tower increased by 6% while Yields of the Tower's office spaces decreased by 5%. Yields of the UBN Apartments registered a modest increase of 2%. As a result, the Group's share of net profit from the investment properties remained at the same level of last year.

Mongolia

The country's economy remains weak. Yields of the office spaces and commercial spaces at Central Tower, Ulaanbaatar and the commercial spaces at Shangri-La Centre, Ulaanbaatar (opened for business in July 2016) were down by 17%, 25% and 20%, respectively. Occupancies of the serviced apartments and the office spaces at Shangri-La Centre, Ulaanbaatar improved to a year average of 26% and 31%, respectively. The Group's share of net profit from the investment properties decreased marginally by US$0.2 million during the year.

Other countries

In Myanmar, Shangri-La Residences, Yangon registered a decline in Yields of 4%. The newly opened Sule Square, Yangon recorded an average occupancy of 82% for commercial spaces and 12% for office spaces during the year. In Australia, the commercial spaces at The Pier Retail Complex, Cairns registered an increase in Yields of 12%. The Group's share of net profit from the investment properties in all other countries decreased marginally by US$0.1 million during the year.

(iv) Property Sales

Property sales by wholly owned subsidiaries for the year ended 31 December 2017 were US$33.5 million (nil for the year ended 31 December 2016) contributed from the sales of residential units of the Yangzhou Lakeview Residence and the newly completed residential tower of the Shangri-La Hotel, Dalian Phase II project (Yavis). Net profit of US$2.0 million was recorded during the year from these subsidiaries. All the remaining 39 residential units of Yangzhou Lakeview Residence were sold during the year and the last unit was handed over to the buyer in early 2018. 51 units out of the total 166 units of Yavis were sold during the year and 47 units have been handed over to the buyers with the remaining four units to be handed over in 2018.

The Group has equity interests in certain composite developments in Mainland China and the Philippines which include the development of Shangri-La hotels together with office buildings and/or residential buildings for sale and/or rental purposes. The Group continued to dispose of the inventories in an orderly manner through its associates. As expected, the Group's share of net profit from disposal of properties by these associates reduced to US$29.1 million during the year (compared to US$54.7 million for the year ended 31 December 2016) as a large portion of the inventories were sold in prior years. The status of the properties for sale are as follows:

– Arcadia Court, Tangshan (a 35%-owned project)

  Phase I to III comprises fourteen residential towers, and 85 units were sold during the year. An aggregate of 1,495 units out of the total 1,498 units had already been sold as at 31 December 2017.

– Arcadia Court, Tianjin (part of Phase I of Tianjin Kerry Centre, a 20%-owned project)

  The development comprises three residential towers and seven units were sold during the year. Approximately 91% of the total inventory had been sold as at 31 December 2017.

– Arcadia Court and Enterprise Square, Shenyang (part of Phase I of Shenyang Kerry Centre, a 25%-owned project)

  Six residential towers and one tower of the Enterprise Square (office spaces) have been completed and delivered for occupation. 196 residential units and 19 office units were sold during the year. Approximately 98% of all 972 Phase I residential units and 67% of the total 229 office units had been sold as at 31 December 2017. Phase II of the project is still under construction.

– Arcadia Court, Putian (a 40%-owned project)

  The development comprises twenty residential towers. All the 1,820 units were sold in 2016. Most of the sold units were handed over to the buyers by year end 2016. The last 90 units were handed over during the year and the corresponding profit was recorded.

– Arcadia Court, Nanchang (a 20%-owned project)

  The development comprises five residential towers; three towers have been completed and delivered while the handover of the remaining two towers is also underway. Thirteen units were sold during the year and as at 31 December 2017, 97% of the total 436 units had already been sold.

EBITDA and Aggregate Effective Share Of EBITDA

The following table summarises information related to the EBITDA of the Company and its subsidiaries and the aggregate effective share of EBITDA of the Company, subsidiaries and associates by geographical areas and by business segments:

		EBITDA of subsidiaries		Effective share of EBITDA of subsidiaries		Effective share of EBITDA of associates		Aggregate Effective share of EBITDA	
(US$ million)		**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Hotel ownership	Hong Kong	**102.5**	92.1	**91.5**	81.2	**1.1**	0.7	**92.6**	81.9
	Mainland China	**217.7**	189.2	**199.7**	173.8	**62.3**	46.8	**262.0**	220.6
	Singapore	**38.9**	48.8	**38.9**	48.8	**6.0**	3.8	**44.9**	52.6
	Malaysia	**40.2**	40.7	**22.7**	23.0	**6.2**	6.0	**28.9**	29.0
	The Philippines	**52.6**	54.3	**51.5**	53.2	**7.1**	1.3	**58.6**	54.5
	Japan	**1.9**	1.0	**1.9**	1.0	**—**	—	**1.9**	1.0
	Thailand	**27.8**	24.7	**20.5**	18.2	**—**	—	**20.5**	18.2
	France	**0.4**	1.7	**0.4**	1.7	**—**	—	**0.4**	1.7
	Australia	**24.1**	22.7	**24.1**	22.7	**—**	—	**24.1**	22.7
	United Kingdom	**(4.9)**	(7.8)	**(4.9)**	(7.8)	**—**	—	**(4.9)**	(7.8)
	Mongolia	**(3.3)**	(2.7)	**(1.7)**	(1.4)	**—**	—	**(1.7)**	(1.4)
	Sri Lanka	**(3.1)**	(3.3)	**(2.8)**	(3.0)	**—**	—	**(2.8)**	(3.0)
	Other countries	**5.4**	13.3	**3.2**	8.2	**6.9**	1.8	**10.1**	10.0
		500.2	474.7	**445.0**	419.6	**89.6**	60.4	**534.6**	480.0
Hotel management		**46.5**	48.8	**46.5**	48.8	**—**	—	**46.5**	48.8
Sub-total hotel operations		**546.7**	523.5	**491.5**	468.4	**89.6**	60.4	**581.1**	528.8
Property rentals	Mainland China	**7.5**	7.5	**6.9**	6.8	**192.3**	185.8	**199.2**	192.6
	Singapore	**4.9**	6.9	**4.9**	6.9	**4.7**	5.2	**9.6**	12.1
	Malaysia	**3.9**	3.9	**2.0**	2.1	**—**	—	**2.0**	2.1
	Mongolia	**3.2**	3.7	**1.7**	1.9	**—**	—	**1.7**	1.9
	Other countries	**11.5**	10.2	**6.6**	5.5	**—**	—	**6.6**	5.5
Sub-total property rentals		**31.0**	32.2	**22.1**	23.2	**197.0**	191.0	**219.1**	214.2
Property sales & other business		**(0.6)**	—	**(0.6)**	—	**41.1**	64.9	**40.5**	64.9
Sub-total		**577.1**	555.7	**513.0**	491.6	**327.7**	316.3	**840.7**	807.9
Corporate and pre-opening expenses		**(41.2)**	(32.7)	**(40.6)**	(32.7)	**(5.4)**	(1.4)	**(46.0)**	(34.1)
Grand total		**535.9**	523.0	**472.4**	458.9	**322.3**	314.9	**794.7**	773.8

DISCUSSION AND ANALYSIS

Aggregate effective share of EBITDA was US$794.7 million for the year ended 31 December 2017, an increase of US$20.9 million or 2.7%, compared to US$773.8 million for the year ended 31 December 2016. The increase was mainly driven by;

- Hotel operations effective share of EBITDA for the year ended 31 December 2017 was US$581.1 million, an increase of US$52.3 million or 9.9%, compared to US$528.8 million for the year ended 31 December 2016. The increase was mainly driven by US$52.1 million from Mainland China and Hong Kong, which offset the US$7.7 million decrease from Singapore due to Shangri-La Hotel, Singapore's Tower Wing being closed for major renovation during first half of 2017

- Property rentals effective share of EBITDA for the year ended 31 December 2017 was US$219.1 million, an increase of US$4.9 million or 2.3%, compared to US$214.2 million for the year ended 31 December 2016. The increase was mainly driven by Mainland China and offset the decrease in Singapore

- Property sales & other business effective share of EBITDA for the year ended 31 December 2017 was US$40.5 million, a decrease of US$24.4 million, compared to US$64.9 million for the year ended 31 December 2016. The decrease was mainly driven by less residential units available for sales from the associates

- Corporate and pre-opening expenses for the year ended 31 December 2017 were US$46.0 million, an increase of US$11.9 million or 34.9%, compared to US$34.1 million for the year ended 31 December 2016. The increase in expenses was mainly driven by the six owned hotels opened in 2017

Consolidated Profit Attributable to Equity Holders of the Company

The following table summarises information related to the consolidated profit attributable to equity holders of the Company before and after non-operating items by geographical areas and by business segments:

		Year ended 31 December		2017/16
		2017	2016	% change
		US$ Mil	US$ Mil	
Hotel ownership	Hong Kong	**55.0**	58.3	-5.7%
	Mainland China	**17.1**	(12.5)	N/M
	Singapore	**16.3**	23.7	-31.2%
	Malaysia	**13.9**	13.9	0.0%
	The Philippines	**7.2**	5.6	28.6%
	Japan	**1.5**	0.8	87.5%
	Thailand	**10.7**	8.8	21.6%
	France	**(16.1)**	(16.3)	1.2%
	Australia	**4.3**	3.9	10.3%
	United Kingdom	**(15.2)**	(18.6)	18.3%
	Mongolia	**(4.5)**	(7.1)	36.6%
	Sri Lanka	**(12.0)**	(7.9)	-51.9%
	Other countries	**(9.7)**	(6.8)	-42.6%
		68.5	45.8	49.6%
Hotel management		**32.7**	33.2	-1.5%
Sub-total hotel operations		**101.2**	79.0	28.1%
Property rentals	Mainland China	**125.8**	118.5	6.2%
	Singapore	**8.0**	9.9	-19.2%
	Malaysia	**1.5**	1.5	0.0%
	Mongolia	**(2.5)**	(2.3)	-8.7%
	Other countries	**3.9**	4.0	-2.5%
Sub-total property rentals		**136.7**	131.6	3.9%
Property sales & other business		**30.9**	53.4	-42.1%
Net corporate finance costs (including foreign exchange gains and losses)		**(77.5)**	(83.2)	6.9%
Land cost amortisation & pre-opening expenses for projects & corporate expenses		**(50.6)**	(43.2)	-17.1%
Consolidated profit attributable to equity holders of the Company before non-operating items		**140.7**	137.6	2.3%
Non-operating items		**17.3**	(31.5)	N/M
Consolidated profit attributable to equity holders of the Company after non-operating items		**158.0**	106.1	48.9%

DISCUSSION AND ANALYSIS

Consolidated profit attributable to equity holders of the Company after non-operating items was US$158.0 million for the year ended 31 December 2017, an increase of 48.9%, compared to US$106.1 million for the year ended 31 December 2016. The increase was mainly driven by;

- Hotel operations profit for the year ended 31 December 2017 was US$101.2 million, an increase of US$22.2 million or 28.1%, compared to US$79.0 million for the year ended 31 December 2016. If excluding the US$28.7 million losses from the new hotels opened in 2017, the hotel operations profit for the year ended 31 December 2017 would have been US$129.9 million, an increase of US$50.9 million or 64.4%, compared to US$79.0 million for the year ended 31 December 2016

- Property rentals profit was US$136.7 million for year ended 31 December 2017, an increase of US$5.1 million or 3.9% compare to US$131.6 million for the year ended 31 December 2016. The increase was mainly driven by rental profit from Mainland China

- Property sales profit for the year ended 31 December 2017 was US$30.9 million, a decrease of US$22.5 million or 42.1%, compared to US$53.4 million for the year ended 31 December 2016. The decrease was mainly driven by fewer residential units available for sales from the associated companies

- For non-operating items, there was a net credit of US$17.3 million during the year compared to a net loss of US$31.5 million in 2016. Major components included:

  i) Effective share of net fair value gains on investment properties decreased by US$43.4 million during the year, primarily due to:

     – reduction in fair value gains of the China World Trade Center of US$28.9 million as a result of the general decrease in Yields due to the opening of Phase IIIB

     – reduction in fair value gains of the Hangzhou Kerry Centre of US$33.2 million (a valuation gain of US$33.3 million was reported in 2016 following its opening for business)

     – reduction in fair value losses of Shangri-La Centre, Ulaanbaatar of US$28.2 million (a valuation loss of US$43.4 million was reported in 2016 following its opening for business in a difficult market condition)

  ii) Net decrease in impairment losses for hotel properties and a self-used property: nil balance in 2017 compared to US$71.1 million in 2016 which consisted of:

     – provision for the wholly owned hotel in Qufu and share of loss for a 25% owned hotel in Shenyang of US$70.5 million and US$6.1 million, respectively

     – partial reversal of prior year provision for a wholly owned hotel in Cairns and a wholly owned self-used property in Paris totalling US$5.5 million

  iii) US$14.9 million gain on disposal of interest in a wholly owned subsidiary which owned the Golden Flower Hotel, Xian and gain on disposal of interest in an associate which owned a hotel development project and operating golf course in Bali

Details of all the non-operating items are disclosed in the segment income statement of Note 5 to the consolidated financial statements included in this Annual Report.

CORPORATE DEBT AND FINANCIAL CONDITIONS

At the corporate level, in 2017 the Group executed one three-year and four five-year unsecured corporate loan agreements totalling an equivalent of US$447.6 million for refinancing maturing loans. The outstanding fixed rate bonds of US$600 million were entirely redeemed by the Group on the maturity date in April 2017.

At the subsidiary level, the Group also executed the following bank loan agreements in 2017:

– one ten-year local bank loan agreement of RMB185 million (approximately US$28.3 million), one five-year local bank loan agreement of RMB220 million (approximately US$33.7 million), one nine-year local bank loan of US$75 million, one seven-year local bank loan agreement of US$55 million and one 5-year local bank loan agreement of US$150 million totalling an equivalent of US$342.0 million for project financing; and

– four three-year local bank loan agreements totalling RMB706.7 million (approximately US$108.2 million) and one three-year local bank loan agreement of GBP45 million (approximately US$60.8 million) totalling an equivalent of US$169.0 million for refinancing maturing bank loans and shareholder loans.

The Group has not encountered any difficulty when drawing loans from committed banking facilities. None of the banking facilities were cancelled by the banks during or after the close of the 2017 financial year.

The Group's net borrowings (total bank loans and fixed rate bonds less cash and bank balances) to total equity ratio, i.e. the gearing ratio, improved from 67.9% as at 31 December 2016 to 60.5% as at 31 December 2017.

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

The analysis of borrowings outstanding as at 31 December 2017 is as follows:

	Maturities of Borrowings Contracted as at 31 December 2017				
(US$ million)	Within 1 year	In the 2nd year	Repayment In the 3rd to 5th year	After 5 years	Total
Borrowings					
Corporate borrowings					
– unsecured bank loans	—	237.9	3,039.6	—	3,277.5
Bank loans of subsidiaries					
– secured	7.5	102.9	18.9	—	129.3
– unsecured	227.3	674.0	836.7	39.9	1,777.9
Total outstanding balance	234.8	1,014.8	3,895.2	39.9	5,184.7
Undrawn but committed facilities					
Bank loans and overdrafts	63.3	10.8	1,072.5	55.2	1,201.8

The currency mix of borrowings and cash and bank balances as at 31 December 2017 is as follows:

(US$ million)	Borrowings	Cash and Bank Balances
In United States dollars	2,471.9	157.8
In Hong Kong dollars	1,717.1	61.6
In Renminbi	452.9	430.8
In Euros	243.9	3.3
In Australian dollars	95.4	17.2
In Singapore dollars	98.3	59.1
In British pounds	60.8	4.2
In Japanese yen	44.4	3.8
In Philippines pesos	—	15.8
In Thai baht	—	91.9
In Malaysian ringgit	—	43.5
In Fiji dollars	—	6.3
In Mongolian tugrik	—	19.0
In Sri Lankan rupee	—	6.2
In Myanmar kyat	—	0.4
In Maldivian rufiyaa	—	0.5
In other currencies	—	0.5
	5,184.7	921.9

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

Details of financial guarantees, contingencies and charges over assets as at 31 December 2017 are disclosed in Note 36 to the consolidated financial statements included in this Annual Report.

TREASURY POLICIES

The Group's treasury policies are aimed at minimising interest and currency risks. The Group assesses the market environment and its financial position and adjusts its tactics from time to time.

(A) Minimising Interest Risks

The majority of the Group's borrowings are in US dollars and Hong Kong dollars and arranged at the corporate level. Anticipating the onset of an increasing interest rate cycle, the Group has closely monitored the cash flow forecasts of all its subsidiaries and arranged to transfer any surplus cash to the corporate to reduce corporate debts. In order to minimise the overall interest cost, the Group also arranged intra-group loans to utilise the surplus cash of certain subsidiaries to meet the funding requirements of other group companies. The Group reviews the intra-group loan arrangements from time to time in response to changes in currency exchange rates and bank loan interest rates.

The Group has endeavoured to hedge its medium term interest rate risks by entering into interest-rate swap contracts. In April 2017, the Group has executed new LIBOR five-year term interest-rate swap contracts totalling US$600 million (at fixed rates ranging between 1.825% and 1.85% per annum) in order to hedge the base interest rates of the US$600 million corporate bank loan drawdown for final redemption of the Group's fixed rate bonds. As at 31 December 2017, the outstanding HIBOR and LIBOR interest-rate swap contracts are:

– HK$1,600 million (approximately US$206.4 million) at fixed rates ranging between 1.395% and 1.635% per annum maturing during July 2018 to October 2018

– US$806 million at fixed rates ranging between 1.42% and 1.85% per annum maturing during August 2018 to April 2022

Taking into account the interest-rate swap contracts and the Renminbi bank loans, the Group has fixed its interest liability on 28% of its outstanding borrowings as at 31 December 2017.

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

(B) Minimising Currency Risks

The Group aims at using bank borrowings in local currency to finance the capital expenditure and operational funding requirements of the properties and/or development projects in the corresponding country to achieve natural hedging of its assets. During the year, the Group has arranged new local bank borrowings in Renminbi to refinance bank borrowings in foreign currency in order to reduce exchange risk.

It is the Group's practice, 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 upon consideration of the currency risks involved in normal operations and the cost of obtaining such cover.

INVESTMENT PROPERTIES VALUATIONS

Investment properties of subsidiaries and associates continue to be stated at fair value and are reviewed semi-annually (including those properties being constructed for future use as investment properties for which fair value becomes reliably determinable). The fair values of investment properties are based on opinions from independent professional valuers as obtained by the Group and the relevant associates which own the investment properties. All changes in the fair value of investment properties (including those under construction) are recorded in the income statement. For the year ended 31 December 2017, the Group's subsidiaries recorded gross fair value losses of US$57.9 million for the investment properties. The Group's share of the net fair value losses (net of deferred tax credit and non-controlling interests) amounted to US$26.0 million. The Group's associates, however, recorded share of net fair value gains (net of deferred tax charges) of US$30.9 million. As a result, the Group recorded an overall effective share of net fair value gains of US$4.9 million for its investment properties during the year.

Investment properties are stated at professional valuations carried out by the following independent firms of professional valuers engaged by the Group or the relevant associates as at 31 December 2017:

Crowe Horwath First Trust Corporate Advisory Pte Ltd, DTZ Debenham Tie Leung Limited and Savills Valuation and Professional Services Limited	:	For properties in Mainland China
Crowe Horwath First Trust Corporate Advisory Pte Ltd	:	For properties in Mongolia
Colliers International Consultancy & Valuation (Singapore) Pte Ltd and Edmund Tie & Company (SEA) Pte Ltd	:	For properties in Singapore
W.M. Malik & Kamaruzaman	:	For properties in Malaysia
Jones Lang LaSalle Advisory Services Pty Ltd	:	For properties in Australia
Knight Frank Chartered (Thailand) Company Limited	:	For properties in Myanmar
Sunil Fernando & Associates (Pvt) Ltd	:	For properties in Sri Lanka

IMPAIRMENT PROVISION

The Group assesses the carrying value of a group-owned operating hotel when there is any indication that the asset may be impaired. Indicative criteria include continuing adverse changes in the local market conditions in which the hotel operates or will operate, or when the hotel continues to operate at a loss position and its financial performance is worse than expected. Professional valuations have been carried out by independent firms of professional valuers for those properties for which the internal assessment results need independent confirmation. Based on the Group's internal assessments and/or professional valuations at 31 December 2017, no new provision or reversal of provision made in prior years was considered necessary for the hotel properties held by the Group's subsidiaries and associates in the current year. For the year ended 31 December 2016, the Group recorded an impairment loss of US$70.5 million for a hotel owned by a wholly owned subsidiary and a share of impairment loss of US$6.2 million for a hotel owned by an associate.

FINANCIAL ASSETS HELD FOR TRADING — TRADING SECURITIES

At 31 December 2017, the market value of the Group's investment portfolio was US$23.5 million, which mainly included 4,483,451 ordinary shares in Kerry Properties Limited amounting to US$20.3 million, and 2,241,725 ordinary shares in Kerry Logistics Network Limited amounting to US$3.2 million. The Group recorded unrealised fair value gains of US$8.6 million and dividend income of US$1.5 million during the year.

DEVELOPMENT PROGRAMMES

Construction work on the following projects is on-going:

(A) Hotel Developments

	Group's Equity Interest	Hotel Rooms	Long Stay Apartments	Projected Opening
Hotels in Mainland China				
Shangri-La Hotel, Zhoushan	100%	205	—	2019
Shangri-La Hotel, Putian	40%	247	7	2021
Traders Hotel, Kunming; and	45%	265	—	2021
Shangri-La Hotel, Kunming (part of a composite development project in Kunming City)	45%	81	—	TBD
Shangri-La Hotel, Zhengzhou	45%	214	—	2022

TBD: To be determined

(B) Composite Developments and Investment Property Developments

	Group's Equity Interest	Total gross floor area upon completion (excluding hotel component) *(approximate in square metres)* Residential	Office	Commercial	Scheduled Completion
In Mainland China					
Shenyang Kerry Centre (Phase II & III)	25%	439,816	165,485	216,858	2018 onwards*
Phase II of Shangri-La Hotel, Wuhan	92%	—	46,410	—	2019
Kunming City Project	45%	21,169	—	830	2020
Phase II of Shangri-La Hotel, Fuzhou	100%	—	38,800	28,200	2022
Composite development project in Zhengzhou	45%	93,765	58,954	3,857	2022 onwards*
In other countries					
Composite development project in Colombo, Sri Lanka(note)	90%	111,100	59,984	68,585	2018 to 2019
		665,850	369,633	318,330	

* Being developed in phases

Note: The pre-sale of residences was officially launched in 2015.

The Group is currently reviewing the development plans of the following projects in which land sites and/or properties were acquired in recent years:

Hotel development

– Wolong Bay in Dalian, Mainland China (wholly owned by the Group)

– Rome, Italy (wholly owned by the Group)

– Lakeside Shangri-La, Yangon, Myanmar (55.86% equity interest owned by the Group)

Composite development

– Nanchang city project — Phase II, Mainland China (20% equity interest owned by the Group)

– Accra, the Republic of Ghana (45% equity interest owned by the Group)

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

The estimated incremental funding required directly by subsidiaries and the Group's share of the funding obligations of associates for all projects and other renovations involving fund commitments as at 31 December 2017 is estimated at US$662.6 million, including US$275.7 million payable in the next 12 months which is expected to be sourced from operating cashflow, available and new bank facilities and cash balances.

DISPOSALS

(A) Disposal of interest in a subsidiary

On 16 June 2016, the Group entered into a sale and purchase agreement with an independent third party to dispose of its entire equity interest of 100% in an investment holding company which owned Golden Flower Hotel, Xian in Mainland China for a cash consideration of RMB56 million (approximately US$8.3 million) subject to adjustment in accordance with the change in working capital of the investment holding company.

The sale and purchase transaction was finally completed in February 2017 after obtaining the necessary approvals from the local government authorities and the changes of registration of the investment holding company as required by local laws. The final adjusted cash consideration of RMB53.0 million (approximately US$7.8 million) was received on 4 July 2017 and the Group recorded a gain of US$4.7 million from this disposal during the year.

(B) Disposal of interest in an associate

On 22 June 2017, the Group completed a sale and purchase transaction to dispose of its entire equity interest of 100% in an investment holding company which in turn owns 53.3% equity interest in an associate incorporated in Indonesia for the development of a hotel project and the operation of a golf course in Bali, Indonesia. The cash consideration amounted to US$53.3 million was received on the completion date of the sale and purchase transaction. According to the agreement, a one-year short term advance of US$3.5 million bearing interest at a fixed rate of 6.25% per annum maturing in June 2018 was provided to the purchaser. The Group had recorded a gain of US$10.2 million from this disposal during the year. The Group will manage the hotel when it opens for business.

MANAGEMENT CONTRACTS FOR HOTELS OWNED BY THIRD PARTIES

During the year ended 31 December 2017, the Group signed the following hotel management agreements with third parties:

– In June 2017, the Group signed an agreement for the management of a 500-room Shangri-La hotel in Melbourne, Australia scheduled to open in 2022. The hotel will form part of the planned landmark luxury development in Melbourne's central business district.

– In June 2017, the Group signed the new agreement for the management of a Shangri-La resort with 299 rooms and 40 villas in Bali, Indonesia scheduled to open in 2018 when the Group disposed of its equity interest in the project company for this hotel development project.

In December 2017, SLIM ceased to manage Putrajaya Shangri-La, Malaysia.

As at the date of this report, the Group has management agreements for 20 operating hotels owned by third parties. In addition, the Group also has agreements on hand for the development of eight new hotels owned by third parties. The development projects are located in Nanning, Qiantan, and Suzhou (Mainland China); Kota Kinabalu (Malaysia), Bali (Indonesia), Jeddah (Saudi Arabia), Phnom Penh (Cambodia) and Melbourne (Australia).

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

The Mainland China market, where the Group has most of its hotels and investment properties, continued to grow. The hotel market strengthened, especially in Tier 1 and Tier 2 cities where the majority of the Group's inventory is located. In Tier 1 cities, demand is beginning to outgrow supply, resulting in improved revenues and occupancies for the hotels. While oversupply has yet to be fully absorbed in some third and fourth tier cities, overall the Group's China hotel performance improved. Our hotel portfolio in Mainland China generated a net profit of US$17.1 million in the year, compared to a net loss of US$12.5 million at year ended 31 December 2016.

If the current operating environment remains the same, we expect to see continued improvement in 2018. The five hotels that opened in Mainland China in 2017 are expected to create a carry-over impact into 2018 and make a positive contribution to revenue performance. In addition, the Group's hotels in Sri Lanka and the Kerry Hotel in Hong Kong are expected to contribute to revenue performance as they ramp up in 2018. Improved hotel performance is forecasted in Singapore with a full year of operation of Shangri-La Hotel, Singapore's Tower Wing, which reopened in May 2017 following a major renovation.

Property sales in the Financial Year declined compared to 2016 as less inventory was available for sale. In 2018, property sales are anticipated to make a positive contribution to the Group's results as we recognise profits from the sale of residences in Shangri-La's One Galle Face development in Colombo. These residences are expected to be handed over to buyers at the end of the year.

The Group saw relatively small growth in rental property income in 2017 in China. However, with the continued stability of the RMB, this is expected to gradually improve, particularly with the opening of the final stage of China World Trade Center Phase IIIB.

In 2018, the Group will remain focused on driving revenue and occupancy as well as optimising costs and leveraging synergies. Geopolitical issues and a potential trade war could have a negative impact on the world economy but, barring a change in the operating environment, the Group expects to see improvements in its operating performance relative to 2017.

HUMAN RESOURCES

As of 31 December 2017, the Company and its subsidiaries had approximately 30,000 employees. The headcount of all the Group's managed hotels and resorts totalled approximately 47,300. Salaries and benefits, including provident fund contributions, insurance and medical coverage, housing and share option schemes, were maintained at competitive levels. Bonuses were awarded based on contract terms and individual performance as well as the financial performance of business units.

Details of the share option scheme and share award scheme adopted by the shareholders on 28 May 2012 are provided in the section headed "Share Option Schemes" and "Share Award Scheme" of the Directors' Report, respectively. The Group has not granted any new share option under the share option scheme or shares under the share award scheme in 2017.

The Group's total employee benefit expenses (excluding directors' emoluments) amounted to US$723.2 million (2016: US$672.9 million).

Turnover remained at 24.2% which reflects continuous efforts on staff development and engagement.

The use of social media sites continues to be important as a source of recruitment as well as to enhance our employer branding. The use of WeChat, LinkedIn, Facebook and other social media channels has realised impressive results and these channels will continue to improve as cost-effective sources of candidates.

The Group continues to focus on developing our talents and leadership capability for business growth. A new Advanced Leadership Programme (ALP) was launched in 2017 to develop our senior managers in both hotels and the corporate office, with a four-day high-impact course as well as post course follow-up sessions aligned with business strategies. The Shangri-La proprietary leadership programmes have been further enhanced by the roll out of additional courses to strengthen the commercial acumen of leaders. In 2018 the learning experience will be augmented by the introduction of a Learning Management System providing on-demand highly focused online courses.

PROPERTIES UNDER DEVELOPMENT

Shangri-La Hotel, Colombo

PROPERTIES UNDER DEVELOPMENT

(A) HOTELS OWNED AND MANAGED BY THE GROUP

Location		Properties	Group's equity interest as at Year End	Approximate total site area (m^2)	Approximate total gross floor area (m^2)	Number of projected rooms
Hotels in Mainland China						
1	Zhoushan, China	Shangri-La Hotel	100%	28,541	85,623	205
2	Putian, China	Shangri-La Hotel	40%	50,258	30,899	247
3 & 4	Kunming, China	Shangri-La Hotel & Traders Hotel (part of composite development)	45%	N/A	40,755	346
5	Zhengzhou, China	Shangri-La Hotel (part of composite development)	45%	N/A	36,478	214
		Total				1,012

Number of apartments	Stage of completion	Projected opening	Address
—	Piling work completed. Main building structure started	2019	LKC 1-3 Block of Lincheng Street, Dinghai District, Zhoushan, Zhejiang Province, China
7	Piling work in progress	2021	666 Jiuhua Road, Chengxiang District, Putian, Fujian Province, China
—	Piling work in progress	Traders Hotel: 2021 Shangri-La Hotel: to be determined	88-96 Dong Feng Road, Panlong District, Kunming, Yunnan Province, China
—	Schematic design in progress	2022	East of Huayuan Road, South of Weier Road, Zhengzhou, Henan Province, China
7			

PROPERTIES UNDER DEVELOPMENT

(B) OTHER PROPERTIES OWNED BY THE GROUP

	Location	Properties/Purpose	Group's equity interest as at Year End	Approximate total site area (m^2)	Approximate total gross floor area (m^2)
In Mainland China					
1	Shenyang, China (Phase II & III)	Shenyang Kerry Centre	25%	113,118	
		– Residential			439,816
		– Office			165,485
		– Commercial			216,858
2	Wuhan, China (Phase II)	Composite development	92%	3,667	
		– Office			46,410
3	Kunming, China	Composite development	45%	15,446	
		– Residential			21,169
		– Commercial			830
4	Fuzhou, China (Phase II)	Composite development	100%	17,315	
		– Office			38,800
		– Commercial			28,200
5	Zhengzhou, China	Composite development	45%	44,573	
		– Residential			93,765
		– Office			58,954
		– Commercial			3,857
In other countries					
1	Colombo, Sri Lanka	Composite Development	90%	27,066	
		– Residential			111,100
		– Office			59,984
		– Commercial			68,585

Stage of completion	Projected opening	Address
Phase II Residential: mechanical and engineering, curtain wall installation and interior decoration work in progress Commercial and office: mechanical and engineering work in progress	Phase II in phases from second half of 2018 onwards	Lot No. 2007-053, No. 8 Golden Corridor, 113 Qingnian Da Street, Shenhe District, Shenyang, Liaoning Province, China
Preparation of basement renovation and addition works	2019	700 Jianshe Avenue, Jiangan, Wuhan, Hubei Province, China
Piling work in progress	2020	88-96 Dong Feng Road, Panlong District, Kunming, Yunnan Province, China
Piling completed	2022	9 Xinquan Nan Road, Fuzhou, Fujian Province, China
Schematic design in progress	In phases from 2022 onwards	East of Huayuan Road, South of Weier Road, Zhengzhou, Henan Province, China
Superstructure work in progress	2018 to 2019	1 Galle Road, Colombo, Sri Lanka

(C) PROPERTIES UNDER CONCEPT PLANNING

	Location	Purpose	Group's equity interest as at Year End	Approximate total site area (m^2)	Approximate total gross floor area (m^2)
In Mainland China					
1	Nanchang, China (Phase II)	Composite Development	20%	6,568	48,177
2	Dalian Wolong Bay, China	Hotel	100%	47,615	151,094
In other countries					
1	Accra, The Republic of Ghana	Composite Development	45%	49,874	35,545
2	Rome, Italy	Hotel	100%	1,489	8,840
3	Yangon, Myanmar	Hotel	55.86%	36,038	75,035

Address
667 Cui Lin Road, Honggutan New District, Nanchang, Jiangxi Province, China
Zhong Yang Chuang Zhi District, Xiao Yao Bay, Jin Zhou Xin District, Dalian, Liaoning Province, China
Airport North on Spintex Road, City of Accra, The Republic of Ghana
Roma via Vittorio Veneto 90, 92, 94, 96, 98, 98A, 100, 102 and Roma via Lombardia 4, 6, 8, Rome, Italy
No. 150/150 (A), Kan Yeik Thar Road, Between Upper Pansodan Road and Thein Phyu Road, Mingalar Tuang Nyunt Township, Yangon, Myanmar

RESPONSIBLE BUSINESS

Shangri-La's Care for People Project

The Group's approach to corporate social responsibility reflects our tradition of hospitality from the heart, and our Mission to operate a responsible business that improves the lives of people and cares for the environment.

The Board evaluates environmental, social and governance ("**ESG**") risks and ensures that appropriate management systems are in place. We are committed to operating in an economically, socially and environmentally responsible manner while balancing the interests of our stakeholders. We envision a community that is responsible and environmentally conscious, where social responsibility is practiced in our daily lives and we inspire others to do the same. Ultimately, we strive to show leadership in corporate citizenship and sustainable development, caring for our employees and customers, enriching the quality of life for communities in which we do business, and serving as good stewards of society and the environment.

SUSTAINABILITY REPORTING

The focus of our sustainability reporting is on significant environmental and social impacts of the Group within our hotel management services, Group-owned hotels, and hotels owned by third parties. The scope of ESG data for 2017 includes 95 operating hotels under the management control of SLIM International Limited (SLIM) that have been in operation for at least one full calendar year as at 31 December 2017, as summarised below. Development programmes, property rentals and property sales, which are not under the management control of SLIM, are not within the scope of our ESG disclosures.

Participation in the Dow Jones Sustainability Index

MEMBER OF
Dow Jones
Sustainability Indices
In Collaboration with RobecoSAM

In 2017, Shangri-La was included in the Dow Jones Sustainability Index for the sixth consecutive year, consolidating our position as a leader in the Asia Pacific region. We are the only constituent in the Dow Jones Sustainability Asia Pacific Index from the Hotels, Resorts & Cruise Lines sector.

Scope of ESG Disclosures

OPERATING HOTELS	TOTAL	IN SCOPE
Subsidiaries*	57	53
Associates**	22	20
Management	19	18
Under Operating Lease	3	3
Aberdeen Marina Club***	1	1

* Subsidiaries are entities over which Shangri-La has power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights.

** For the purpose of ESG disclosures, Associates are entities over which Shangri-La has significant influence but not control, generally accompanying a shareholding of less than 50% of the voting rights.

*** The Xili Golf and Country Club, Shenzhen, is not included in the scope of our ESG disclosures.

STAKEHOLDER ENGAGEMENT AND MATERIALITY

We strive to understand the expectations and priorities of internal and external stakeholders in order to take a proactive approach on ESG issues of significance to our business. Our first comprehensive materiality assessment was conducted in 2012. To ensure that the issues we identified at that time continue to be relevant, we completed a materiality review in 2016.

We believe that the most effective way to promote responsible business is to cultivate ownership for our ESG performance within the management and culture of every Shangri-La hotel. To this end, SLIM establishes priorities and monitors progress through a Corporate Social Responsibility ("CSR") scorecard. Within this framework every hotel can adapt its own management approaches to suit its specific circumstances. The CSR Scorecard has been updated periodically since its launch in 2011 to capture additional information on ESG initiatives, such as supply chain sustainability, guest engagement and, most recently in 2017, waste tracking and the diversion of waste from landfills.

Material ESG Issues for our Hotels

OUR ENVIRONMENT	OUR BUSINESS	OUR PEOPLE	OUR COMMUNITIES
Waste	Guest Engagement	Employment Practices – Diversity & Equal Opportunities	Community Development – Embrace – Embrace ++
Climate Change & GHG Emissions Water Biodiversity & Conservation Sanctuary	Guest Safety & Security – Fire and life safety – Food safety – Indoor air quality – Guest security – Data privacy Corporate Procurement Sustainable Choices – Rooted in Nature	Employee Wellbeing Training & Development Occupational Health & Safety	Volunteering Disaster Relief & Rehabilitation

OUR ENVIRONMENT

Environmental protection is cited in Shangri-La's guiding principles and our **Code of Conduct and Ethics**: We expect every member of staff to play their part in helping to improve our stewardship of the environment.

Environmental considerations have been fully integrated into daily operations of our hotels through Environmental Management Systems ("EMS") that create a robust framework for planning, managing and controlling environmental impacts and pollution.

Upholding our commitment to transparency and accountability, in 2017 we participated in CDP reporting on Climate and Water. CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. During the year, we are not aware of any instances of non-compliance with relevant laws and regulations that have a significant impact on the Group concerning air emissions, water discharges or disposal of hazardous and non-hazardous waste. From 1 April 2017, local authorities in Beijing imposed a more stringent standard on boiler flue emissions of nitrous oxides. Three affected hotels converted their boiler burners to comply with the new requirement.

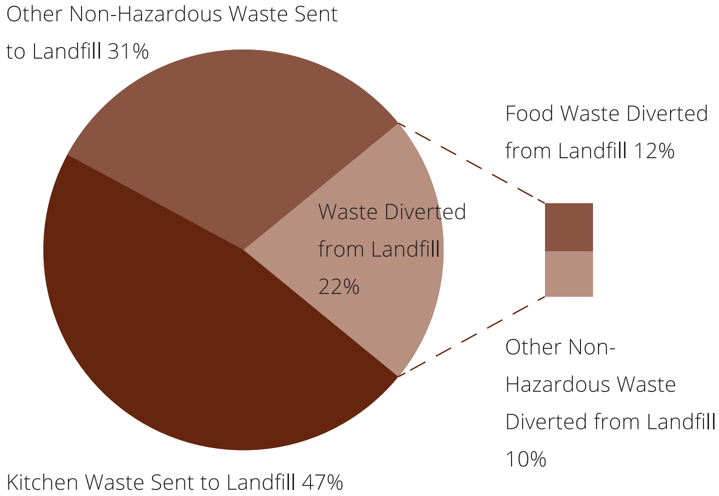
We invest in green buildings wherever possible, integrating sustainable design features, construction techniques and operational processes into the development of our new projects. In 2017, three additional hotels received certifications for Leadership in Energy and Environmental Design ("LEED") from the U.S. Green Building Council bringing the total number of hotels in our portfolio that have obtained LEED certification to 15.

Waste

Waste management is a major concern for communities and local authorities in many of the locations in which we operate, particularly in densely populated cities with limited space to create additional landfills. We strive to reduce the amount of waste that ends up in landfills as a result of our operations. Starting in 2017, all hotels are expected to track and report data on waste types and disposal methods, and each hotel's performance on waste diversion from landfill and food waste reduction is being evaluated through the CSR scorecard. In 2017, our hotels produced approximately 43,750 tonnes of non-hazardous waste, of which over 9,400 tonnes were diverted from landfill. This represents an overall waste diversion rate of 22% for non-hazardous waste.

Our hotels are achieving waste diversion through various means, including recycling and "upcycling", which is the process of turning certain types of waste into valuable resources. We have implemented paperless check-in in 73 hotels, which significantly reduces the amount of paper waste that we produce. We also encourage our staff to practice what we preach. In 2017, our hotels hosted 218 events for staff to buy and sell, exchange or give away unwanted personal belongings and second-hand hotel items.

Disposal and Diversion of Non-Hazardous Waste (tonnes)



Food Waste

Food waste is our most significant type of waste, accounting for close to 60% of our total non-hazardous waste by weight in 2017. Our hotels are taking primary steps to avoid food waste at source through appropriate planning, storage and handling, and secondary steps to recycle unavoidable food waste through food donations, composting and other creative initiatives. According to our three-step approach, the hotels are developing food waste reduction plans, educating and motivating staff to achieve reduction targets, and then reviewing performance to identify and address areas for improvement.

In 2017, we estimate that our hotels donated over 700 tonnes of food to third parties, such as non-profit organisations who re-distribute food to the needy, and 200 tonnes of used cooking oil was collected by reputable suppliers and refined into products such as biofuels, candles and soaps. Across 95 hotels, we estimate that we upcycled over 4,300 tonnes of food waste such as by composting it or turning it into animal fodder, and we utilised approximately 50 tonnes of waste for power generation.

Hazardous Waste

The relatively small amount of hazardous waste produced by our hotels is handled responsibly in accordance with locally applicable regulations and procedures. In 2017, our hotels disposed of approximately 39 tonnes of hazardous waste, including cleaning chemicals, retired light fittings and electrical equipment.

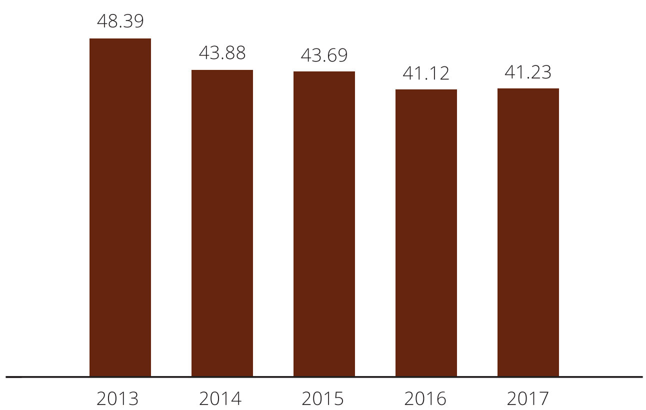
Climate Change & Greenhouse Gas Emissions

Climate change caused by anthropogenic greenhouse gas ("GHG") emissions poses both financial and physical risks to our business, particularly because a number of our hotels are located in areas that are vulnerable to the effects of extreme weather events such as flooding and typhoons. Fiscal initiatives to curb emissions may also affect our bottom line. Six hotels in Mainland China (five in Beijing and one in Shanghai) are involved in regional carbon trading initiatives. These hotels purchase carbon offsets to meet their obligations under those schemes.

Across our portfolio, all hotels that have been fully operational for two years or more are expected to meet intensity reduction targets for GHG emissions, energy and water. We use intensity metrics that reflect a measure of the number of overnight guests and other guests in each hotel during the year, known as business unit ("BU"). The group-wide base year for environmental footprint target-setting and performance evaluation is 2015[1].

In 2017, our hotels' target was to achieve a 6% reduction in average scope 1 and scope 2 GHG emissions intensity compared with 2015 benchmarks. Forty-nine individual hotels achieved this target. There was a 5.6% reduction in GHG emissions intensity across 95 hotels compared with 2015 levels. However, there was a minor increase of 0.3% in GHG emissions intensity compared to 2016 that is related in part to the revision of grid emission factors outside of our control. In 2017, GHG emissions intensity across 95 hotels amounted to 1.05 million tonnes of carbon dioxide equivalent (CO_2e) and 41.23 kilograms of CO_2e per BU.

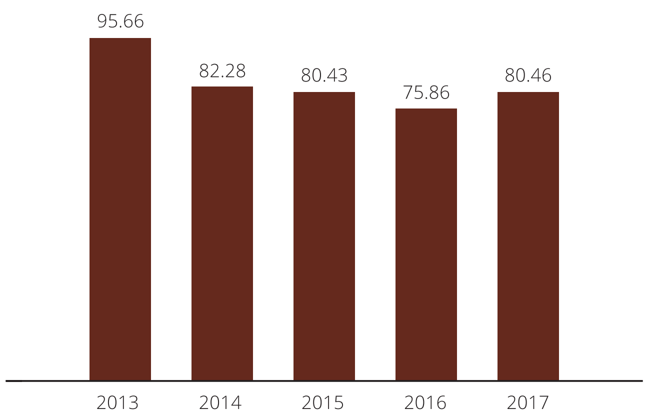
Average Scope 1 & Scope 2 GHG Emissions Intensity (kilograms of CO_2e per business unit)



2017 GHG Emissions Intensity Reduction Target for each hotel: 6% compared with 2015

For average energy consumption intensity, our target for hotels was a 6% reduction compared with 2015 benchmarks, and 51 hotels achieved the 2017 target. Average energy intensity of our hotels increased by 6.1% to 80.46 kilowatt-hours per BU from 75.86 in 2016. The marginal (less than 1%) increase compared to 2015 is due to the significant number of openings in recent years. We anticipate the overall energy consumption intensity of the entire portfolio will resume a downward trend when the new hotels settle into a stable pattern of operational performance.

Average Energy Consumption Intensity (kilowatt hours per business unit)



2017 Energy Consumption Intensity Reduction Target for each hotel: 6% compared with 2015

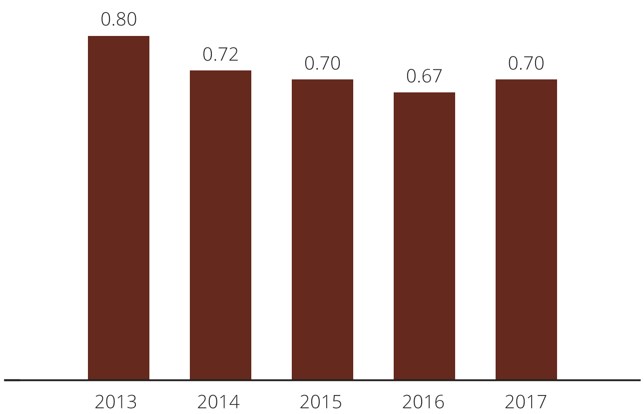
[1] For hotels opened in 2015, the base year is 2016. During the reporting period, environmental footprint targets and performance evaluation is not applicable for hotels opened after 2015.

Our hotels strive to continuously improve their energy efficiency. In 2017, total energy consumption across 95 hotels amounted to 2,056 GWh. We estimate that eco-friendly technology and initiatives adopted by the hotels, such as upgrades to light fixtures and chiller systems, help to save up to 7.4 million kWh per year. Reducing the temperature at which laundry is washed also has a considerable impact on energy use. In 2017, our low temperature laundry programme was implemented in 68 hotel laundries.

Water

In 2017, our target for hotels was to achieve a 6% reduction in water consumption intensity compared with 2015 and 36 hotels achieved the target. Overall water consumption intensity across the 95 hotels remained at the same level as 2015 at 0.7 cubic meters per BU, and a total of 17.9 million cubic metres of potable water were consumed, mostly from municipal supplies. We recognise that responsible water management is an increasingly important issue for our business and that water conservation is especially important for our hotels in Northern China and other regions with high risk of water stress.

Average Potable Water Consumption Intensity (cubic metres per business unit)



WATER is LIFE

Shangri-La is working with *WATERisLIFE*, a globally-recognised charity, to help provide safe and clean drinking water to underprivileged communities in rural areas in Mainland China.

In 2015, we partnered with WATERisLIFE to install a water treatment plant at a school in Changchun, Jilin province that continues to serve students and members of the local community. Following the success of this initiative, in 2017, we implemented three further projects to install SunSpring decentralised water treatment plants at two schools in Yushu, Qinghai province and a third school in Diqing, Yunnan province. The treatment plants, which use renewable solar and wind energy and are designed to be self-cleaning, will purify up to 5,000 gallons of water per day over their expected lifetime of 10 years.

During the installation, training was provided for local technicians to undertake minor maintenance on the water treatment plants. Going forward, WATERisLIFE will conduct water tests every six months to ensure water quality and Shangri-La engineers in Beijing will help to provide maintenance support. We estimate that over 4,000 students, their teachers and other members of their local communities will benefit from clean and healthy drinking water as result of this successful partnership.

Biodiversity & Conservation

Shangri-La is proud to operate hotels in some of the most beautiful and ecologically diverse areas of the world, and we are committed to conserving and protecting the biodiversity of these areas for future generations.

Sanctuary

Sanctuary is Shangri-La's *Care for Nature* programme. In 2017, 16 hotels and resorts had Sanctuary projects in place, helping to conserve up to 56 endangered species that are on the International Union for the Conservation of Nature (IUCN) Red List. All of the Sanctuary projects involve partnerships with local organisations that have specialised knowledge and skills and most of the projects support the Shangri-La Eco Centre initiative, which seeks to engage with staff, guests and local communities about the importance of conservation by providing interactive learning experiences and other activities. In 2017, 13 hotels and resorts had Eco Centres.

Sanctuary Highlights for 2017

Care for Nature

Three of our hotels and resorts in China and five of our resorts in other locations implement Care for Nature projects. Shangri-La's Sanya Resort & Spa, Hainan, for example, has partnered with Tie Lu Gang Forestry Bureau and the Hainan Bawangling National Nature Reserve to protect the local habitat of the Hainan gibbon. Shangri-La's Rasa Ria Resort, Kota Kinabalu operates a 64-hectare reserve in conjunction with the Sabah State Wildlife Department for the protection of the western tarsier, slow lorris and pangolin.

In 2017, Shangri-La's Le Touessrok Resort & Spa, Mauritius implemented a new Care for Nature project by establishing 10 bee colonies within the orchard of the resort. The project is giving a boost to the local population of bees, which are integral to the local ecology.

Care for Reefs

Three of our resorts located in the Maldives, Fiji and the Philippines implement Care for Reef projects, involving conservation activities such as coral planting and fish house building to protect fragile reef ecosystems in the vicinity of the resorts.

At Shangri-La's Mactan Report & Spa, Cebu, a marine sanctuary on six hectares of beachfront runs a conservation programme for over 160 species of fish, clams and coral. In 2017, there was a nearly 50% increase in guest engagement at the resort's Eco Centre compared with the previous year. Guest participation in the centre's extensive programme of activities, such as snorkelling, bat counting, basket weaving and local school and community visits, was boosted by the arrival of a number of large corporate groups, including organisers and contestants for the Ms. Universe competition that was held in the Philippines in January.

Care for Turtles

Two resorts in Penang, Malaysia and a third resort in Oman implement projects to care for native species of turtle that seek sanctuary on the resorts' beaches in order to nest and reproduce.

At Shangri-La's Barr Al Jissah Resort & Spa in Oman, two expert turtle rangers are employed to help protect the nesting sites of hawksbill and green sea turtles. In recent years, changes in climate associated with global warming have impacted these turtles in a positive way, contributing to an increase in the annual number of hatchlings. In 2017, the resort's Eco Centre focused on enhancing its educational programme for children. In addition to engaging with the children of hotel guests in daily turtle-themed activities, the eco-centre also hosts regular field visits from local schools.

Other notable Sanctuary projects include the **Care for Clownfish** project at Shangri-La's Tanjung Aru Resort & Spa, Kota Kinabalu and Aberdeen Marina Club's **Care for Horseshoe Crabs** project in Hong Kong.

OUR BUSINESS

Guest Satisfaction

At Shangri-La, we aim to delight our guests with service and experiences straight from our hearts. We carry out guest surveys annually to measure guest satisfaction and identify areas for improvement. In 2017, 62% of guests surveyed responded with an "excellent" rating for overall stay experience, which is an increase of 2.1% from 2016. Our Eco Centres continue to be particularly popular; 65% of guests who stayed in a resort with an Eco Centre would recommend them to a friend.

Guest Safety & Security

The safety and security of our guests and employees is our highest priority. We have comprehensive standard operating and crisis management response procedures in place and conduct regular reviews at each of our hotels. The properties have cross-functional emergency response teams that can be mobilized should a situation arise. We also have a group-wide Security and Safety Reporting System to facilitate timely reporting and incident management.

- SLIM has a number of policies in place concerning guest security, including but not limited to, conflict resolution, crime, medical emergencies and emergency evacuations. The SLIM Security division is responsible for implementing these policies in line with our corporate values and we conduct security audits at each hotel every year. Our security staff receive training to deal with emergencies, and our security offices are regularly in contact with local law enforcement agencies. Key areas of our properties are equipped with closed-circuit television and recording technology (CCTV) that are monitored by trained security officers.

- Fire Life Safety is of the highest importance and we have a zero-tolerance policy for non-compliance. Dedicated Fire Life Safety Officers have been appointed at each property with responsibility for monitoring and maintaining our Fire Life Safety systems, and the SLIM Engineering division conducts yearly inspections. Shangri-La's internal standards for Fire Life Safety reference the USA National Fire Protection Association's regulations, China Green Building codes and other relevant codes in the countries in which we operate.

- Food Safety is governed by Shangri-La's comprehensive food safety management system, in addition to which many hotels also obtain certification for compliance with relevant local and international food safety standards. Food safety performance is tracked as part of each hotel's CSR scorecard. In 2017, 60 hotels reported certification for ISO 22000: Food Safety Management System or HACCP (Hazard Analysis and Critical Control Points).

- As awareness about the health effects from indoor air pollutants increases, we recognise that indoor air quality ("IAQ") is a topic of increasing concern for guests and staff of our hotels. Monitoring of IAQ is covered as part of our EMS. The SLIM Engineering division works with hotels to make adequate provisions for ventilation and air filtration in accordance with our mechanical and engineering design standard. We measure the IAQ of each hotel every three years or as frequently as required by local authorities.

- "Shangri-La Group Privacy Policy including Cookies Policy" is available on our website. This sets out our commitment to safeguarding the personal information of guests and respecting privacy in compliance with all relevant laws and regulations in the jurisdictions in which we operate. We are not aware of any significant data security breaches affecting our hotel operations in 2017.

In 2017, we are not aware of any instances of non-compliance with relevant laws and regulations that have a significant impact on the Group concerning health and safety or any other aspects of product/service responsibility including but not limited to advertising, labelling and data privacy.

Corporate Procurement

At Shangri-La, we recognise that our hotel operations have significant environmental and social impacts throughout our value chain and we are proactive about influencing our suppliers to help us uphold our commitment to corporate social responsibility. In 2017, our total corporate procurement spending on Food & Beverage, Information Technology and Rooms, Engineering and Other purchases exceeded US$666.6 million. Food & Beverage purchases handled by hotels accounted for 70% of these expenditures. During the year, the total number of suppliers of goods and services to SLIM and our operating hotels was 20,130, of which 45% were located in Greater China, 43% in other Asian countries, and the remainder in Oceania, Africa and North America.

Supplier Code of Conduct

We have a comprehensive **Supply Chain Code of Conduct** ("SCoC") available on the company website that clearly states our expectations regarding compliance with laws and regulations, product safety and quality, business integrity and ethics, labour standards, the environment, anti-corruption, record-keeping, confidentiality, data protection and intellectual property rights. Our preference is to do business with partners whose operations exceed the basic stipulations of the SCoC. However, at a minimum all suppliers are required to ensure that the principles of the SCoC apply to their employees and throughout their own supply chains; furthermore, they should report any violations or suspected violations to Shangri-La via a dedicated link on our website.

Responsible Procurement

"Shangri-La strives to be a leader in reducing the hospitality industry's environmental footprint. We wish to adopt products & practices that reduce our impact on natural resources and the environment." Introduction to Shangri-La hotels' Green Procurement Guide

Our policy on responsible purchasing aims to ensure that we take full account of our impacts on people and the environment when we select products for our hotels. SLIM's Green Procurement Guide contains a list of recommended "green specifications" for a wide range of products such as building materials, cleaning supplies, paper, electrical equipment, furniture and textiles. Our minimum standard for paper and card products, for example, states that they should be eco-labelled to indicate that they originate from sustainable forests or constitute 100% recycled paper produced in an environmentally friendly way. We also select computer equipment and accessories with a bronze level rating or above using the US Electronic Product Environmental Assessment Tool ("EPEAT") or that meet European Union standards on Restriction of Hazardous Substances ("RoHS").

Since 2010, Shangri-La has prohibited the use of shark fin in all food and beverage outlets. As part of our ongoing commitment to sustainable seafood, we source products that are certified by the Marine Stewardship Council ("MSC") and Aquaculture Stewardship Council (ASC), wherever possible. Categorically, we do not serve fish such as Bluefin tuna and Chilean sea bass, which are critically endangered.

Our hotel-based procurement teams regularly engage with local supply chain partners on sustainability topics. In 2017, 80 hotels hosted 114 open house sessions with their suppliers.

Celebrating Sustainable Seafood Week

For the fourth year in a row, Shangri-La hotels in China celebrated Sustainable Seafood Week in August 2017 in conjunction with MSC, World Wildlife Fund (WWF), China Chain Store Franchise Association (CCFA) and China Sustainable Retail Roundtable (CSRR) to help raise awareness for the protection of ocean resources. This year, chefs from Shangri-La Hotel, Shenzhen, Futian Shangri-La, Shenzhen and Jing An Shangri-La, West Shanghai conducted cooking demonstrations using MSC-certified ingredients at local supermarkets, including MSC-certified Alaskan Cod Fish Mousse, Pan-fried Black Cod with Lobster Bisque and MSC-certified Yesso Scallops.

Sustainable Choices

Our guests are increasingly conscious about the impacts of their choices on their own well-being, as well as that of the environment and society at large. In response, we are constantly looking for new ways to offer our guests healthier and more sustainable choices.

Rooted in Nature

- supporting local agricultural and fishing communities
- chemical and pesticide free
- free range and ethically reared livestock and poultry
- sustainably caught seafood
- organic or fair trade

In September 2017, our group-wide culinary initiative, Rooted in Nature, received the Hotel Investment Conference Asia Pacific (HICAP) Sustainable Hotel Award for Positive Community Impact. This award recognises hotel operators and developers who demonstrate exemplary sustainable practices and responsible development.

Launched in 2014, Rooted in Nature aims to promote the finest locally and ethically sourced ingredients, strengthen economic livelihood opportunities for local producers, preserve local traditions, and provide unique culinary offerings that will delight our guests. In 2017, our hotels offered over 1,444 Rooted in Nature menu items through our restaurants and dining outlets, including in-room dining services. To qualify for this designation, each menu item must meet at least one of the programme's criteria, including: being locally grown within a 20-kilometre radius of the hotel; chemical-free; sustainably sourced; or certified organic or Fairtrade.

OUR PEOPLE

At Shangri-La, we strive to attract, retain and develop talented people. We cultivate a fair and inclusive workplace where all colleagues treat each other with courtesy and everyone feels empowered to pursue their personal and professional goals. In 2017, the number of people employed at Shangri-La, including SLIM and all operating hotels, was 46,708, of which 44% were female and 84% were employed on full-time, permanent contracts. Turnover of fulltime, permanent employees increased marginally compared to 2016; the rate of turnover continued to be similar among male and female colleagues at 25% and 27%, respectively.

Total Employment by gender, age group, geographical region and contract type

		Percentage of total*
By Gender	Male	56%
	Female	44%
By Age Group	Under 20 years	3%
	20 – 40 years	67%
	Over 40 years	31%
By Region	North China	19%
	East China	14%
	South China	13%
	North Asia, Philippines & the Pacific	19%
	Southeast Asia	18%
	Middle East, India & the Indian Ocean	12%
	Europe & the Americas	4%
By Contract Type	Permanent Full Time	84%
	Permanent Part Time	3%
	Temporary	13%

* Percentage values for each category may not total to 100 due to rounding

Turnover of Full Time Permanent Employees by gender, age group and geographic region

		Turnover rate*
By Gender	Male	25%
	Female	27%
By Age Group (overall population)	Under 20 years	0%
	20 – 40 years	19%
	Over 40 years	3%
By Region	Asia	23%
	Non-Asia	29%

* Turnover rate: Total Number of leavers during 2017 divided by the average headcount between December 2016 and December 2017

We strongly encourage our hotels to employ people from their local communities and particularly to provide opportunities for upward mobility for people with disabilities (PWDs). Our hotels partner with local organisations to offer training and employment for PWDs. In 2017, we employed 652 PWDs comprising 1.8% of our workforce, which is slightly below our target of 2%.

Employment Practices

As a signatory to the UN Global Compact, Shangri-La is committed to upholding fundamental human rights. To ensure proper respect for human rights throughout our business, including our supply chain, we require that our suppliers do not use any form of forced, coerced or bonded labour, and that legal minimum age requirements for employment are strictly observed in every jurisdiction in which we operate. In general, no person who does work for our hotels, including suppliers of goods and services, should be below 16 years of age unless he or she is part of a recognised professional apprenticeship programme.

Our **Code of Conduct and Ethics** sets out the standards that we expect of every employee in order to uphold our core values of integrity, fairness, respect, ethical business conduct and excellence in service. We are committed to providing a workplace that embraces diversity and is free from all forms of discrimination and harassment including on the basis of gender, race, religion, disability, marital status, sexual orientation, family status or any other personal characteristic.

Our employees have a duty of care to report any violations of our Code of Conduct and Ethics. We have a whistleblowing and whistle-blower protection policy in place to support anyone who wishes to come forward with a query or complaint.

In 2017, we are not aware of any instances of non-compliance with relevant laws and regulations that have a significant impact on the Group regarding our employment practices (including compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare), providing a safe working environment or preventing child and forced labour. We are also not aware of any significant and/or material breach of laws and regulations regarding bribery, extortion, fraud and money laundering.

Wellbeing

We strive to support our employees to achieve their personal and career goals through a combination of wellness programmes for colleagues and their families as well as comprehensive training and development opportunities for career progression.

Training & Development

All new employees are required to undertake induction training and complete a four-day service culture learning programme in order to become fully acquainted with our corporate values and standards of conduct. All full-time employees are required to complete our core programmes depending on their role and level of employment, ranging from five days to 21 days in total. The Shangri-La Global Academy was set up in 2004 with a focus on innovation and employability, with the mission to nurture emerging talent, develop exceptional hospitality leaders and address Shangri-La's future human resource needs and challenges. In 2017, our colleagues received training in several training areas ranging from leadership development to technical training.

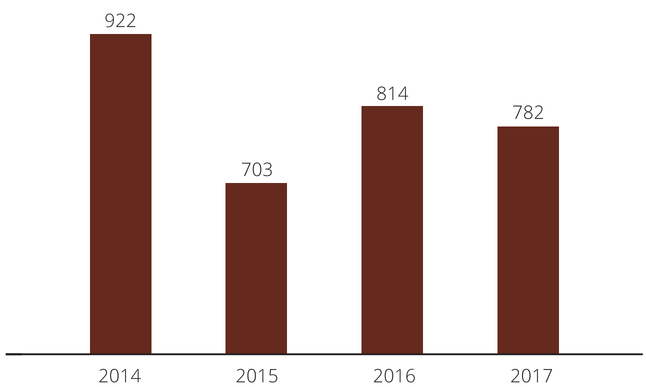
Occupational Health & Safety

Safeguarding the health and safety of our employees and others with whom we work is a top priority for our hotels. The SLIM Engineering division ensures that every hotel has Occupational Health and Safety ("OHS") management processes in place to identify potential health and safety hazards in the workplace; implement plans and procedures to control these hazards; and regularly review and revise its procedures in order to achieve continuous improvement in OHS performance.

Our hotels conduct regular analysis to ensure that OHS training needs are identified and met, particularly for new and inexperienced colleagues. We are vigilant about combating the spread of infectious diseases and provide training and information briefings to our colleagues to minimise the threat of disease transmission. The Group OHS Implementation Manual provides guidance to hotels on how to prepare and implement its OHS Management System to achieve certification in accordance with the internationally recognised standard OHSAS 18001. In 2017, 49 hotels had obtained OHSAS 18001: Safety Management System certification.

Shangri-La's Security and Safety Reporting System, implemented in 2015, has led to improved reporting and investigation of accidents, lost time injuries and absenteeism. In 2017, we maintained a record of zero workplace fatalities in our hotels.

Number of Employee Accidents and Injuries



OUR COMMUNITY

"Shangri-La Hotels & Resorts CSR program is truly world-class, involving every aspect of the business, and making it potentially a template for the rest of the industry," Judging panel, Business Travel Awards 2017

At Shangri-La, we recognise that if the communities in which we operate prosper, so does our business. We are in a position to create positive impacts in our local communities through increased economic activity such as sourcing local produce and attracting more tourists, and also by providing training and career opportunities for local people.

Embrace

Through Embrace, Shangri-La's *Care for People* Project, our hotels are committed to forming long-standing partnerships focused on promoting health, well-being and education. The aim of the programme, set up in 2009, is to foster a sense of ownership and responsibility between each hotel and its local community. The hotels are free to form partnerships that suit their local circumstances albeit by providing financing, infrastructure and facilities, life skills training or hotel apprenticeships. Each project must have measurable and achievable outcomes and each hotel's success is measured annually as part of the CSR scorecard.

Currently 90 of our hotels have active Embrace projects in place. The majority of these hotels have chosen to work with children and young adults, particularly people with disabilities or special needs, to increase access to education and skills training. A significant number have decided to invest in healthcare and rehabilitation, such as surgeries or cancer treatments for people who would not otherwise have access to them. In 2017, we estimate that our Embrace programme contributed over USD $1.6 million to an estimated 49,000 beneficiaries.

Sustainable Community Investment in China

Through their Embrace projects and other volunteering initiatives, many of our hotels in China are proud to support Shangri La's longstanding and productive partnership with the Kerry Group Kuok Foundation ("KGKF"), a not-for-profit organisation belonging to KGL, which is a major shareholder of Shangri-La. KGKF began its work in China in 2007 to address the uneven distribution of opportunities for underprivileged people. Rather than offering charity for short-term relief, KGKF strives to change the mindset of its beneficiaries in order to bring about sustainable change in four strategic areas: health, education, enterprise and environment.

Investment in Education

The KGKF Big Brother and Big Sister Project is supported by colleagues at seven of our hotels in Beijing, Shanghai, Guangzhou and Chengdu who volunteer as mentors for migrant children. The volunteers meet regularly with the children to encourage them in their studies and participate in outings and activities. The hotels provide support by hosting events at which the mentors and mentees can get together and celebrate their achievements. In 2017, 12 colleagues from Shangri La Hotel, Chengdu received recognition from KGKF for demonstrating full commitment to their mentees, who are migrant children receiving subsidised education at the Xishu School in Chengdu.

During the year, 17 of our hotels also provided their support to another KGKF educational initiative, donating a total of 3,905 books to nine remote rural primary schools in Guizhou, Hunan, Yunnan, Jiangxi, Fujian and Qinghai provinces. To achieve this result, volunteers from the hotels conducted fundraising and hosted book collections. A Reading Sharing event at Shangri-La Hotel, Haikou attracted more than 100 participants to raise funds to buy books for this initiative.

Investment in Enterprise and Environment

In 2017, 16 hotels sourced more than three tonnes of fresh produce such as tea, mushrooms, vegetables and meat from cooperative farmers in poor, rural communities who are receiving KGKF support. These purchases were valued in excess of RMB 130,000. In the second half of the year, five hotels in Huhhot, Wuhai, Nanchang, Chengdu and Xian conducted special training sessions to help the cooperative farmers develop new marketing channels for their produce. The training sessions covered topics such as food hygiene, creating sales networks and forecasting market trends.

Embrace ++

We strive to contribute to the social and economic development of local communities by providing employment and training opportunities through our Embrace ++ programme. Introduced in 2012, Embrace ++ encourages hotels to provide skills training to less fortunate members of their communities, with a view to helping them gain permanent employment with Shangri- La. Training includes, but is not limited to, housekeeping, administration, kitchen and service skills, engineering and carpentry. In 2017, 317 people gained permanent employment with us under this scheme.

Shangri-La Receives a Warm Embrace at the 7th China Charity Festival

Shangri-La Hotels and Resorts was awarded the 2017 Responsible Brand Award and the 2017 Public Welfare Project Award for its EMBRACE and EMBRACE++ projects at the 7th China Charity Festival. These coveted accolades acknowledge and reaffirm the strategic nature of these programmes and their long-term sustainability impacts on our communities.

Volunteering

We offer one day of paid volunteering leave every year to each member of staff to encourage them to participate in community events. In 2017, over 55,000 volunteers, representing 77% of our workforce, dedicated over 82,800 volunteer hours to our signature projects, Embrace and Sanctuary, and other approved volunteering activities such as tree planting and beach clean-ups.

Disaster Relief & Rehabilitation

"Weather knows no religion, no ethnicity or race." CSR Team at Shangri-La's Hambantota Golf Resort & Spa

Shangri-La operates hotels and resorts in some of the most beautiful destinations in the world, but unfortunately a number of these locations are also prone to natural disasters, such as earthquakes, major storms and floods. We build our properties to withstand these events and have procedures in place to ensure the safety and security of our guests while protecting the welfare and wellbeing of our colleagues and their families. During times of hardship in the aftermath of severe natural disasters, the Shangri-La community pulls together to help those who have been affected.

Sri Lanka Flood Relief

In late May 2017, Cyclone Mora caused devastation in Sri Lanka— particularly in the south-western part of the island. The country received unexpectedly heavy rainfall for several days resulting in landslides and severe flooding. Fifteen out of 25 districts were affected, with up to 73,000 people temporarily displaced and more than 9,000 buildings severely damaged or destroyed.

With assistance from the global Shangri-La community, Shangri-La's Hambantota Golf Resort & Spa on Sri Lanka's south coast was able to respond almost immediately to requests for help from the Sri Lankan government with donations of money and goods. Colleagues at the resort formed a special team to deliver relief supplies, including basic food items, washing powder, soap and other cleaning products. Meanwhile, colleagues at Shangri-La Hotel, Colombo, in the capital of the country, also made personal contributions to help with the provision of basic toiletries and baby-care products, as requested by the authorities.

In the aftermath of the flooding, the CSR team at Shangri-La's Hambantota Golf Resort & Spa used money collected from colleagues to help with reconstruction of a rural school in the southern province. One of the school's buildings had totally collapsed and severe water damage had been sustained to its science laboratory among other facilities. The CSR team purchased and delivered equipment to completely restore the science laboratory. These donations will support the continued education of thousands of students.

HKEX ESG CONTENT INDEX

Shangri-La Asia has complied with all "Comply or Explain" provisions in accordance with Hong Kong Exchange Main Board Listing Rule 13.91 and ESG Reporting Guide. This index summarises the location of relevant disclosures in this report, including General Disclosures and Key Performance Indicators ("KPIs"), and provides some additional information.

Comply or Explain Provisions	Location of Disclosures and additional information
Aspect A1: Emissions and waste GENERAL DISCLOSURE on policies and regulatory compliance KPIs: A1.1, A1.2, A1.3, A1.4, A1.5 and A1.6	OUR ENVIRONMENT: Waste, Climate change & greenhouse gas emissions KPI A1.1: Emissions data for NOx, Sox and Particulate Matter is not available at this time. This data will be disclosed in a supplementary report to be made available on our website.
Aspect A2: Use of resources GENERAL DISCLOSURE on policies KPIs: A2.1, A2.2, A2.3, A2.4 and A2.5	OUR ENVIRONMENT: Climate change & greenhouse gas emissions, Water KPI A2.1: Data for energy consumption by type (other than electricity) is not available at this time. This data will be disclosed in a supplementary report to be made available on our website. KPI A2.5: We do not systematically collect data on packaging materials used in our hotels so this data is not available.
Aspect A3: Environment and natural resources GENERAL DISCLOSURE on policies KPI: A3.1	OUR ENVIRONMENT: Biodiversity & Conservation
Aspect B1: Employment GENERAL DISCLOSURE on policies and regulatory compliance	OUR PEOPLE: Introduction, Employment Practices
Aspect B2: Health and safety GENERAL DISCLOSURE on policies and regulatory compliance	OUR PEOPLE: Occupational Health & Safety
Aspect B3: Development and training GENERAL DISCLOSURE on policies	OUR PEOPLE: Training & Development
Aspect B4: Labour standards GENERAL DISCLOSURE on policies and regulatory compliance	OUR PEOPLE: Employment Practices
Aspect B5: Supply chain management GENERAL DISCLOSURE on policies	OUR BUSINESS: Corporate Procurement
Aspect B6: Product responsibility GENERAL DISCLOSURE on policies and regulatory compliance	OUR BUSINESS: Guest Safety & Security
Aspect B7: Anti-corruption GENERAL DISCLOSURE on policies and regulatory compliance	OUR PEOPLE: Employment Practices
Aspect B8: Community investment GENERAL DISCLOSURE on policies	OUR COMMUNITY: Embrace

The HKEX ESG Guide also contains a number of Recommended Disclosures for KPIs that have been included in this report on a voluntary basis as summarised below.

Recommended Disclosures	Location of Disclosures
Aspect B1 Employment KPIs: B1.1 and B1.2	OUR PEOPLE: Introduction
Aspect B2 Health and safety KPIs: B2.1 and B2.3	OUR PEOPLE: Occupational Health & Safety
Aspect B3 Development and training KPIs: B3.1 and B3.2	OUR PEOPLE: Training & Development
Aspect B4 Labour standards KPIs: B4.1 and B4.2	OUR BUSINESS: Supply Chain Code of Conduct, OUR PEOPLE: Employment Practices
Aspect B5 Supply chain management KPIs: B5.1 and B5.2	OUR BUSINESS: Corporate Procurement, Sustainable Choices
Aspect B6 Product responsibility KPIs: B6.3, B6.4 and B6.5	OUR BUSINESS: Guest Safety & Security, Corporate Procurement
Aspect B7 Anti-corruption KPIs: B7.1 and B7.2	OUR PEOPLE: Employment Practices There were no concluded legal cases regarding corrupt practices brought against SLIM or its employees during the reporting period.
Aspect B8 Community investment KPIs: B8.1 and B8.2	OUR COMMUNITIES: Embrace, Disaster Relief & Rehabilitation

DIRECTORS' REPORT

China World Summit Wing, Beijing

DIRECTORS' REPORT

The Directors submit this Directors' Report together with the Financial Statements for the Financial Year.

GENERAL DISCLOSURE ITEMS

Principal Activities and Geographical Analysis of Operations

The principal activity of the Company is investment holding.

The principal activities of the Group are the development, ownership and operation of hotels, the provision of hotel management and related services, the development and ownership of investment properties for property rentals and the development of properties for sales. The Group operates its business under various brand names including "Shangri-La", "Kerry Hotel", "Hotel Jen", "Traders Hotel", "Rasa", "Summer Palace", "Shang Palace" and "CHI, The Spa at Shangri-La".

The principal activities of the Group's associates are the development and ownership of investment properties for property rentals and the development of properties for sales as well as the ownership and operation of hotels.

An analysis of the performance of the Group for the Financial Year by geographical and business segments is set out in Note 5 to the Financial Statements.

Business Review

The details of the Group's business review are set out in:

(1) the section entitled "Discussion and Analysis" for the review of business and financial performances; and

(2) the section entitled "Responsible Business" for the review of corporate social responsibilities.

Dividends

The Board has declared an interim dividend of HK6 cents per Share and proposes a final dividend of HK11 cents per Share for the Financial Year.

The details of dividends paid and proposed for the Financial Year are set out in Note 34 to the Financial Statements.

Reserves

The details of movements in reserves during the Financial Year are set out in Notes 18 and 19 to the Financial Statements.

Donations

Charitable donations and other donations made by the Group during the Financial Year amounted to US$2,393,000.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Bye-Laws or laws of Bermuda.

Share Capital

The details of the Company's share capital are set out in Note 18 to the Financial Statements.

Management Contracts

No contract with any person or entity concerning the management and administration of the whole or any substantial part of the business of the Group (other than contract of service with any Director or employee of the Group) was entered into or existed during the Financial Year.

Directors and Officers Liability Insurance

An insurance policy with permitted indemnity provision insuring claims made against, amongst others, the directors and the management officers of the Group members and the persons representing the Group in associates as directors or management officers was in effect throughout the Financial Year and remained in effect up to the date of the Annual Report.

Major Customers and Suppliers

The percentages of the five largest customers combined and the five largest suppliers combined are less than 10% of the Group's total revenue and purchases, respectively.

DIRECTORS

The Directors who held office during the Financial Year and the period thereafter up to the date of this Directors' Report were:

Executive Director(s)

Ms KUOK Hui Kwong *(Chairman)*	
Mr LIM Beng Chee *(CEO)*	
Mr LUI Man Shing	
Mr LIU Kung Wei Christopher	*(resigned on 31 March 2017)*
Mr Madhu Rama Chandra RAO	*(retired on 31 December 2017)*

Non-executive Director(s)

Mr HO Kian Guan (alternate – Mr HO Chung Tao)	
Mr KUOK Khoon Chen	*(retired on 2 June 2017)*

Independent Non-executive Director(s)

Mr Alexander Reid HAMILTON	
Professor LI Kwok Cheung Arthur	
Dr LEE Kai-Fu	
Mr YAP Chee Keong	*(was appointed on 11 December 2017)*
Mr Timothy David DATTELS	*(resigned on 29 May 2017)*

At the Annual General Meeting, (1) Mr YAP Chee Keong will retire in accordance with Bye-Law 102(B), and (2) Ms KUOK Hui Kwong, Mr LUI Man Shing and Mr HO Kian Guan will retire by rotation in accordance with Bye-Law 99. All retiring Directors, being eligible, have offered themselves for re-election.

Independence of Independent Non-executive Directors

The Board has received from each Independent Non-executive Director confirmation of his independence according to the guidelines set out in Rule 3.13 of the Listing Rules. The Nomination Committee, on behalf of the Board, has assessed the independence of each of the existing Independent Non-executive Directors and considers all the Independent Non-executive Directors independent.

Changes in Directors' Information

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

(1) Mr YAP Chee Keong was appointed an Independent Non-executive Director on 11 December 2017.

(2) Mr Madhu Rama Chandra RAO retired and ceased to act as an Executive Director and a member of the Executive Committee on 31 December 2017.

(3) Mr LUI Man Shing was appointed a member of the Executive Committee on 1 March 2018.

(4) Mr Alexander Reid HAMILTON has relinquished the role of the chairman of the Audit & Risk Committee on 21 March 2018.

(5) Mr YAP Chee Keong was appointed a member and the chairman of the Audit & Risk Committee on 21 March 2018.

(6) As part of the regular annual salary review, the Remuneration Committee has reviewed and approved the proposed monthly salary of the Executive Directors for 2018. Change(s) in monthly salary was/were in the range of 0% to 3%.

SIGNIFICANT SHAREHOLDERS' INTERESTS

As at Year End, the interests and short positions of those persons (other than the Directors) in Shares and underlying Shares as recorded in the register that is required to be kept by the Company under Section 336 of the SFO or as ascertained by the Company after reasonable enquiry were as follows:

Name	Capacity	Number of Shares held	Approximate % of total issued Shares
Substantial Shareholders			
KGL *(Note 1)*	Interest of controlled corporation(s)	1,806,196,396	50.40
KHL *(Notes 1 and 2)*	Beneficial owner	87,237,052	2.43
	Interest of controlled corporation(s)	1,546,203,039	43.14
Caninco Investments Limited ("**Caninco**") *(Note 2)*	Beneficial owner	568,568,684	15.86
	Interest of controlled corporation(s)	157,280,233	4.39
Paruni Limited ("**Paruni**") *(Note 2)*	Beneficial owner	382,904,547	10.68
	Interest of controlled corporation(s)	36,667,449	1.02
Other Major Shareholders			
Darmex Holdings Limited ("**Darmex**") *(Note 2)*	Beneficial owner	267,068,070	7.45
Kuok Brothers Sdn Berhad	Beneficial owner	84,441,251	2.36
	Interest of controlled corporation(s)	225,569,761	6.29
Kuok (Singapore) Limited ("**KSL**") *(Note 3)*	Interest of controlled corporation(s)	218,008,907	6.08
Baylite Company Limited ("**Baylite**") *(Note 3)*	Beneficial owner	218,008,907	6.08

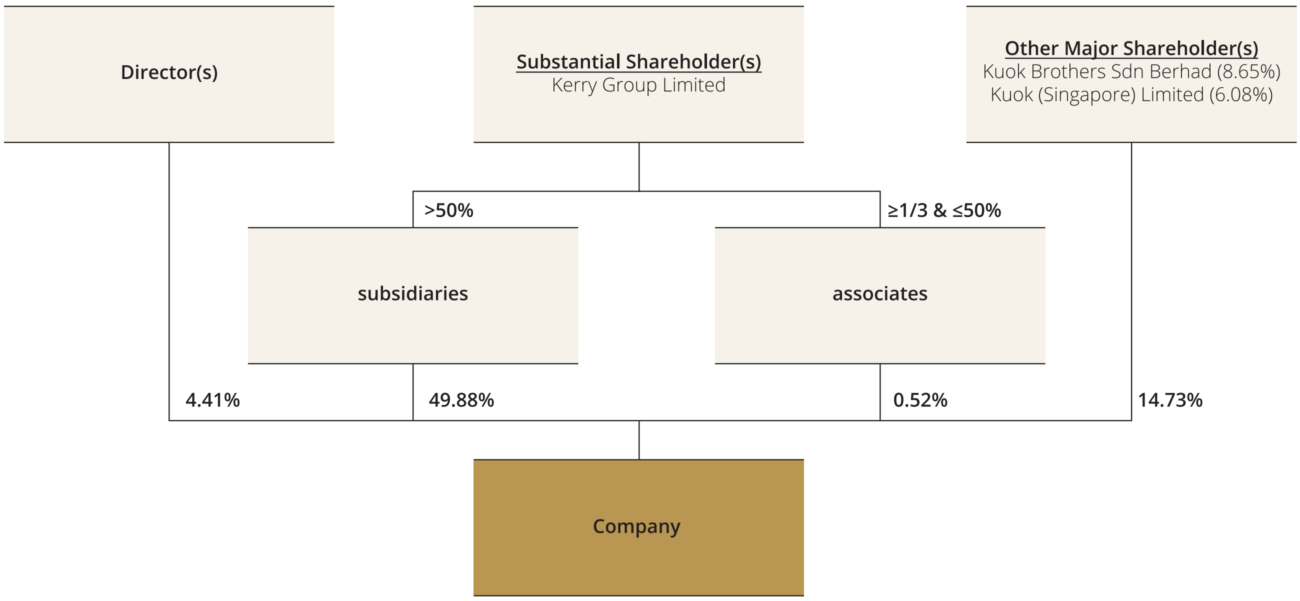
Notes:

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. The number of Shares shown were the holdings as at Year End and might be different from the latest public record having been filed by the relevant Shareholder(s) before Year End as required under SFO.

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. The number of Shares shown were the holdings as at Year End and might be different from the latest public record having been filed by the relevant Shareholder(s) before Year End as required under SFO.

3. Baylite is a wholly owned subsidiary of KSL and accordingly, the Shares in which Baylite is shown as interested are also included in the Shares in which KSL is shown as interested.

Deemed interests of Director(s), Substantial Shareholder(s) and Other Major Shareholder(s)
(as at Year End)



DIRECTORS' INTERESTS

Director's Interest in Securities of the Company and its Associated Corporation(s)

As at Year End, the interests and short positions of the Directors in shares, underlying shares and debentures in/of the Company and its associated corporation(s) (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: Personal interests	Family interests	Corporate interests	Other interests	Total	Approximate % of total issued shares in the relevant company
The Company	KUOK Hui Kwong	Ordinary	(1) 102,833	(2) 1,038,000	(3) 2,000,000	(4) 6,930,170	10,071,003	0.281
	LIM Beng Chee	Ordinary	50,000	–	–	–	50,000	0.001
	LUI Man Shing	Ordinary	902,777	–	–	–	902,777	0.025
	HO Kian Guan	Ordinary	1,091,116	–	(5) 145,887,718	–	146,978,834	4.101
Associated Corporation								
Shangri-La Hotel Public Company Limited	LUI Man Shing	Ordinary	10,000	–	–	–	10,000	0.008

Notes:

1. 32,000 shares were held jointly by Ms KUOK Hui Kwong and her spouse.
2. These shares were the deemed interest of Ms KUOK Hui Kwong's spouse.
3. These shares were held through the company which was owned by Ms KUOK Hui Kwong.
4. These shares were held through discretionary trusts of which Ms KUOK Hui Kwong is a discretionary beneficiary.
5. 95,537,377 shares were held through companies that were owned as to 33.33% by Mr HO Kian Guan.

   11,083,411 shares were held through companies that were owned as to 31.34% by Mr HO Kian Guan.

   39,266,930 shares were held through companies that were owned as to 6.79% by Mr HO Kian Guan.

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

As at Year End, there were share options held by Directors with rights to subscribe for Shares. Details of such options are set out in the section entitled "Share Option Scheme" of this Directors' Report.

Directors' Dealings

During the Financial Year, the particulars of the deemed dealings in Shares by the Directors (other than exercise/lapse of share options, if any) having been notified to the Company are set out below:

Director	Dealing entity/ Capacity	Date of dealing	Number of Shares bought/(sold)	Average dealing price per Share (HK$)
KUOK Hui Kwong	Discretionary trust(s)	12 January 2017	3,000,000	8.410
	Controlled Corporation	22 November 2017	(as gift) 2,000,000	N/A
HO Kian Guan	Personal Interests	6 June 2017	20,000	12.670
		9 June 2017	40,000	12.670
		13 June 2017	20,000	12.790

Directors' Interests in Contracts

Save as disclosed, if any, in the section entitled "Continuing Connected Transaction(s)", no contract of significance in relation to the Group's business to which any member of the Group was a party and in which any Director had a material interest subsisted at Year End or at any time during the Financial Year.

Directors' Service Contracts

None of the Directors proposed for re-election at the Annual General Meeting has entered into service contracts with any member of the Group, and in which such contracts are not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Competing Business

Pursuant to Rule 8.10(2) of the Listing Rules, the Directors below have disclosed that during the Financial Year and up to the date of this Directors' Report (for the period the respective Directors acted as Directors), they are considered to have interests (other than as directors representing the Group's interest) in businesses that compete or are likely to compete, either directly or indirectly, with the businesses of the Group:

(1) Mr LUI Man Shing is a director of some of the subsidiaries of KPL. The principal businesses of KPL include (a) property development in Hong Kong, China and the Asia Pacific region, and/or (b) hotel ownership and operations in Hong Kong and China.

The business activity of the said subsidiaries of which Mr LUI Man Shing is a director is property development. Each such company and the Group do not compete directly in the same business activity in the same geographical location.

Accordingly, the Group is capable of operating its business independent of, and at arm's length from, the competing businesses mentioned above.

(2) Mr HO Kian Guan and Mr HO Chung Tao are substantial shareholders and/or directors of companies that hold various hotels and commercial/office investment properties across different territories.

While such businesses may compete with the Group's businesses, the Directors believe that this competition does not pose any material threat to the Group's business prospects because:

(a) the hotels operated by the Group and those by the above Directors with competing interests are targeting different geographical markets and/or different segments or groups of customers in the market, and the differentiation of the clientele segments is based on a combination of factors, such as the geographical locations of the hotels, the breadth of services and amenities available, the positioning of the hotels in the local market, the level of room rates, the size and scale of the hotels, and the guest recognition programme; and/or

(b) the Group's hotel business is effectively marketed on the strength of SLIM-HK's renowned position in the hotel industry worldwide built on its strong brand recognition and high-quality services; and/or

(c) the investment properties as interested by the above Directors are situated in territories/locations in which the Group maintains no similar business operations.

The above-mentioned competing businesses are operated and managed by companies with independent management and administration. The Board is independent of the board of each of the above-mentioned companies operating the competing businesses.

Accordingly, the Group is capable of operating its business independent of, and at arm's length from, the competing businesses mentioned above.

SHARE OPTION SCHEME

A share option scheme of the Company was adopted by Shareholders on 28 May 2012 ("**Option Scheme**").

The major terms of the Option Scheme are as follows:

(1) Purpose of the Option Scheme

The purpose of the Option Scheme is to motivate eligible participants of the Option Scheme to optimise their future contributions to the Company and its subsidiaries and associates, and the entities in which any of the aforesaid companies holds an interest (collectively referred to as "**Enlarged Group**"); and/or to reward them for their past contributions; and to attract and retain or otherwise maintain on-going relationships with such eligible participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Enlarged Group.

(2) Eligible participants of the Option Scheme

The eligible participants of the Option Scheme include:

(a) an employee or proposed employee of any member of the Enlarged Group or a person seconded to work for any member of the Enlarged Group;

(b) a director or proposed director of any member of the Enlarged Group;

(c) an officer or proposed officer of any member of the Enlarged Group;

(d) a direct or indirect shareholder of any member of the Enlarged Group;

(e) a supplier of goods or services to any member of the Enlarged Group;

(f) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Enlarged Group;

(g) a person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Enlarged Group;

(h) a landlord or tenant (including a sub-tenant) of any member of the Enlarged Group;

(i) any person approved by Shareholders; and

(j) an associate of any of the foregoing persons.

(3) Life of the Option Scheme

The Option Scheme shall remain valid and effective for 10 years from its date of adoption unless the Option Scheme is terminated early by a resolution of Shareholders.

(4) Maximum number of Shares available to be granted under the Option Scheme

The maximum number of Shares in respect of which options may be granted under the Option Scheme (and under any other share option scheme) shall not in aggregate exceed 10% of the Shares in issue as at the adoption date of the Option Scheme. The Company may from time to time as the Board may think fit seek approval from Shareholders to refresh this limit, save that the maximum number of Shares that may be issued upon exercise of all options to be granted under the Option Scheme (and under any other share option scheme) shall not exceed 10% of the Shares in issue as at the date of Shareholders' resolution refreshing the limit. Notwithstanding the above, the maximum number of Shares that may be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Scheme (and under any other share option scheme) shall not exceed 30% of the Shares in issue from time to time.

As at the date of this Directors' Report, right to subscribe for a total of 299,184,679 Shares (representing about 8.35% of the issued Shares thereby) were available for grant under the Option Scheme.

(5) Maximum number of Shares allowed to be granted to any one grantee under the Option Scheme

The maximum number of Shares issued and issuable upon full exercise of the options granted to any one grantee (including exercised, lapsed, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue from time to time.

(6) Exercise period

The period within which an option may be exercised shall be such period as the Board may in its absolute discretion determine at the time of grant, save that the period shall not be beyond 10 years commencing on the date of grant of an option. The minimum period for which an option must be held (if any) or the fulfilment of any condition (if any) before it can be exercised shall be determined by the Board upon the grant of an option. The full amount of the exercise price for the subscription of Shares must be paid upon exercise of an option.

(7) Exercise price for Shares under the Option Scheme

The exercise price for any particular option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option, but the exercise price shall not be less than the highest of:

(a) the nominal value of a Share;

(b) the closing price of the Shares as stated in HKSE's daily quotation sheets on the date of the resolution of the Board approving the grant of options which must be a day on which HKSE is open for the business of dealing in securities; and

(c) the average of the closing price of the Shares as stated in HKSE's daily quotation sheets for the five trading days immediately preceding the date of grant.

Details and movements of option shares that were granted under the Option Scheme and remained outstanding during the Financial Year are as follows:

		Number of option shares								
Grantees	Date of grant	Held as at 1 Jan 2017	Granted during the year	Transferred from other category during the year	Transferred to other category during the year	Exercised during the year [2]	Lapsed during the year	Held as at 31 Dec 2017	Exercise price per option share (HK$)	Exercise period
1. Directors										
LUI Man Shing	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
Alexander Reid HAMILTON	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
Madhu Rama Chandra RAO *(Note 3)*	23 Aug 2013	350,000	–	–	(350,000)	–	–	–	12.11	23 Aug 2013 – 22 Aug 2023
LIU Kung Wei Christopher *(Note 4)*	23 Aug 2013	350,000	–	–	(350,000)	–	–	–	12.11	23 Aug 2013 – 22 Aug 2023
KUOK Khoon Chen *(Note 5)*	23 Aug 2013	350,000	–	–	(350,000)	–	–	–	12.11	23 Aug 2013 – 22 Aug 2023
Timothy David DATTELS *(Note 6)*	23 Aug 2013	100,000	–	–	–	–	(100,000)	–	12.11	23 Aug 2013 – 22 Aug 2023
2. Employees	23 Aug 2013	11,433,000	–	–	(560,000)	(3,506,000)	(654,000)	6,713,000	12.11	23 Aug 2013 – 22 Aug 2023
3. Other participants	23 Aug 2013	1,370,000	–	980,000	–	(430,000)	–	1,920,000	12.11	23 Aug 2013 – 22 Aug 2023
	23 Aug 2013	–	–	350,000	–	–	–	350,000	12.11	23 Aug 2013 – 31 Dec 2019
	23 Aug 2013	–	–	80,000	–	–	–	80,000	12.11	23 Aug 2013 – 31 Dec 2018
	23 Aug 2013	–	–	200,000	–	–	–	200,000	12.11	23 Aug 2013 – 23 Feb 2018
Total		14,603,000	–	1,610,000	(1,610,000)	(4,036,000)	(754,000)	9,813,000		

Notes:

1. No options were cancelled during the Financial Year.
2. The weighted average closing price of the Shares immediately before the dates on which the options were exercised (if any) is set out in Note 18 to the Financial Statements.
3. Mr Madhu Rama Chandra RAO retired as an Executive Director on 31 December 2017 and his option has been re-categorised.
4. Mr LIU Kung Wei Christopher ceased to act as an Executive Director on 31 March 2017 and his option has been re-categorised.
5. Mr KUOK Khoon Chen retired as a Non-executive Director on 2 June 2017 and his option has been re-categorised.
6. Mr Timothy David DATTELS resigned as an Independent Non-executive Director on 29 May 2017 and his option has lapsed.

SHARE AWARD SCHEME

A share award scheme of the Company was adopted by Shareholders on 28 May 2012 and was revised on 10 August 2012 with further restraints/limits imposed ("**Award Scheme**").

The major terms of the Award Scheme (as amended) are as follows:

(1) Purpose of the Award Scheme

The purpose of the Award Scheme is to motivate qualified participants of the Award Scheme to optimise their future contributions to the Group, and/or to reward them for their past contributions, and to attract and retain or otherwise maintain on-going relationships with such qualified participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group.

(2) Qualified participants of the Award Scheme

The qualified participants of the Award Scheme include:

(a) a director;

(b) an employee; or

(c) an officer,

of any member of the Group other than those who reside in jurisdictions where the grant of Shares or the transfer of Shares to such persons under the Award Scheme will not be permitted under the laws and regulations of such jurisdictions, or will be subject to requirements with which compliance will, at the Board's sole discretion, be unduly burdensome or impractical.

(3) Life of the Award Scheme

The Award Scheme shall remain valid and effective for an initial term of 10 years from its date of adoption ("**Initial Term**") which shall be automatically extended by 7 successive extended terms of 10 years each ("**Subsequent Term**") unless (a) the Board decides not to continue with any new Subsequent Term; or (b) the Award Scheme is terminated early by a resolution of the Board or the Shareholders, provided that the duration of the Award Scheme shall not exceed 80 years.

(4) Maximum number of Shares available to be granted under the Award Scheme

The total number of the Shares, excluding those that would not be vested or have been forfeited ("**Lapsed Shares**"), granted and to be granted to qualified participants under the Award Scheme shall not exceed 10% of the Shares in issue from time to time. Subject to the aforesaid limit, in addition, no further grant may be made under the Award Scheme if (i) in the Initial Term, the total number of Shares (excluding Lapsed Shares) granted and to be granted pursuant to the Award Scheme exceed 3% of the Shares in issue at the time of the relevant grant; and (ii) in each Subsequent Term, the total number of Shares (excluding Lapsed Shares) granted and to be granted pursuant to the Award Scheme exceed such limit as determined by the Board from time to time for each such Subsequent Term. No further grant may be made under the Award Scheme if this will result in any of the aforesaid limits being exceeded.

As at the date of this Directors' Report, a maximum of 107,552,251 Shares (representing 3% of the issued Shares thereby) were available for grant under the Award Scheme.

(5) **Maximum number of Shares allowed to be granted to any one grantee under the Award Scheme**

The maximum number of Shares granted and to be granted to any one grantee (including Shares that have been vested and/or accepted and Lapsed Shares) in any 12-month period shall not exceed 0.1% of the Shares in issue from time to time.

(6) **Vesting**

The vesting conditions (if any) of Shares granted under the Award Scheme shall be determined by the Board in its absolute discretion at the time of grant, provided that the grantee shall accept the Shares within 6 months from the Shares becoming vested. If no acceptance is received within the stipulated period, such unaccepted vested Shares shall be forfeited.

(7) **Consideration for Shares granted under the Award Scheme**

The price/consideration (if any) per Share to be granted under the Award Scheme shall be determined by the Board in its absolute discretion at the time of grant and shall be payable by the grantee upon the grantee accepting the vested Shares.

(8) **Operation and administration of the Award Scheme**

The Board may select and grant to any qualified participant Shares under the Award Scheme for free or at a price/consideration per Share. A trust has been set up for the operation of the Award Scheme. The Board may from time to time pay to the trustee monies to enable the trustee to purchase on HKSE Shares that will be held upon trust pending the making of grants to qualified participants under the Award Scheme. BOCI-Prudential Trustee Limited has been appointed the first trustee of the trust and will hold and deal with the assets of the trust for the benefit of the qualified participants.

During the Financial Year, no award shares were granted under the Award Scheme.

CONTINUING CONNECTED TRANSACTION(S)

During the Financial Year, there were continuing connected transactions for the Company in effect that are subject to the reporting requirements under Chapter 14A of the Listing Rules. Details of these transactions are as follows:

(1) On 28 January 1995, the Company entered into a disclosable and connected transaction to acquire various hotel interests from certain parties, including connected persons of the Company. Included in these hotel interests was Edsa Shangri-La, Manila ("**Edsa Hotel**") which is built on land leased from Shang Properties, Inc ("**SPI**") under a 25-year lease commencing in 1992, with an option to renew the lease for a further term of 25 years ("**Renewal Term**"). SPI agreed that, upon expiration of the Renewal Term, it would grant to Edsa Shangri-La Hotel & Resort, Inc ("**Edsa Co**", the owner of Edsa Hotel) a new lease term of 25 years subject to the prevailing Philippines laws.

On 28 August 2017, the Company announced that the lease had been renewed for another three-year term that would expire on 27 August 2020. Upon expiry of the initial three-year term and thereafter, Edsa Co has the right to decide whether the term shall be renewed for succeeding terms of three years each provided that the entirety of the Renewal Term shall not be longer than 25 years from 28 August 2017.

SPI is an associate of KPL which in turn is a subsidiary of KHL (Substantial Shareholder). Accordingly, SPI is a connected person of the Company at holding level, and the lease as described above constitutes a continuing connected transaction for the Company.

Based on the terms of the said lease, the expected occupancy of the hotel, possible inflation, reasonable increase in occupancy and reasonable allowance for unexpected increase in occupancy and/or room rate of the hotel, the Company has set an annual cap for each of the following financial years:

Financial year	Annual cap (US$)
2017	1,919,000
2018	2,111,000
2019	2,322,000
2020 (for the entire year assuming the lease will be renewed upon expiry in the year)	2,554,000

For the Financial Year, an aggregate amount of US$1,900,000 (2016: US$1,886,000) was paid to SPI under the said lease.

(2) SLIM provided Hotel Management Services to various hotels (which are owned by certain connected persons of the Company) pursuant to certain hotel management, marketing and related agreements entered into between a member of SLIM and each of the said connected persons of the Company. The provision of Hotel Management Services to each of the following entities remained as a continuing connected transaction for the Company during the Financial Year and is required for disclosure in this Annual Report.

(a) **Hotel Jen Tanglin Singapore**

Hotel Jen Tanglin Singapore (previously known as Traders Hotel, Singapore) is owned by Cuscaden Properties Pte Limited ("**Cuscaden Co**") which is owned as to 44.6% by the Company and 55.4% by Allgreen Properties Limited ("**Allgreen**"). Cuscaden Co is a subsidiary of Allgreen which in turn is an associate of KHL (Substantial Shareholder). Accordingly, Cuscaden Co is regarded as a connected person of the Company at holding level.

(b) **Kerry Hotel, Beijing**

Kerry Hotel, Beijing is owned by Beijing Kerry Hotel Co, Limited ("**Beijing Kerry Co**") which is owned as to 23.75% by the Company, 71.25% by KPL and 5% by a third party. Beijing Kerry Co is a subsidiary of KPL which in turn is a subsidiary of KHL (Substantial Shareholder). Accordingly, Beijing Kerry Co is regarded as a connected person of the Company at holding level.

Details of relevant agreements in relation to the Hotel Management Services for the above and the transaction amounts involved in the Financial Year and the prior year are set out below:

	Hotel	Date of transaction	Nature of agreement	Counter party	Aggregate amount received by SLIM (US$) 2017	2016
(a)	Hotel Jen Tanglin Singapore	1 March 1994 (as supplemented)	Management agreement	Cuscaden Co	**2,227,000**	1,140,000
(b)	Kerry Hotel, Beijing	30 June 1998 (as supplemented)	Management and marketing services agreement	Beijing Kerry Co	**2,742,000**	2,499,000

The transaction of (a) above also constitutes a related party transaction in accordance with HKFRS and the amount of this transaction for the Financial Year is included in the receipt of hotel management, consultancy and related services and royalty fees under Note 38(b) to the Financial Statements.

The transaction of (b) above also constitutes a related party transaction in accordance with HKFRS and the amount of this transaction for the Financial Year is included in the receipt of hotel management, consultancy and related services and royalty fees under Note 38(a) to the Financial Statements.

(3) On 2 June 2010, SLIM-HK and Shanghai Pudong Kerry City Properties Co, Limited ("**Pudong Kerry Co**", a company owned as to 23.2% by the Company, 40.8% by KPL, 16% by Allgreen and 20% by a third party) entered into a hotel management agreement pursuant to which SLIM-HK was appointed the manager to provide Hotel Management Services to Kerry Hotel Pudong, Shanghai, a hotel owned by Pudong Kerry Co. The agreement has a three-year term commencing from the date of approval of the said agreement by the PRC government. Upon expiry of the initial three-year term and thereafter, SLIM-HK has the right to decide whether the term shall be renewed for succeeding terms of three years each provided that the entire term of the agreement as renewed shall not be longer than 20 years. On 11 June 2013, the Company announced that the said agreement was renewed.

On 26 January 2017, the Company announced that the said agreement had been further renewed for another consecutive three-year term that would expire on 5 January 2020.

Pudong Kerry Co is an associate of KPL which in turn is a subsidiary of KHL (Substantial Shareholder). Accordingly, Pudong Kerry Co is a connected person of the Company at holding level, and the agreement as described above constitutes a continuing connected transaction for the Company.

Based on the terms of the said agreement, the expected occupancy of the hotel, possible inflation, and reasonable increases in occupancy and reasonable allowance for unexpected increases in occupancy and/or the room rates, the Company has set an annual cap for each of the following financial years:

Financial year	**Annual cap (US$)**
2017	4,600,000
2018	4,800,000
2019	5,000,000

For the Financial Year, an aggregate amount of US$3,582,000 (2016: US$3,652,000) was received from Pudong Kerry Co. The transaction also constitutes a related party transaction in accordance with HKFRS and the amount of the transaction for the Financial Year is included in the receipt of hotel management, consultancy and related services and royalty fees under Note 38(b) to the Financial Statements.

(4) Since 18 November 2010, SLIM-HK has been leasing/licensing from Ubagan Limited ("**Ubagan**"), a subsidiary of KHL (Substantial Shareholder), various office premises and car parking spaces at Kerry Centre.

Thereafter, various new tenancy offer letter(s), supplemental agreement(s) and partial surrender agreement(s) were entered into in respect of the tenancy's renewal(s), variation(s) or surrender(s) of tenancy units. On 25 October 2013, the Company made announcement in relation to the relevant agreements.

On 18 October 2016, SLIM-HK and Ubagan (a) entered into a new tenancy offer letter to renew the tenancies in respect of various office premises at Kerry Centre for another three-year term that would expire on 18 November 2019, and (b) agreed to continue the licences of the car parking spaces.

As of Year End, the monthly rental/fee(s) for (a) the tenancy of the office premises was HK$3,900,690.90 (excluding the management fee and air-conditioning charge of HK$514,622.70); and (b) each floating car parking space and each fixed car parking space were HK$2,700 and HK$3,500, respectively.

Ubagan is a subsidiary of KHL (Substantial Shareholder). Accordingly, Ubagan is a connected person of the Company at holding level, and the agreements as described above constitute continuing connected transactions for the Company.

Based on the rentals and fees payable under the said agreements, and taking into account possible additional costs for management fees, air-conditioning charges and any further lease(s) or licence(s) of office premises or car parking space(s) in the event of business expansion/change of the Group, the Company has set an annual cap for each of the following financial years:

Financial year	**Annual cap (HK$)**
2017	60,000,000
2018	62,000,000
2019 (up to expiry of the lease)	56,000,000

For the Financial Year, an aggregate amount of HK$53,932,000 (equivalent to US$6,959,000) (2016: US$6,712,000) was paid to Ubagan. The transaction also constitutes a related party transaction in accordance with HKFRS and the amount of the transaction for the Financial Year is included in the payment of office rental, management fees and rates under Note 38(a) to the Financial Statements.

(5) On 17 October 2012, SLIM-HK and Shanghai Ji Xiang Properties Co, Limited ("**Jing An Co**", a company owned as to 49% by the Company and 51% by KPL) entered into a hotel management agreement pursuant to which SLIM-HK would provide Hotel Management Services to Jing An Shangri-La, West Shanghai ("**Jing An Hotel**"), a hotel owned by Jing An Co. The agreement has a 20-year term commencing from the opening date of Jing An Hotel. The Company has obtained an independent financial adviser's opinion confirming that it is normal business practice for the agreement to be of such duration.

Jing An Co is a subsidiary of KPL which in turn is a subsidiary of KHL (Substantial Shareholder). Accordingly, Jing An Co is a connected person of the Company at holding level, and the agreement as described above constitutes a continuing connected transaction for the Company.

Based on the terms of the said agreement and the expected occupancy of the hotel, and taking into account possible inflation and possible reasonable increases in occupancy and the prevailing Renminbi to US dollar exchange rate, the annual cap for each financial year throughout the duration of the said agreement ending 31 December 2033 will not exceed US$14,000,000.

For the Financial Year, an aggregate amount of US$4,682,000 (2016: US$4,545,000) was received from Jing An Co. The transaction also constitutes a related party transaction in accordance with HKFRS and the amount of the transaction for the Financial Year is included in the receipt of hotel management, consultancy and related services and royalty fees under Note 38(a) to the Financial Statements.

(6) On 26 June 2014, SLIM-HK and Shangri-La Hotel (Nanjing) Co, Limited (previously known as Ji Xiang Real Estate (Nanjing) Co, Limited) ("**Nanjing Co**", a company owned as to 55% by the Company and 45% by KPL) entered into a hotel management agreement pursuant to which SLIM-HK would provide Hotel Management Services to Shangri-La Hotel, Nanjing ("**Nanjing Hotel**") which is owned by Nanjing Co. The said agreement has a three-year term commencing from the opening date of Nanjing Hotel. Upon expiry of the initial three-year term and thereafter, SLIM-HK has the right to decide whether the term shall be renewed for succeeding terms of three years each provided that the entire term of the said agreement shall not be longer than 20 years.

On 23 October 2017, the Company announced that the said agreement had been renewed for another consecutive three-year term that would expire on 25 October 2020.

Nanjing Co is an associate of KPL which in turn is a subsidiary of KHL (Substantial Shareholder). Accordingly, Nanjing Co is a connected person of the Company at holding level, and the agreement as described above constitutes a continuing connected transaction for the Company.

Based on the terms of the said agreement and the expected occupancy of the hotel, and taking into account possible inflation and a reasonable buffer to allow for increases in room rates and the occupancy, the Company has set annual cap for each of the following financial years:

Financial year	Annual cap (US$)
31 December 2017	2,600,000
31 December 2018	3,800,000
31 December 2019	3,900,000
31 December 2020 (for the entire year assuming the hotel management agreement will be renewed upon expiry in the year)	4,000,000

For the Financial Year, the aggregate amount of US$1,823,000 (2016: US$1,701,000) was received from Nanjing Co.

(7) On 26 June 2014, SLIM-HK and Tianjin Kerry Real Estate Development Co, Limited ("**Tianjin Co**", a company owned as to 20% by the Company, 49% by KPL and 31% by Allgreen) entered into a hotel management agreement pursuant to which SLIM-HK would provide Hotel Management Services to Shangri-La Hotel, Tianjin ("**Tianjin Hotel**") which is owned by Tianjin Co. The said agreement has a three-year term commencing from the opening date of Tianjin Hotel. Upon expiry of the initial three-year term and thereafter, SLIM-HK has the right to decide whether the term shall be renewed for succeeding terms of three years each provided that the entire term of the said agreement shall not be longer than 20 years.

Tianjin Co is an associate of KPL which in turn is a subsidiary of KHL (Substantial Shareholder). Accordingly, Tianjin Co is a connected person of the Company at holding level, and the agreement as described above constitutes a continuing connected transaction for the Company.

Based on the terms of the said agreement and the expected occupancy of the hotel, and taking into account possible inflation and a reasonable buffer to allow for increases in room rates and the occupancy, the Company has set annual cap for the following financial year:

Financial year	Annual cap (US$)
31 December 2017 (for the entire year assuming the hotel management agreement will be renewed upon expiry in the year)	2,100,000

For the Financial Year, the aggregate amount of US$1,223,000 (2016: US$1,146,000) was received from Tianjin Co. The transaction also constitutes a related party transaction in accordance with HKFRS and the amount of the transaction for the Financial Year is included in the payment of hotel management, consultancy and related services and royalty fees under Note 38(b) to the Financial Statements.

In view of the transaction amount involved, such continuing connected transaction would be exempted from the relevant disclosure and annual review requirement under Chapter 14A of the Listing Rules in subsequent financial years.

(8) On 17 July 2015, SLIM-HK and Ruihe Real Estate (Tangshan) Co, Limited ("**Tangshan Co**", a company owned as to 35% by the Company, 40% by KPL and 25% by Allgreen) entered into a hotel management agreement pursuant to which SLIM-HK would provide Hotel Management Services to Shangri-La Hotel, Tangshan ("**Tangshan Hotel**"), a hotel owned by Tangshan Co. The agreement has a 20-year term commencing from the opening date of Tangshan Hotel. The Company has obtained an independent financial adviser's opinion confirming that it is normal business practice for the agreement to be of such duration.

Tangshan Co is an associate of KPL which in turn is a subsidiary of KHL (Substantial Shareholder). Accordingly, Tangshan Co is a connected person of the Company at holding level, and the agreement as described above constitutes a continuing connected transaction for the Company.

Based on the terms of the said agreement and the expected occupancy of the hotel, and taking into account possible inflation, the annual cap for each financial year throughout the duration of the said agreement ending 31 December 2035 will not exceed RMB39,000,000.

For the Financial Year, the aggregate amount of US$484,000 (2016: US$493,000) was received from Tangshan Co. The transaction also constitutes a related party transaction in accordance with HKFRS and the amount of the transaction for the Financial Year is included in the receipt of hotel management, consultancy and related services and royalty fees under Note 38(b) to the Financial Statements.

(9) On 4 March 2016, each of SLIM-HK and Shangri-La Hotel Management (Shanghai) Co, Limited ("**SLIM-PRC**", a wholly owned subsidiary of the Company), and Kerry Real Estate (Hangzhou) Co, Limited ("**Hangzhou Co**", a company owned as to 25% by the Company and 75% by KPL) entered into a hotel management agreement and a marketing services agreement, respectively, pursuant to which SLIM-HK and SLIM-PRC would provide Hotel Management Services to Midtown Shangri-La Hotel, Hangzhou ("**Hangzhou Midtown Hotel**") which is owned by Hangzhou Co. Each of the said agreements has a 20-year term commencing from the opening date of Hangzhou Midtown Hotel. The Company has obtained an independent financial adviser's opinion confirming that it is normal business practice for the agreements to be of such duration.

Hangzhou Co is a subsidiary of KPL which in turn is a subsidiary of KHL (Substantial Shareholder). Accordingly, Hangzhou Co is a connected person of the Company at holding level, and the agreements as described above constitute continuing connected transactions for the Company.

Based on the terms of the said agreements and the expected occupancy of the hotel, and taking into account possible inflation, the annual cap for each financial year throughout the duration of the said agreements ending 31 December 2036 will not exceed RMB93,000,000.

For the Financial Year, the aggregate amount of US$1,916,000 (2016: US$1,182,000) was received from Hangzhou Co. The transactions also constitute related party transactions in accordance with HKFRS and the amount of the transactions for the Financial Year is included in the receipt of hotel management, consultancy and related services and royalty fees under Note 38(a) to the Financial Statements, respectively.

(10) On 27 September 2017, the Company announced that certain subsidiaries of the Group order wines from wine suppliers on an ongoing basis for the food and beverage segments of the Group's hotel operations. The Group has maintained a wine programme with various wine suppliers including Kerry Wines Limited ("**Kerry Wines**", a company owned as to 20% by the Company, 60% by KHL and 20% by a company which is an associate of Ms KUOK Hui Kwong, being a Director, under the Listing Rules). Throughout the Financial Year, certain subsidiaries of the Group respectively placed purchase orders with Kerry Wines or its subsidiary ("**KW Member(s)**") in connection with the purchase of wines under the wine programme. Under the wine programme, the KW Member(s) offer such subsidiaries of the Group certain stock wines listed under the wine programme at agreed unit prices, subject to revision from time to time, and/or other specific types of wines at prices to be agreed between them when the purchase orders are placed. The unit prices offered by KW Members have been and/or are independently verified, reviewed and negotiated by wine experts and purchasing divisions from the hotel operations unit(s) of the Group to ensure the offered prices are reasonable and competitive compared to other suppliers in the market. In addition, the Group may, if it considers appropriate and necessary, also purchase wines en primeur from KW Member(s). All wines purchased from KW Member(s) were/will be effected by purchase orders in written form.

Each KW Member is a subsidiary of KHL (Substantial Shareholder). Accordingly, the KW Members are connected persons of the Company at holding level, and the purchases of wines described above constitute continuing connected transactions for the Company.

Based on (i) the value of the wine orders recognised during the period from 1 January 2017 to 30 June 2017, and (ii) the business plans of the Group for the remaining months of 2017, the Group has set the annual cap of the wine orders to be placed with the KW Members for the Financial Year at US$5,000,000.

For the Financial Year, the actual aggregate value of such purchases amounted to US$3,268,000 (2016: US$3,138,000). The transaction also constitutes a related party transaction in accordance with HKFRS and the amount of the transaction for the Financial Year is included in the purchase of wine under Note 38(a) to the Financial Statements.

(11) On 24 January 2018, the Company announced that Shang Global City Properties, Inc ("**Fort Manila Co**", a company owned as to 40% by the Company and 60% by SPI) entered into hotel agreements, being (a) the marketing and reservations agreement dated 10 December 2014 (as varied) with SLIM-HK, (b) the licence agreement dated 10 December 2014 (as varied) with Shangri-La International Hotel Management Limited, incorporated in the British Virgin Islands, ("**SLIM-BVI**", the head-licensor of the intellectual property in relation to the brand of Shangri-La ("**IP**")) and (c) the licence agreement dated 10 December 2014 (as varied) with Shangri-La International Hotel Management BV ("**SLIM-Netherlands**", the IP sub-licensor) in relation to the provision of (i) the Hotel Management Services for Shangri-La at the Fort, Manila ("**Fort Manila Hotel**" a hotel owned by Fort Manila Co), and (ii) the licence of the IP to Fort Manila Co enabling it to operate its hotel bearing the name of Shangri-La.

Each of the said agreements lists the operating term which commenced from the opening date of Fort Manila Hotel (being 1 March 2016) and ended on 31 December of the first anniversary of such opening date (ie, 31 December 2017). Each of SLIM-HK, SLIM-BVI and SLIM-Netherlands under its respective agreement has the right to decide whether the term shall be renewed for another consecutive three-year term (or part thereof of the remaining term) provided that the entire initial term of each agreement shall not be longer than 10 years from the opening date of the said hotel. Upon expiry of the said initial term of 10 years, the relevant parties may elect to extend the term for consecutive three-year term each (or part thereof) provided that the aggregate term of the renewal period shall not exceed a further 10 years.

At the time of entering into the said agreements in 2014, the said agreements constituted de minimis continuing connected transactions for the Company under the Listing Rules and were not subject to announcement, reporting and independent shareholders' approval requirements.

Based on the information available to the Company and the preliminary assessment of the unaudited management financial statements of SLIM-HK, SLIM-BVI and SLIM-Netherlands on the date of the announcement, the Company anticipated that the fees for the Financial Year would collectively exceed the above-mentioned exemption threshold. The Company was therefore required to re-comply with the requirements under the Listing Rules with the said announcement.

Fort Manila Co is a subsidiary of SPI, an associate of KPL which in turn is a subsidiary of KHL (Substantial Shareholder). Accordingly, Fort Manila Co is a connected person of the Company at holding level, and the agreements as described above constitute continuing connected transactions for the Company.

Based on the terms of the said agreements, the expected occupancy of the said hotel, possible inflation, reasonable increase in occupancy and reasonable allowance for unexpected increase in occupancy and/or room rate of the said hotel, the Company has set an annual cap (including the expected cap for the Financial Year) for each of the following financial years:

Financial year	Annual cap (US$)
2017	3,200,000
2018	5,200,000
2019	5,500,000
2020	5,800,000

For the Financial Year, the aggregate amounts of US$3,025,000 (2016: US$1,568,000) were received from Fort Manila Co. The transactions also constitute related party transactions in accordance with HKFRS and the amounts of the transactions for the Financial Year are included in the receipt of hotel management, consultancy and related services and royalty fees under Note 38(b) to the Financial Statements.

The continuing connected transactions mentioned in (1) to (11) above have been reviewed by the Independent Non-executive Directors. The Independent Non-executive Directors have confirmed that the transactions have been entered into:

1. in the ordinary and usual course of business of the Group;

2. either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

3. in accordance with the relevant agreements governing such transactions and on terms that are fair and reasonable and in the interests of Shareholders as a whole.

The Auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group in this Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the Auditor's letter has been provided by the Company to HKSE.

On behalf of the Board

KUOK Hui Kwong
Chairman

Hong Kong, 21 March 2018

CORPORATE GOVERNANCE REPORT

Shangri-La Hotel, Lhasa

The Company recognises the importance of transparency in governance and accountability to Shareholders and that Shareholders benefit from good corporate governance. The Company reviews its corporate governance framework on an ongoing basis to ensure compliance and best practice.

DIRECTORS HANDBOOK AND CORPORATE GOVERNANCE FUNCTIONS

Directors Handbook

The Board has adopted a composite handbook ("**Directors Handbook**") comprising the Securities Principles and the CG Principles, terms of both which align with or are stricter than the requirements set out in the Securities Model Code and the CG Model Code, save for the provision in the Directors Handbook that the positions of the Chairman and the CEO may be served by the same person. The Directors Handbook serves as a comprehensive guidebook for all Directors.

The Directors Handbook incorporates (amongst other things):

(1) Securities Principles

(a) restrictions on Directors' dealings in relation to the Company's securities;

(b) the Directors' obligations and the board procedures for the mandatory notification to and acknowledgement from the Company prior to any deemed dealings of Directors and the required notification to the Company subsequent to such dealings;

(c) the requirements of the Directors' mandatory filing with the regulatory body(ies) of their deemed dealings; and

(d) extended application of the Securities Principles to non-Directors.

(2) CG Principles

(a) the terms of the operation of the Board including the obligations of each Director;

(b) the establishment of each Board committee, including the terms of reference of and/or the policy for each such committee;

(c) the terms of the corporate governance functions;

(d) the rights of each Director (including members of any Board committee) for and/or the procedures for independent access to the Group's information and professional advice;

(e) the written procedures resolved by the Board for Shareholders to exercise certain rights in the Company; and

(f) the references to and/or the summary of various important regulatory rules and the Company's corporate policies that the Directors are obliged to strictly observe.

The Directors Handbook is updated and revised from time to time where necessary to, amongst other things, (a) align with the relevant mandatory requirements under the Listing Rules and/or any other governing rules, and (b) incorporate any corporate governance terms that the Board considers necessary for better corporate governance of the Company. Any change to the terms of the Securities Principles and the CG Principles shall be determined and approved by the Board.

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 Financial Year.

The Securities Principles also applied to certain employees ("**Relevant Employees**") in respect of their dealings in the securities of the Company for the Financial Year. The code with which the Relevant Employees are obliged to comply is similar to that with which the Directors are obliged to comply except that the Relevant Employees are not required to fulfil the public filing requirement.

Code on Corporate Governance

The Company has complied with the CG Principles and the CG Model Code throughout the Financial Year.

Corporate Governance Functions

Under the CG Principles, the Audit & Risk Committee has the delegated responsibility to oversee, monitor and observe the terms of the Company's corporate governance functions which include the following major duties:

(1) to review the Company's policies and practices on corporate governance and to make recommendations to the Board;

(2) to review and monitor the training and continuous professional development of Directors and senior management;

(3) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(4) to review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors of the members of the Group;

(5) to review the Company's compliance with the relevant code and disclosure requirements in relation to corporate governance in accordance with the Listing Rules;

(6) to review the Directors Handbook from time to time to ensure the Directors Handbook has sufficiently covered the corporate governance matters that the Board and the Company are required to observe under the Listing Rules; and

(7) to monitor whether the terms set out in the Directors Handbook are duly observed and complied with.

The Audit & Risk Committee had duly performed its duties relating to the corporate governance functions and it was not aware of any terms of corporate governance being violated during the Financial Year.

BOARD

The Board is accountable to Shareholders for leading the Group in a responsible and effective manner.

The list of the members of the Board and their designations during the Financial Year and up to the date of the Annual Report has been set out in the Directors' Report.

Members, Meetings Held and Attendance

During the Financial Year, the Board held four board meetings. The Directors during the Financial Year, along with the attendance of each of them at the meetings, are as follows:

Name of Director	Meetings attended/ eligible to attend
Executive Director(s)	
KUOK Hui Kwong	4/4
LIM Beng Chee	4/4
LUI Man Shing	4/4
Madhu Rama Chandra RAO *(retired on 31 December 2017)*	4/4
LIU Kung Wei Christopher *(resigned on 31 March 2017)*	1/1
Non-executive Director(s)	
HO Kian Guan (alternate – HO Chung Tao)	4 (4)/4
KUOK Khoon Chen *(retired on 2 June 2017)*	1/1
Independent Non-executive Director(s)	
Alexander Reid HAMILTON	4/4
LI Kwok Cheung Arthur	4/4
LEE Kai-Fu	4/4
YAP Chee Keong *(was appointed on 11 December 2017)*	N/A
Timothy David DATTELS *(resigned on 29 May 2017)*	1/1

Other than the above full Board meetings, the Chairman also held an annual meeting in December 2017 with the Directors without the presence of the other Executive Directors. The attendance of the Directors at the meeting was as follows:

Name of Director	Attendance
Chairman	
KUOK Hui Kwong	√
Non-executive Director(s)	
HO Kian Guan (alternate – HO Chung Tao)	√ (√)
KUOK Khoon Chen *(retired on 2 June 2017)*	N/A
Independent Non-executive Director(s)	
Alexander Reid HAMILTON	√
LI Kwok Cheung Arthur	√
LEE Kai-Fu	√
YAP Chee Keong *(was appointed on 11 December 2017)*	N/A
Timothy David DATTELS *(resigned on 29 May 2017)*	N/A
Total attendance	5/5

The relationship between members of the Board, if any, is set out in the section entitled "Board of Directors, Company Secretary and Senior Management" in the Annual Report.

Term of Appointment of Directors

Each Director shall be subject to terms of retirement, but shall be eligible for re-election, in accordance with the Bye-Laws, the Listing Rules and the Company's nomination policy, in particular:

(1) any Director who was newly appointed by the Board or by the Shareholders in a general meeting to fill a casual vacancy, or as an addition to the Board, shall retire from office at the next general meeting of the Company;

(2) every Director shall retire from office by rotation no later than the third annual general meeting after he was last elected or re-elected; and

(3) at each annual general meeting, not less than one-third (or otherwise the number nearest one-third) of the Directors for the time being shall retire from office by rotation.

Accordingly, the term of appointment of each Director is effectively not more than about three years.

Directors' Training

The Directors participate in continuous professional development to enhance and refresh their skills and knowledge for their role as Directors. The Company also organises presentations and training sessions that help update Directors on the latest corporate governance and regulatory/legal issues as well as other current topics (including the Group's business developments/operations). In addition to these activities, some Directors also attend external training sessions and presentations.

A summary of the current Directors' professional development initiatives during the Financial Year is set out below:

	Category of training topics		
	Risk Management	Regulatory and Corporate Governance	Others
Executive Director(s)			
KUOK Hui Kwong	√	√	√
LIM Beng Chee	√	√	√
LUI Man Shing	√	√	√
Non-executive Director(s)			
HO Kian Guan (alternate – HO Chung Tao)	√ (√)	√ (√)	√ (√)
Independent Non-executive Director(s)			
Alexander Reid HAMILTON	√	√	√
LI Kwok Cheung Arthur	√	√	√
LEE Kai-Fu	—	√	√
YAP Chee Keong *(was appointed on 11 December 2017)*	—	√	—

EXECUTIVE COMMITTEE

The Executive Committee was established by the Board on 21 June 1993. The Executive Committee is delegated with the power and authority to oversee the Group's ordinary business, transactions and development. The Executive Committee's written terms of reference include its defined powers and duties, except that the following matters are explicitly reserved for the Board for decision:

(1) constitution and share capital

(2) corporate objectives and strategy

(3) corporate policies relating to securities transactions by Directors and senior management

(4) interim and annual results

(5) significant investments

(6) major financings, borrowings and guarantees other than those of ordinary terms and for the ordinary operations or for general working capital requirements of the Group

(7) corporate governance and internal controls

(8) risk management

(9) major acquisitions and disposals

(10) material contracts

(11) Board members and Auditor

(12) any other significant matters that will affect the operations of the Group as a whole

During the Financial Year, the majority of the Executive Committee's material decisions were recorded by written resolutions. The members of the Executive Committee during the Financial Year and up to the date of the Annual Report were as follows:

Member	**Board capacity during committee membership**
KUOK Hui Kwong *(chairman)*	ED & Chairman
LIM Beng Chee	ED & CEO
LUI Man Shing *(as member with effect from 1 March 2018)*	ED
Madhu Rama Chandra RAO *(as member until 31 December 2017)*	ED

NOMINATION COMMITTEE

The Nomination Committee was established by the Board on 19 March 2012. The Nomination Committee, amongst other things, considers any proposed change to members or composition of the Board and/or evaluates the performance of Directors in accordance with the Company's nomination policy. The written terms of reference of the Nomination Committee included the following major duties:

(1) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and to make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(2) to identify individuals suitably qualified to become members of the Board and to select or make recommendations to the Board on the selection of individuals nominated for directorships;

(3) to assess the independence of each newly proposed Independent Non-executive Director and existing Independent Non-executive Director on an annual basis or as and when the Nomination Committee considers necessary;

(4) to make recommendations to the Board on the proposed appointment, designation, election or re-election of Directors and succession planning for Directors, in particular the Chairman and the CEO;

(5) to make recommendations to the Board on the tendered resignation or proposed removal of Directors;

(6) to provide opinions on any proposed election or re-election of person(s) as Independent Non-executive Director(s) at general meeting(s) of the Company and to provide reasons why they consider the nominated person(s) to be independent;

(7) if a Director has been serving the Board as an Independent Non-executive Director for more than nine years and will make himself available for re-election at a general meeting of the Company, to consider if such Director remains independent and suitable to continue to act as an Independent Non-executive Director and to make recommendations to the Board accordingly; and

(8) to observe the terms of the Company's nomination policy and to make recommendations to the Board on the nomination policy.

The latest full version of the terms of reference of the Nomination Committee has been posted on the Company's corporate website.

During the Financial Year, the majority of the Nomination Committee's material decisions were recorded by written resolutions. The members of the Nomination Committee during the Financial Year and up to the date of the Annual Report were as follows:

Member	**Board capacity during committee membership**
KUOK Hui Kwong *(chairman)*	ED & Chairman
Alexander Reid HAMILTON	INED
LI Kwok Cheung Arthur	INED

During the Financial Year, the work performed by the Nomination Committee included:

(i) For the purpose of re-election of the retiring Directors at the 2017 annual general meeting of the Company, the Nomination Committee had:

- assessed and confirmed the independence of all Independent Non-executive Directors;
- evaluated and confirmed the contribution of each of the retiring Directors who offered themselves for re-election; and
- recommended to the Board to propose the re-election of each of the retiring Directors who offered themselves for re-election at the 2017 annual general meeting of the Company.

(ii) The Nomination Committee had, on an annual and regular basis, assessed the Board's composition and the Directors' particulars against the parameters set in the nomination policy (including board size, board diversity policy, skills/knowledge/experience, Directors' performance review) and recommended that the structure, size and composition of the Board was satisfactory.

(iii) In relation to the proposed new appointment to the Board, the Nomination Committee had:

- assessed the record and personal particulars of Mr YAP Chee Keong; and
- considered the structure, size and composition of the Board assuming the appointment was effected.

(iv) In relation to the changes and/or re-designations of the Board members proposed during the Financial Year, the Nomination Committee had, after due assessment and/or consideration, recommended to the Board the approval/acceptance of:

- Mr LIU Kung Wei Christopher's relinquishment of the positions of Managing Director and COO and his resignation as a Director in March 2017;
- Mr Timothy David DATTELS's resignation as a Director in May 2017;
- Mr KUOK Khoon Chen's retirement as a Director with effect from the close of the 2017 annual general meeting of the Company held in June 2017; and
- Mr YAP Chee Keong's appointment to the Board as Independent Non-executive Director in December 2017.

Nomination Policy

The terms of the nomination policy of the Company in effect during the Financial Year were as follows:

(1) the total number of Directors (excluding their alternates) shall not exceed 20, with at least three Independent Non-executive Directors and at least one-third of the Board members being Independent Non-executive Directors;

(2) the Board shall be composed of members with mixed skills and experience, with appropriate qualifications necessary to accomplish the Group's business development, strategies, operation, challenges and opportunities;

(3) each new Director shall complement the existing Board composition to ensure that there is an appropriate mix of Directors with different abilities and experiences; shall have the required skills, knowledge and expertise to add value to the Board; and shall be able to commit the necessary time to the position;

(4) each Independent Non-executive Director shall meet the mandatory qualification requirements as set out in the Listing Rules from time to time;

(5) the Board shall observe the board diversity policy and shall, subject to merit and suitability, continue in its endeavours to introduce more diversity into the Board, including diversity of age, culture and gender;

(6) the Board shall have the primary responsibility for identifying appropriate candidates to act as new members of the Board;

(7) Shareholders may also propose candidates for election as a Director provided that the proposal follows the procedures posted on the Company's corporate website;

(8) each proposed new appointment, election or re-election of a Director shall be evaluated, assessed and/or considered against the criteria and qualifications set out in the Company's nomination policy by the Nomination Committee which shall recommend its views to the Board and/or the Shareholders for consideration and determination; and

(9) each resignation or removal of a Director shall also be considered by the Nomination Committee which shall recommend its views to the Board and/or the Shareholders for consideration and determination.

REMUNERATION COMMITTEE

The Remuneration Committee was established by the Board on 17 October 1997. The Remuneration Committee shall, amongst other things, review, endorse and/or approve the remuneration of each Director and the Senior Management in accordance with the Company's remuneration policy for Directors and Senior Management. During the Financial Year, the written terms of reference of the Remuneration Committee included the following major duties:

(1) to make recommendations to the Board on the Company's policy and structure for the remuneration of all Directors and Senior Management and on the establishment of a formal and transparent procedure for developing remuneration policy;

(2) to determine the remuneration packages of individual Executive Directors and Senior Management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, taking into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities, and employment conditions elsewhere in the Group;

(3) to make recommendations to the Board on the Directors' fees and the fees for members of each committee of the Board;

(4) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(5) to review and approve compensation payable to Executive Directors and Senior Management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(6) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are reasonable and appropriate; and

(7) to advise Shareholders on how to vote with respect to any Director's service contract that requires Shareholders' approval under the Listing Rules.

The latest full version of the Remuneration Committee's terms of reference has been posted on the Company's corporate website.

Members, Meetings Held and Attendance

During the Financial Year, the Remuneration Committee held two meetings in January 2017 and December 2017, respectively. The members of the Remuneration Committee during the Financial Year and up to the date of the Annual Report and the attendance of each of them at the meetings held during the Financial Year are as follows:

Member	Board capacity during committee membership	Meetings attended/ eligible to attend
Alexander Reid HAMILTON *(chairman)*	INED	2/2
KUOK Hui Kwong	ED & Chairman	*(Note)* 1/2
LI Kwok Cheung Arthur	INED	2/2

Note – The meeting of January 2017 was held in the presence of Mr KUOK Khoon Chen who stepped down as a member of the Remuneration Committee (and was replaced by Ms KUOK Hui Kwong) with effect from 1 January 2017.

During the Financial Year, the work performed by the Remuneration Committee included:

(i) assessing the performance of the Executive Directors and Senior Management in the context of the financial performance of the Group and its development strategy in the medium term;

(ii) approving the terms of remuneration and/or bonus of the Executive Directors and Senior Management (including the annual salary review), having considered the financial results of the Group, its growth plans, the competitive environment in the hotel industry for obtaining competent management talent, and the need to adequately reward outstanding performances;

(iii) recommending to the Board the fees payable to the Non-executive Directors and the members of the Board committees;

(iv) considering and approving the extension of the outstanding share option of a resigned Director; and

(v) consulting professional human resources practitioners for formulating a more comprehensive and earnest compensation infrastructure for employees.

Remuneration Policy for Executive Directors and Senior Management

The Remuneration Committee has the delegated responsibility to determine the remuneration packages of the individual Executive Directors and the Senior Management.

The remuneration for the Executive Directors and Senior Management comprises salary, discretionary bonus, pensions and/or housing, and annual leave fare for expatriate Executive Directors and expatriate Senior Management.

Salaries are reviewed annually. Salary increases of Executive Directors and Senior Management are made where the Remuneration Committee believes that adjustments are appropriate to reflect performance, contribution, increased responsibilities and/or by reference to market/sector trends.

In addition to salary, Executive Directors and Senior Management are eligible to receive a discretionary bonus the amount of which shall be reviewed and approved by the Remuneration Committee which shall take into consideration factors such as market conditions as well as corporate and individual performances.

In order to attract, retain and motivate executives and key employees serving any member of the Group, Directors and Senior Management are also eligible to participate in the Company's share option scheme and share award scheme. The grant of share options and share awards to Directors and/or Senior Management and the terms thereto shall be approved by the Remuneration Committee.

Remuneration of Directors and Senior Management

The Non-executive Directors (including Independent Non-executive Directors) and the members of the Board committees (other than Executive Director(s)) were entitled to annual fees that were approved by Shareholders at the annual general meeting prior to payment. Such annual fees are determined with reference to the level of fees payable by listed companies in Hong Kong and the respective level of responsibilities, skills and commitments required of the Non-executive Directors, and the amount for the Financial Year and the previous year are as follows:

Annual fee	**Amount (HK$)**		
	2017	2016	
As NED/INED	**230,000**	230,000	per year of directorship
As Nomination Committee member	**50,000**	50,000	per year of membership of committee
As Remuneration Committee member	**50,000**	50,000	per year of membership of committee
As Audit & Risk Committee member	**130,000**	130,000	per year of membership of committee
	100,000	100,000	for attendance at all Audit & Risk Committee meetings held during the year

Details of the remuneration paid to each of the Directors for the Financial Year and the previous year are set out in Note 29 to the Financial Statements.

The remuneration (including bonus, allowance and other benefits) paid to the current Senior Management (which included certain current Executive Directors) for the Financial Year are set out below (by band):

Range of remuneration (HK$)	**Number of members of Senior Management**
9,000,001 to 9,500,000	1
17,000,001 to 17,500,000	1
19,500,001 to 20,000,000	1
25,000,001 to 25,500,000	1
	4

Note: One member of the Senior Management joined the Group during the Financial Year. The remuneration of such member is the actual amount received for the Financial Year.

AUDIT & RISK COMMITTEE

The Audit & Risk Committee was established by the Board on 25 August 1998. The Audit & Risk Committee shall, amongst other things, supervise the financial reporting and the internal controls within the Group. During the Financial Year, the written terms of reference of the Audit & Risk Committee included the following major duties:

(1) to make recommendations to the Board on the appointment, re-appointment and removal of the Auditor, to approve the remuneration and terms of engagement of the Auditor, and to consider any questions of its resignation or dismissal;

(2) to review and monitor the Auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

(3) to review and monitor the integrity of the Company's interim and annual financial statements, reports and accounts, and to review significant financial reporting judgements contained therein, before submission to the Board;

(4) to review the Company's financial controls, risk management and internal control systems;

(5) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems;

(6) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and the management's response to these findings;

(7) to review the internal audit programme to ensure co-ordination between the internal and the external auditors, and to review and monitor its effectiveness;

(8) to review the Group's financial and accounting policies and practices;

(9) to report to the Board on the matters set out in the terms of reference and, in particular, the matters required to be performed by the Audit & Risk Committee under the Listing Rules;

(10) to review whistleblowing policy(ies) or arrangements established for employees of and/or those who deal with the Group who may, in confidence, raise concerns about possible improprieties in financial reporting, internal controls or other matters; and

(11) to oversee, monitor and observe the Company's corporate governance matters.

The latest full version of the terms of reference of the Audit & Risk Committee has been posted on the Company's corporate website.

The whistleblowing and whistleblower protection policy (for external users) has also been posted on the Company's corporate website for external users' use.

Members, Meetings Held and Attendance

During the Financial Year, the Audit & Risk Committee held four meetings. The members of the Audit & Risk Committee during the Financial Year and up to the date of the Annual Report and the attendance of each of them at the meetings held during the Financial Year are as follows:

Member	Board capacity during committee membership	Meetings attended/ eligible to attend
YAP Chee Keong *(as member and chairman with effect from 21 March 2018)*	INED	N/A
HO Kian Guan	NED	4/4
Alexander Reid HAMILTON *(as chairman until 21 March 2018)*	INED	4/4
LI Kwok Cheung Arthur	INED	4/4

During the Financial Year, the work performed by the Audit & Risk Committee included:

(i) reviewing the Group's financial controls, internal controls and risk management systems, and the conducting of the internal audit of the Group;

(ii) making recommendations on the remuneration payable to the Auditor for the Financial Year and the re-appointment of the Auditor, and satisfying itself on the Auditor's independence and objectivity;

(iii) reviewing financial issues with the Auditor in the committee meetings;

(iv) reviewing the interim and annual financial statements before these were submitted to the Board for approval;

(v) reviewing the reports issued by the internal audit team and discussing the risk and internal controls of the Group;

(vi) reviewing significant legal, litigation or in-house investigation matters of the Group; and

(vii) overseeing the Company's corporate governance matters with reference to the Company's terms of reference for corporate governance functions.

The Audit & Risk Committee was satisfied with its review for the Financial Year and concluded that no material issues were identified that needed to be brought to the particular attention of the Board or the Shareholders.

RISK MANAGEMENT AND INTERNAL CONTROLS

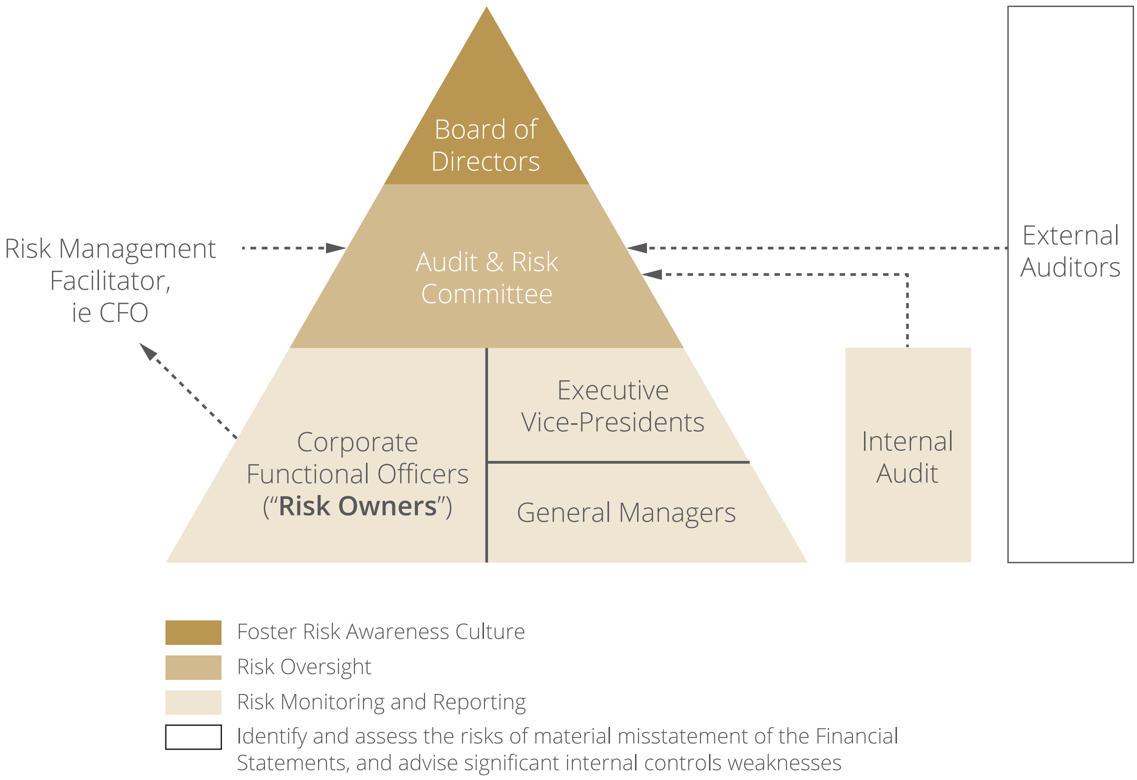
The Board has the overall responsibility for maintaining sound and effective risk management and internal control systems in the Group and reviews the effectiveness of these systems on an ongoing basis as required by the revised corporate governance code released by HKSE.

Risk Management Framework

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems on an ongoing basis. The Board recognises that strengthening corporate governance on an ongoing basis is crucial in enhancing the long term shareholder value and believes that a sound and effective system of risk management and internal controls is the cornerstone for good corporate governance. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable assurance and not absolute assurance against material misstatement or loss. The Company's risk management framework which was formalised in 2016 comprises the following key elements:

- Establish the context
- Risk assessment (including identification, analysis and evaluation)
- Risk responses and mitigation controls
- Communication and risk reporting
- Continuous risk monitoring and review of risk profiles

Risk Management Governance Structure



The Company has also formalised its risk management structure and allocated responsibilities in order to achieve the Company's business objectives:

- The Board has the overall responsibility to ensure that the Company has maintained sound and effective risk management and internal control systems. The Board has delegated the responsibility for overseeing the adequacy and effectiveness of the risk management and internal control systems to the Audit & Risk Committee. The terms of reference of the Audit & Risk Committee has been made explicitly responsible for overseeing the risk management and internal control systems of the Group. The Board considers the works, findings and advice of the Audit & Risk Committee in forming its own view on the effectiveness of the systems. Audit & Risk Committee members report to the Board at the quarterly Board meetings.

- The Audit & Risk Committee, acting on behalf of the Board, reviews the effectiveness of the Company's risk management and internal control systems on an on-going basis and reports to the Board. It also provides advice on enhancing the business performance and risk management process. The Audit & Risk Committee reviews:

  (a) the internal audit reports provided by the Company's Internal Audit Team which assesses and evaluates the effectiveness of the internal control system;

  (b) the results of the semi-annual assessments reported by the CFO and the summary report of the annual confirmations on the effectiveness of the risk management system provided by the Risk Owners; and

  (c) the annual summary of key internal control observations provided by the Auditor.

- The CFO acts as a facilitator in the risk management process, reviews regularly the risk profile of different functions to ensure that all risks faced by the Company are identified. He reviews and assesses the effectiveness of the risk management system and reports to the Audit & Risk Committee semi-annually.

- Risk Owners have the responsibility to ensure that key risks under their respective functions are properly identified and prioritised regularly. They are also responsible for executing the risk mitigation measures to protect the Group's interests and ensure that the control measures are designed properly and implemented effectively. Risk Owners report their assessment and monitoring status of the key risks to the CFO on a semi-annual basis. They provide annual confirmation on the effectiveness of the system.

- The Group uses a regional structure to monitor the daily operations of its businesses. Properties are grouped into different regions based on their geographical locations. The primary focus of the regional structure is to drive business performance and to collaborate with operational teams to implement the Company's global strategies, programmes and initiatives. Each region is led by an Executive Vice-President who reports directly to the President of the Group. The General Manager of each property reports directly to the Executive Vice-President of the region. General Managers have an obligation to ensure compliance with internal control systems and procedures at the operational level. The Executive Vice-Presidents frequently communicate with the Risk Owners, providing feedback and advice to them to ensure that the control measures are effectively applied in managing existing risks and new risks faced by the Group.

- The Internal Audit Team facilitates improvement in the risk management process. The team assesses the effectiveness of the internal control system and reports its audit results together with the results of the periodic compliance checking performed by Risk Owners to the Audit & Risk Committee on an ongoing basis.

Policies and Guidelines

Detailed and comprehensive corporate policy manuals and procedural guidelines are drawn up by the Risk Owners for the properties owned and/or managed by the Group. These guidelines encompass every area of the operation of a property. The procedural guidelines place great emphasis on organisational structure, level of authority for decision making, granting of approvals and the sequence of internal controls. These policies and guidelines are posted on the Group's intranet. The Risk Owners conduct periodic compliance checks at the operational level and share their results with the Internal Audit Team. The Risk Owners also review the manuals and procedural guidelines regularly and revise these documents when changes are required.

Code of Conduct, Handling and Dissemination of Inside Information

- The Group has a Code of Conduct and Ethics setting out the Group's integrity and ethical values with fundamental principles and guidelines. This code applies to all officers, employees and directors of the Company, its subsidiaries, business units and controlled affiliates as well as employees of properties managed by the Group. Employees are also obliged to maintain and protect the confidentiality of all non-public information relating to the Group's affairs ("**Confidential Information**"). Employees must not disclose Confidential Information to outside parties unless authorised to do so by the Group or unless such disclosure is required by law. Employees may not use Confidential Information for any other purpose other than work-related matters. Employees must at all times take reasonable precautions to safeguard inadvertent disclosure of Confidential Information. All employees have been provided with a copy of the Code of Conduct and Ethics when hired and are required to comply therewith.

- The Company has standard procedures to handle the reporting of financial and operating performance, the issuing of public announcements and addressing the enquires of the Shareholders and its investors. These procedures are detailed under the sub-section "Shareholder and Investor Communications" in this report.

- The Directors and relevant executives of the Group are required to observe the Securities Principles.

- The Company has provided the Directors Handbook to all Directors. Key responsibilities and legal obligations under the Listing Rules and the SFO have been included in this handbook. They are reminded to take reasonable measures to ensure that proper safeguards exist to prevent a breach of the rules.

Whistleblowing Policy

- The Group has posted on the Company's corporate website a Whistleblowing and Whistleblower Protection Policy which aims:

  (a) to encourage the business associates to report suspected wrongdoing as soon as possible with the confidence that their concerns will be taken seriously and investigated as appropriate, and that their confidentially will be respected;

  (b) to provide avenues for business associates to raise concerns and define a way to handle these concerns;

  (c) to enable the Group's management to be informed at an early stage about acts of misconduct;

  (d) to reassure business associates that they should be able to raise genuine concerns in good faith without fear of reprisals, even if they turn out to be mistaken;

  (e) to help develop a culture of openness, accountability and integrity.

- All reported cases will be properly documented including initial investigation result, undertaking of detailed investigation (if any) and results, and the action taken.

- The Company enhanced its Whistleblower Protection Policy in 2017 such that:

  (a) all reported cases would be forwarded to the office of the Corporate Director of Internal Audit for investigation

  (b) a working committee comprising CEO, CFO, President, Chief Human Resources Officer and the in-house lawyer was formed to review the investigation process and results

  (c) the working committee would provide an annual summary of all reported cases and their investigation results to the Audit & Risk Committee

Annual Review Cycle

Audit & Risk Committee meetings and Board meetings are conducted quarterly.

(a) Late March

CFO advises the annual confirmations of the Risk Owners on the effectiveness of the risk management system for the previous financial year (and exception report, if any) and reports the results of his assessment to the Audit & Risk Committee.

Auditor reports to the Audit & Risk Committee the results of the annual audit for the previous financial year and the results of its key internal control observations.

Corporate Director of Internal Audit reports to the Audit & Risk Committee the results of the recent internal audit tasks and the recent compliance checks performed by the Risk Owners.

Audit & Risk Committee advises the Board its own view on the effectiveness of the risk management and internal control systems in the previous financial year, and reports exception issues noted in the recent internal control report and the report from the Auditor.

The Board confirms the effectiveness of the risk management and internal control systems in the previous financial year.

(b) Early June

CFO advises the Audit & Risk Committee the top risk areas of the current year.

Auditor provides the summary of the key internal control observations for the previous financial year to the Audit & Risk Committee.

Corporate Director of Internal Audit reports to the Audit & Risk Committee the results of the recent internal audit tasks and the recent compliance checks performed by the Risk Owners.

Audit & Risk Committee advises the Board the summary of the risk register for the current year and exception issues noted in the recent internal control report and report from Auditor.

(c) Late August

CFO reports to the Audit & Risk Committee the results of the semi-annual assessments on the effectiveness of the risk management system.

Auditor reports to the Audit & Risk Committee on the results of the interim review for the first half year.

Corporate Director of Internal Audit reports to the Audit & Risk Committee the results of the recent internal audit tasks and the recent compliance checks performed by the Risk Owners.

Audit & Risk Committee advises the Board its own view on the effectiveness of the risk management and internal control systems in the first half year, and reports exception issues noted in the recent internal control report and report from Auditor.

(d) Early December

CFO provides the Audit & Risk Committee risk assessment update report which highlights the progress of the risk mitigation progress status provided by the Risk Owners on the top risk areas.

Auditor reports to the Audit & Risk Committee the audit service plan of the annual audit for the current year.

Corporate Director of Internal Audit reports to the Audit & Risk Committee the results of the recent internal audit tasks and the recent compliance checks performed by the Risk Owners.

Audit & Risk Committee advises the Board the recent risk mitigation progress status as reported by the CFO and exceptional issues noted in the recent internal control report.

In the Financial Year, meetings were held in late March, early June, late August and early December. The CFO, the Corporate Director of Internal Audit and the Auditor attended all the Audit & Risk Committee meetings.

Top Risk Areas

The Company has incorporated all the identified risks into a risk register. The Company has classified all the identified risks into four categories:

- Financial/Reporting
- Operational
- Regulatory Compliance
- Strategic/External Risks

The high-level assessments performed by the management identified 28 risk areas. Out of these identified risk areas, six areas are considered to be the top risk areas of the Group.

	Top Risk Areas	Risk Owners
(1)	Investment	CFO
(2)	Competition, customer and pricing	President
(3)	Human resources	Chief Human Resources Officer
(4)	Security – physical – information technology	Director of Corporate Security Chief Technology Officer
(5)	Global forces (including foreign exchange, interest rate and sources of funds)	CFO
(6)	Food safety	Executive Vice President (F&B)

* Risk Owner of (1) Investment and (2) Competition, customer and pricing changed to CFO and the President respectively in 2017.

Risk Change in 2017:

	Top Risk Areas	Risk Change
(1)	Investment	No change
(2)	Competition, customer and pricing	No change
(3)	Human resources	No change
(4)	Security – physical – information technology	No change Increased
(5)	Global forces	No change
(6)	Food safety	No change

Internal Controls

Internal control policies and procedures are designed to identify and manage the risks that the Group may be exposed to, thereby providing reasonable assurance regarding the achievement of corporate objectives. Internal financial systems also allow the Board to monitor the Group's overall financial position, to protect the Group's assets and to mitigate against material financial misstatement or loss. Through the Audit & Risk Committee, the Board has conducted reviews of the effectiveness of the system of internal controls of the Group. The reviews cover all material controls, including financial, operational and compliance controls and risk management functions.

Internal Audit

The Company also monitors its internal financial control systems through management reviews and a programme of internal audits. The Internal Audit Team reviews the major operational and financial systems of the Group on a continuing basis and aims to cover all major operations within every division on a rotational basis. The scope of its review, staffing and of the audit programme is determined and approved by the Audit & Risk Committee at the beginning of each financial year. The Corporate Director of Internal Audit reports directly to the Audit & Risk Committee and submits regular reports for its review in accordance with the approved programme.

2017 Effectiveness of the Company's Risk Management and Internal Control Systems

The Audit & Risk Committee has received the management's annual confirmation that the Company's risk management and internal control systems were effective and adequate for the Financial Year. The annual review of the Audit & Risk Committee has not identified any significant control failings or weaknesses during the Financial Year and it concurred with the management's confirmation. The Audit & Risk Committee has also reviewed and ensured the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions. Based on the duties performed by the Audit & Risk Committee and its recommendation, the Board confirmed that the Company's risk management and internal control systems were effective and adequate for the Financial Year, and the Company's processes for financial reporting and Listing Rule compliance was effective.

EXTERNAL AUDITORS

The Company's Auditor is PricewaterhouseCoopers, Hong Kong.

For the Financial Year, the external auditors (including their other member firms) that provided audit and non-audit services to the Group are as follows:

Services	**Fees charged (US$'000)**
PricewaterhouseCoopers	
Audit services (including interim review)	1,246
Non-audit services	
(a) tax services	143
(b) other advisory services	242
Total	1,631
Other auditor(s)	
Audit services	582
Non-audit services	
(a) tax services	125
(b) other advisory services	126
Total	833

Auditor

The Financial Statements have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment as the Auditor at the Annual General Meeting.

Responsibility for Financial Statements

The Directors acknowledge their responsibility for the preparation of the Financial Statements. In preparing the Financial Statements, the generally accepted accounting standards in Hong Kong have been adopted, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made.

The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the Financial Statements.

The statement of the Auditor in regard to its reporting responsibilities on the Financial Statements is set out in the section entitled "Independent Auditor's Report".

GENERAL MEETING(S)

During the Financial Year, the following general meeting of Shareholders was held:

- annual general meeting held on 2 June 2017 at 10:30 am in Hong Kong

All proposed Shareholders' resolutions put to the above general meeting were resolved by poll vote and were duly passed. The vote tally of each such resolution was set out in the Company's announcement released on the day of the general meeting.

The Auditor has attended the general meeting. The attendance of the members of the Board and/or each Board committee at the general meeting is as follows:

			Attended in the capacity of a member of		
Meeting date: 2 June 2017	Board	Designation on meeting date	Nomination Committee	Remuneration Committee	Audit & Risk Committee
KUOK Hui Kwong	√	ED & Chairman	√	√	
LIM Beng Chee	√	ED & CEO			
LUI Man Shing	√	ED			
Madhu Rama Chandra RAO *(retired on 31 December 2017)*	√	ED			
HO Kian Guan (alternate – HO Chung Tao)	√ (√)	NED			√
KUOK Khoon Chen *(retired on 2 June 2017)*	X	NED			
Alexander Reid HAMILTON	√	INED	√	√	√
LI Kwok Cheung Arthur	√	INED	√	√	√
LEE Kai-Fu	√	INED			
YAP Chee Keong *(was appointed INED on 11 December 2017)*	N/A	N/A			
Timothy David DATTELS *(resigned as INED on 29 May 2017)*	N/A	N/A			
Total attendance	8/9		3/3	3/3	3/3

GENERAL MANDATES GRANTED TO DIRECTORS

New Issue Mandate

At the Company's annual general meeting in 2017, Shareholders granted to the Directors a general mandate to issue new Shares (subject to the requirements of the Listing Rules) representing not more than 20% of the issued Shares as at the date of the general meeting.

Up to the date of the Annual Report, the general mandate has not been exercised. The general mandate will expire not later than the conclusion of the Annual General Meeting.

The approval of a similar and refreshed general mandate will also be sought from Shareholders at the Annual General Meeting. Details of the mandate have been set out in the notice convening the Annual General Meeting which is issued simultaneously with the Annual Report.

Share Repurchase Mandate

At the Company's annual general meeting in 2017, Shareholders granted to the Directors a general mandate to repurchase Shares (subject to the requirements of the Listing Rules) representing not more than 10% of the issued Shares as at the date of the general meeting.

Up to the date of the Annual Report, the general mandate has not been exercised. The general mandate will expire not later than the conclusion of the Annual General Meeting.

The approval of a similar and refreshed general mandate will also be sought from Shareholders at the Annual General Meeting. Details of the mandate have been set out in the notice convening the Annual General Meeting and a separate circular of the Company, both of which are issued simultaneously with the Annual Report.

Purchase, Sale or Redemption of the Company's Listed Securities

During the Financial Year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

DIVIDEND POLICY

The Board considered that the Company's dividend policy should be based on the profits of the Group that were not affected by exceptional items (ie, based on operating/recurring profits). Given the capital expenditure requirements to support the Group's expansion plans, the Board was of the view that 50% to 55% of operating/recurring profits could be a general yet non-mandatory yardstick/benchmark for the Board's consideration as payment of dividends to Shareholders.

The total dividend paid/declared for the Financial Year represents 56% of the annual operating/recurring profits.

The Board reviews the Company's dividend policy regularly to ensure that the policy is in line with market practice and is appropriate considering the Group's ongoing development plans.

INVESTOR RELATIONS

Shareholders' Right to Propose a Person for Election as a Director

Shareholders shall have the right to propose a person for election as a Director at the Company's general meeting. Detailed procedures for this right have been posted on the Company's corporate website, referred to as "Procedures for Shareholders to Propose a Person for Election as a Director".

Shareholders' Right to Request to Convene a General Meeting

Shareholders shall also have the right to request the Board to convene a general meeting of the Company. Detailed procedures for this right have been posted on the Company's corporate website. Any Shareholder who wishes to exercise his/her right hereof shall refer to the "Procedures for Shareholders' Requests to Convene a General Meeting" ("**Procedures to Convene General Meeting**") as posted on the Company's corporate website. The major terms of the Procedures to Convene General Meeting are summarised as follows:

(1) Holder(s) of Shares who are registered in the Company's register(s) of members as registered Shareholder(s) ("Requisitionist(s)") may submit a written request ("**Requisition**") to convene a special general meeting provided that the Requisitionist(s) is/are holding not less than one-tenth of the paid up capital of the Company as at the date of the request.

(2) The Requisition must:

- (a) state the purpose(s) of the special general meeting and, where appropriate, be accompanied with all necessary materials and information for the purposes of the subject matter of the special general meeting;
- (b) state the full name of each Requisitionist;
- (c) state the number of the Shares held by each Requisitionist as at the date of the Requisition;
- (d) state the valid contact details of each Requisitionist, including phone number and email address;
- (e) be signed by each Requisitionist;
- (f) be accompanied with a sum reasonably sufficient to meet the Company's expenses in giving any notice or statement to Shareholders; and
- (g) be delivered to the Company at its registered office in Bermuda as well as its principal place of business in Hong Kong and shall be addressed to the attention of the Company's company secretary.

(3) If the Board receives a due Requisition:

- (a) the Board shall convene a special general meeting within 21 calendar days immediately after the Requisition is duly lodged with the Company in accordance with the Procedures to Convene General Meeting; and
- (b) the Board shall simultaneously issue notice and information of the special general meeting (specifying the place, date and hour of the meeting and the general nature of the business to be considered) to all Shareholders subject to and in accordance with the Bye-Laws, the Listing Rules and the Bermuda Companies Act to convene the meeting which shall be held at least (i) 10 clear business days in Hong Kong (excluding Saturdays) and (ii) 14 clear calendar days (excluding the day of notice and the day it is deemed to have been served as well as the day of the meeting) after the notice.

(4) If the Board fails to convene a special general meeting in accordance with (3) (a) hereinabove, the Requisitionist(s) or any of them may convene a special general meeting for the Requisition provided that:

(a) the aggregate voting rights of the Shares registered in the name of such Requisitionist(s) convening the special general meeting represent more than one half of the total voting rights of the Shares registered in the name of all the Requisitionist(s); and

(b) such Requisitionist(s) shall issue proper notice of the special general meeting to all Shareholders in a similar manner to that set out in (3) (b) hereinabove to convene a special general meeting, and such meeting shall be held within three calendar months immediately after the Requisition is duly lodged with the Company in accordance with the Procedures to Convene General Meeting.

(5) The Board shall have the absolute right to request the Requisitionist(s) to provide further materials or information in relation to the Requisition that the Board considers necessary to facilitate the convening, if appropriate, of the special general meeting as requested. The Requisitionist(s) shall provide such further materials and information that the Company may request in a timely fashion. The Board may reject a Requisition that does not fulfil any conditions as set out in the Procedures to Convene General Meeting, or if a special general meeting is, in the Board's reasonable and absolute discretion, not appropriately requested to be convened, and the Board shall inform the Requisitionists within 21 calendar days therefrom that the request under the Requisition will not be progressed.

Shareholder and Investor Communications

The Company reports on its financial and operating performance to Shareholders through interim and annual reports. At annual general meetings of the Company, Shareholders may raise questions with the Directors relating to the performance and future direction of the Group.

In addition, analyst briefings are held at least twice a year subsequent to the interim and the final results announcements at which appropriate Executive Directors and management members are available to answer queries on the Group.

Shareholders and investors may also address their enquiries to the Board through the enquiry channel available on the Company's corporate website.

In the event any Shareholder wishes to put forward any proposal to a general meeting of Shareholders or for the Board's consideration, the Shareholder shall raise his/her proposal to the Board in writing to the Company's head office and principal place of business in Hong Kong or through the enquiry channel on the Company's corporate website. If the Board considers the proposal appropriate, the Board will take appropriate action or arrangement for consideration at the next available general meeting or Board meeting.

Key Dates for Shareholders in 2018

The key dates are set out in the section entitled "Corporate Information" in the Annual Report.

PUBLIC FLOAT

Based on the information recorded in the registers required to be kept by the Company under Sections 336 and 352 of the SFO or otherwise notified to the Company and within the knowledge of the Directors:

(1) as at Year End, the public float of the Shares made up 45.20% or a capitalisation of approximately HK$28.74 billion based on the closing price of the Shares as at Year End; and

(2) a sufficient public float of the Shares as required by the Listing Rules has been maintained during the Financial Year and the period thereafter up to the date of the Annual Report.

pwc

羅兵咸永道

To the Shareholders of Shangri-La Asia Limited

(incorporated in Bermuda with limited liability)

OPINION

What we have audited

The consolidated financial statements of Shangri-La Asia Limited (the "Company") and its subsidiaries (the "Group") set out on pages 123 to 239, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Impairment assessment of loss-making hotels
- Valuation of investment properties

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of loss-making hotels Refer to note 2.10 (Summary of significant accounting policies), note 4.1(a) (Critical accounting estimates and assumptions), note 7 (Property, plant and equipment), note 9 (Leasehold land and land use rights), note 12 (Interest in associates and amounts due from associates), note 27 (Other losses – net) and note 31 (Share of profit of associates) to the consolidated financial statements. The Group, through its subsidiaries and associates, holds equity interests in a number of hotel properties across Asia Pacific, Europe and Africa. The carrying values of these hotel properties included in Property, plant and equipment ("PPE") and Leasehold land and land use rights amounted to US$6,282 million and US$498 million and the Group's proportionate share of the carrying value of hotel properties included in the Interest in associates amounted to US$1,052 million respectively on the consolidated statement of financial position at 31 December 2017. Given the different political and economic environments in which the Group operates, the trading performance of the Group's hotels varies with some recording losses. There is a risk that the carrying amounts of the loss making hotels are higher than their recoverable amounts. Management performs impairment assessments on the loss-making hotels with impairment indicators, and considers each hotel as a separate cash-generating unit ("CGU"). The recoverable amount is determined as the higher of the CGU's value-in-use and fair value less costs to sell. External valuations by independent professional valuers are obtained when the internal assessments need independent confirmation. Based on the impairment assessments carried out by management during the year ended 31 December 2017, there was no charge or reversal of impairment provision for the year. We focused on this area as the impairment assessments involve significant judgements and estimation uncertainty about future business performance with key assumptions including sales growth rate, occupancy rate, and discount rate.	Our audit procedures in relation to management's impairment assessments included: – Assessing how management identified impairment indicators including their conclusion as to which hotel properties required impairment testing; – Evaluating management's future cash flow forecasts and the processes by which they were drawn up, including testing the underlying calculations and comparing them to the latest Board approved budgets and the actual results of the prior period; – Assessing the appropriateness of methodologies used by management or external valuers; – Assessing the revenue growth rate and occupancy rate assumptions applied in the forecasts by comparing them to historic results and economic and industry forecasts; – Assessing the country-specific discount rates with reference to market data or our in-house valuation experts; – Considering the potential impact of reasonably possible downside changes of the key assumptions on management's impairment assessments; – Assessing external professional valuers' competence, capabilities and objectivity, and reading the valuation reports prepared by the external valuers; – Checking, on a sample basis, the accuracy and relevance of the input data used by the external valuers. Based on our work and the evidence obtained, we found the significant judgements and estimates adopted by management in the value-in-use and fair value less costs to sell calculations were supportable in light of the current market environments.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of investment properties Refer to note 2.6 (Summary of significant accounting policies), note 4.1(c) (Critical accounting estimates and assumptions), note 8 (Investment properties) and note 12 (Interest in associates and amounts due from associates) to the consolidated financial statements. Investment properties held by the Group's subsidiaries were carried at fair value of US$1,449 million and the Group's proportionate share of fair value of Investment properties were carried at US$3,766 million in the Interest in associates respectively at 31 December 2017. The Group's share of the net fair value changes in investment properties held by subsidiaries and associates amounting to loss of US$57.9 million and gain of US$40.1 million respectively were recorded in the consolidated income statement during the year ended 31 December 2017. The fair values of investment properties were supported by property valuations carried out by independent firms of professional valuers engaged by the Group or the relevant associates at 31 December 2017. For completed properties, the valuation methods were based on the income capitalisation approach and direct comparison approach, which required judgement and estimates on open market rents, capitalisation rates and occupancy rates. For properties under construction, the residual approach was used and significant judgement and estimates applied in the valuations also included the estimated costs to completion and allowance for contingencies. The existence of significant judgement and estimates in the property valuations, and the size of the Group's investment property portfolio warrant specific audit attention to this area.	Our audit procedures in relation to valuation of investment properties held by the Group's subsidiaries and associates included: – Evaluating the external valuers' competence, capabilities and objectivity by considering their independence, professional qualifications and relevant experience in the markets where the Group's investment properties are located, and reading their valuation reports prepared for financial reporting purposes; – Considering the appropriateness and consistency of methodologies used in the property valuations based on our knowledge of the industry and market practice; – Assessing the reasonableness of the key assumptions adopted in the property valuations by comparing them to recent lettings of the Group's investment properties, actual occupancy rates achieved, recent market transactions, industry reports, the Group's budgets and actual costs incurred for properties under construction, key assumptions used in the prior year and with reference to our in-house valuation experts; – Checking, on a sample basis, the accuracy and relevance of the valuation input data on existing leases by agreeing the rental income and lease terms to the signed lease agreements. Based on our work and the evidence obtained, we found the methodologies used and key assumptions adopted in the valuation of investment properties were supportable and in line with the industry and the relevant markets.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tsang Nga Kwan.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2017	2016
	Note	US$'000	US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	6,281,592	6,002,690
Investment properties	8	1,448,853	1,328,352
Leasehold land and land use rights	9	498,417	499,341
Intangible assets	10	89,947	90,367
Interest in associates	12	3,870,057	3,634,559
Deferred income tax assets	24	8,138	6,213
Available-for-sale financial assets	13	13,343	10,189
Derivative financial instruments	22	5,067	2
Other receivables	14	14,254	13,929
		12,229,668	11,585,642
Current assets			
Inventories		38,028	41,790
Properties for sale		46,208	18,581
Accounts receivable, prepayments and deposits	15	323,648	304,836
Amounts due from associates	12	90,450	66,971
Derivative financial instruments	22	1,738	2
Amounts due from non-controlling shareholders	23	37	69
Financial assets held for trading	16	23,534	14,963
Cash and bank balances	17	921,862	944,218
		1,445,505	1,391,430
Assets of disposal group classified as held for sale		–	16,712
		1,445,505	1,408,142
Total assets		13,675,173	12,993,784
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	18	3,198,420	3,191,801
Other reserves	19	1,117,763	606,320
Retained earnings		2,286,373	2,192,707
		6,602,556	5,990,828
Non-controlling interests	23	439,440	421,606
Total equity		7,041,996	6,412,434

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2017 US$'000	2016 US$'000
LIABILITIES			
Non-current liabilities			
Bank loans	20	4,949,844	4,486,869
Derivative financial instruments	22	–	919
Amounts due to non-controlling shareholders	23	–	29,547
Deferred income tax liabilities	24	329,257	310,144
		5,279,101	4,827,479
Current liabilities			
Accounts payable and accruals	25	876,384	787,446
Deposits received on sales of properties		199,313	97,686
Amounts due to non-controlling shareholders	23	27,942	22,769
Current income tax liabilities		15,118	22,504
Bank loans	20	234,831	208,894
Fixed rate bonds	21	–	599,730
Derivative financial instruments	22	488	1,497
		1,354,076	1,740,526
Liabilities of disposal group classified as held for sale		–	13,345
		1,354,076	1,753,871
Total liabilities		6,633,177	6,581,350
Total equity and liabilities		13,675,173	12,993,784

The notes on pages 131 to 239 are an integral part of these consolidated financial statements.

The financial statements on pages 123 to 239 were approved by the Board of Directors on 21 March 2018 and were signed on its behalf.

KUOK Hui Kwong
Director

LIM Beng Chee
Director

	Note	Year ended 31 December 2017 US$'000	2016 US$'000
Sales	5	2,189,823	2,055,423
Cost of sales	26	(955,118)	(879,390)
Gross profit		1,234,705	1,176,033
Other losses – net	27	(16,164)	(193,092)
Marketing costs	26	(89,341)	(86,508)
Administrative expenses	26	(220,548)	(204,402)
Other operating expenses	26	(730,751)	(705,444)
Operating profit/(loss)		177,901	(13,413)
Finance costs – net	30	(131,419)	(130,569)
Share of profit of associates	31	203,684	293,543
Profit before income tax		250,166	149,561
Income tax expense	32	(106,120)	(87,529)
Profit for the year		144,046	62,032
Profit/(Loss) attributable to:			
Equity holders of the Company		157,997	106,054
Non-controlling interests		(13,951)	(44,022)
		144,046	62,032
Earnings per share for profit attributable to the equity holders of the Company during the year *(expressed in US cents per share)*			
– basic	33	4.43	2.97
– diluted	33	4.42	2.97
Dividends	34	78,383	59,876

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2017	2016
	US$'000	US$'000
Profit for the year	144,046	62,032
Other comprehensive income/(loss):		
Item that will not be reclassified subsequently to profit or loss		
Remeasurements of post employment benefit obligation	171	(538)
Items that may be reclassified subsequently to profit or loss		
Fair value changes of interest-rate swap contracts – hedging	8,730	3,436
Fair value changes of available-for-sale finsancial assets	1,632	5,210
Currency translation differences – subsidiaries	316,974	(257,029)
Currency translation differences – associates	214,137	(225,063)
Other comprehensive income/(loss) for the year	541,644	(473,984)
Total comprehensive income/(loss) for the year	685,690	(411,952)
Total comprehensive income/(loss) attributable to:		
Equity holders of the Company	669,916	(355,407)
Non-controlling interests	15,774	(56,545)
	685,690	(411,952)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	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$'000	Total equity US$'000
Balance at 1 January 2017		3,191,801	606,320	2,192,707	5,990,828	421,606	6,412,434
Remeasurements of post-employment benefit obligations		–	–	163	163	8	171
Fair value changes of interest-rate swap contracts – hedging		–	8,730	–	8,730	–	8,730
Fair value changes of available-for-sale financial assets		–	1,632	–	1,632	–	1,632
Currency translation differences		–	501,394	–	501,394	29,717	531,111
Other comprehensive income for the year recognised directly in equity		–	511,756	163	511,919	29,725	541,644
Profit/(Loss) for the year		–	–	157,997	157,997	(13,951)	144,046
Total comprehensive income for the year ended 31 December 2017		–	511,756	158,160	669,916	15,774	685,690
Exercise of share options – allotment of shares	18	6,306	–	–	6,306	–	6,306
Exercise of share options – transfer from share option reserve to share premium	19	313	(313)	–	–	–	–
Payment of 2016 final dividend		–	–	(36,847)	(36,847)	–	(36,847)
Payment of 2017 interim dividend		–	–	(27,647)	(27,647)	–	(27,647)
Dividend paid and payable to non-controlling shareholders		–	–	–	–	(21,393)	(21,393)
Equity injected by non-controlling shareholders		–	–	–	–	488	488
Net change in equity loans due to non-controlling shareholders		–	–	–	–	(2,806)	(2,806)
Transfer from amounts due to non-controlling shareholders		–	–	–	–	25,771	25,771
		6,619	(313)	(64,494)	(58,188)	2,060	(56,128)
Balance at 31 December 2017		3,198,420	1,117,763	2,286,373	6,602,556	439,440	7,041,996

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	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$'000	Total equity US$'000
Balance at 1 January 2016		3,191,801	1,114,421	2,086,071	6,392,293	497,392	6,889,685
Remeasurements of post-employment benefit obligations		–	–	(515)	(515)	(23)	(538)
Fair value changes of interest-rate swap contracts – hedging		–	3,436	–	3,436	–	3,436
Fair value changes of available-for-sale financial assets		–	5,210	–	5,210	–	5,210
Currency translation differences		–	(469,592)	–	(469,592)	(12,500)	(482,092)
Other comprehensive loss for the year recognised directly in equity		–	(460,946)	(515)	(461,461)	(12,523)	(473,984)
Profit/(Loss) for the year		–	–	106,054	106,054	(44,022)	62,032
Total comprehensive income/(loss) for the year ended 31 December 2016		–	(460,946)	105,539	(355,407)	(56,545)	(411,952)
Transfer of share option reserve to retained earnings upon expiry of share options	19	–	(2,637)	2,637	–	–	–
Transfer of convertible bonds reserve to retained earnings upon maturity of convertible bonds	19	–	(44,518)	44,518	–	–	–
Payment of 2015 final dividend		–	–	(23,029)	(23,029)	–	(23,029)
Payment of 2016 interim dividend		–	–	(23,029)	(23,029)	–	(23,029)
Dividend paid and payable to non-controlling shareholders		–	–	–	–	(29,046)	(29,046)
Net change in equity loans due to non-controlling shareholders		–	–	–	–	9,805	9,805
		–	(47,155)	1,097	(46,058)	(19,241)	(65,299)
Balance at 31 December 2016		3,191,801	606,320	2,192,707	5,990,828	421,606	6,412,434

Included in the retained earnings are statutory funds of approximately US$71,207,000 (2016: US$61,888,000). These funds are set up by way of appropriation from the profit after taxation of the respective companies, established and operating in Mainland China, in accordance with the relevant laws and regulations.

	Note	Year ended 31 December 2017 US$'000	2016 US$'000
Cash flows from operating activities			
Cash generated from operations	35(a)	727,426	613,500
Interest paid		(152,077)	(140,901)
Hong Kong profits tax paid		(11,461)	(14,678)
Overseas tax paid		(90,228)	(65,617)
Net cash generated from operating activities		473,660	392,304
Cash flows from investing activities			
Purchase of property, plant and equipment		(231,261)	(114,452)
Capital expenditure on properties under development		(143,379)	(364,681)
Addition of leasehold land and land use rights		(387)	(38)
Capital expenditure on investment properties		(54,997)	(116,134)
Capital expenditure on intangible assets		–	(1,993)
Proceeds from disposal of property, plant and equipment; and investment properties		1,264	1,513
Proceeds from disposal of controlling interests in a subsidiary	35(b)	7,826	–
Proceeds from disposal of equity interests in and equity loan to an associate	35(c)	53,300	–
Net decrease/(increase) in loans to associates		6,150	(17,224)
Interest received		13,057	12,960
Dividends received from associates		105,768	32,850
Dividends received from financial assets held for trading		1,489	1,301
Addition of available-for-sale financial assets		(1,300)	(297)
Short term advance to a third party		(3,500)	–
Decrease in short-term bank deposits with original maturities over 3 months		42,057	24,004
Net cash used in investing activities		(203,913)	(542,191)

CONSOLIDATED CASH FLOW STATEMENT

	Note	Year ended 31 December 2017 US$'000	2016 US$'000
Cash flows from financing activities			
Dividends paid to the Company's equity holders		(64,494)	(46,058)
Dividends paid to non-controlling shareholders		(21,403)	(30,564)
Net proceeds from issuance of ordinary shares		6,306	–
Net (decrease)/increase in loans from non-controlling shareholders		(5,905)	9,805
Capital injection from non-controlling shareholders		488	–
Decrease in short-term advance from an associate of the Company's controlling shareholder		–	(15,400)
Redemption of fixed rate bonds		(600,000)	–
Redemption of convertible bonds		–	(559,200)
Repayment of bank loans		(1,106,510)	(1,528,519)
Bank loans drawn down		1,523,810	2,240,618
Net cash (used in)/generated from financing activities		(267,708)	70,682
Net increase/(decrease) in cash and cash equivalents		2,039	(79,205)
Cash and cash equivalents at beginning of the year		777,577	893,424
Exchange gains/(losses) on cash and cash equivalents		17,662	(26,900)
Cash and cash equivalents of a subsidiary reclassified as assets held for sale		–	(9,742)
Cash and cash equivalents at end of the year	17	797,278	777,577

1 GENERAL INFORMATION

Shangri-La Asia Limited ("**Company**") and its subsidiaries (together, "**Group**") own/lease and operate hotels and associated properties; and provide hotel management and related services. The Group also owns investment properties for property rentals and engages in property sales business.

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 ("**HKSE**") 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 are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRS**"). The consolidated financial statements 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 preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1.1 Amendments to standards adopted by the Group

The following amendments to standards effective in 2017 which are relevant to the Group's operations have been adopted by the Group for the first time for the financial year beginning on 1 January 2017. All these new amendments adopted by the Group did not have any significant impact on the Group's financial statements.

Amendments to HKAS 7 "Disclosure initiative"

Amendments to HKAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments to HKAS 12 "Recognition of deferred tax assets for unrealised losses"

Amendments to HKAS 12 clarify how to account for deferred tax assets related to debt instruments measured at fair value.

Amendments to HKFRS 12 "Clarification of the scope of the standard"

Amendments to HKFRS 12 clarify that the disclosure requirement of HKFRS 12 is applicable to interest in entities classified as held for sale except for summarised financial information. Previously, it was unclear whether all other HKFRS 12 requirements were applicable for these interests.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.2 New standards, amendments and interpretation to standards not yet adopted by the Group

The following new standards, amendments and interpretation to standards are relevant to the Group's operations but are not effective for the year 2017 and have not been early adopted:

HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers
Amendments to HKFRS 1	Deletion of short-term exemption for first time adoptions
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions
Amendments to HKFRS 4	Applying HKFRS 9 Finance instruments with HKFRS 4 Insurance contracts
Amendments to HKFRS 15	Clarifications to HKFRS 15
Amendments to HKAS 28	Measuring an associate or joint venture at fair value
Amendments to HKAS 40	Transfers of investment property
HK(IFRIC)-Int 22	Foreign currency transactions and advance consideration
HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over income tax treatments
Amendments to HKFRS 9	Prepayment features with negative compensation
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture
Annual improvements to HKFRs 2015-2017 cycle	

The Group has already commenced the assessment of the impact to the Group and is not yet in a position to state whether these would have a significant impact on its results of operations and financial position, except for the following set out below:

HKFRS 9 Financial Instruments

Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

Club debentures currently classified as available-for-sale ("AFS") will be reclassified to financial assets at fair value through profit or loss ("FVPL"). The cumulative fair value gains will be transferred from the available-for-sale financial assets reserve to retained earnings on 1 January 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.2 New standards, amendments and interpretation to standards not yet adopted by the Group (Continued)

HKFRS 9 Financial Instruments (Continued)

The other financial assets held by the Group include:

- equity instruments currently classified as AFS for which a fair value through other comprehensive income ("FVOCI") election is available, and

- equity investments currently measured at FVPL which will continue to be measured on the same basis under HKFRS 9

Accordingly, the Group does not expect the new guidance would affect the measurement of these financial assets. However, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the available-for-sale financial assets reserve to retained earnings.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at FVPL and the Group does not have any such liabilities.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group expects that its current hedge relationships will continue to qualify as effective hedges upon the adoption of HKFRS 9.

The Group will adopt the simplified version of the expected credit loss model on trade receivables, which involves assessing lifetime expected credit losses on all balances. To estimate the required impairment provision, management will assess historical collection rates of each operating entity and will consider adjustments for future expectations. The Group does not expect any material impact on the financial statements from the application of the expected credit loss model on trade receivables.

Date of adoption by Group

The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.2 New standards, amendments and interpretation to standards not yet adopted by the Group (continued)

HKFRS 15 Revenue from Contracts with Customers

Nature of change

This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified that certain marketing expenses charged by the Group to its managed hotels on a net basis currently as reimbursement will be recognised on a gross basis (i.e. income and expense of the same amount will be recognised) on adoption of the new standard as the Group may be regarded as having controls over these marketing activities.

Management does not expect the adoption of the new standard to have any significant impact to the Group's major revenue streams.

Date of adoption by Group

The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

HKFRS 16 Leases

Nature of change

HKFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires almost all leases being recognised by the lessee on the statement of financial position, as the distinction between operating and finance lease is removed. Lessor accounting is substantially unchanged and lessors will continue to classify all leases using the same classification between operating and finance lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.2 New standards, amendments and interpretation to standards not yet adopted by the Group (Continued)

HKFRS 16 Leases (continued)

Impact

At the commencement date of a lease, a lessee will recognise a financial liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). The only exceptions are short-term and low-value leases. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset instead of the lease expense. The new standard will affect primarily the accounting for the Group's operating leases. The Group has not yet quantified to what extent these changes will result in the recognition of the right-of-use asset and the lease liability and how this will affect the Group's profit and classification of cash flows.

Date of adoption by the Group

The new standard is mandatory for financial years commencing on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

2.2 Consolidation

The consolidated financial statements included the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to obtain, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Group. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's identifiable net assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (continued)

(a) Subsidiaries (continued)

The excess of the consideration transferred over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the consideration is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement as negative goodwill.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred assets. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's statement of financial position, the investments in subsidiaries are stated at cost less provision for impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases of additional interest in subsidiaries from non-controlling interests, the difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals of partial interest in subsidiaries to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests and no gain or loss is recognised.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (continued)

(d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of profit or loss and other comprehensive income of the investee after the date of acquisition. The Group's investment in associates includes goodwill (net of any accumulated impairment losses) identified on acquisition (see Note 2.8).

If the ownership interest in an associate is reduced but significant influence is retained, only the proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate (including any other unsecured receivables), the Group does not recognise further losses unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performances of the operating segments, has been identified as the executive directors of the Company.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's principal subsidiaries are measured using the currency of the primary economic environment in which the entity operates ("**the functional currency**"). The consolidated financial statements are presented in United States dollars (**US$**), which is the Company's functional and presentation currency.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except those arising from qualifying cash flow hedges and qualifying net investment hedges which would be recognised in other comprehensive income.

Foreign exchange gains and losses including those relate to borrowings and cash and bank balances are presented in the consolidated income statement within "Finance costs – net".

Translation differences on non-monetary items, such as financial assets held for trading at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in equity.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments on assets and liabilities arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate at the date of the statement of financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment

Buildings comprise mainly hotel properties. Property, plant and equipment, including leasehold land classified as finance lease, are stated at historical cost less depreciation and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation is calculated to write off the cost to their residual value on a straight-line basis over the expected useful lives. The useful lives or principal annual rates used are:

Leasehold land classified as finance lease	Underlying land lease term
Hotel properties and other buildings	Lower of underlying land lease term or 50 years
Plant and machinery	5% to 10%
Furniture, fixtures and equipment	10% to $33^1/_3$%
Motor vehicles	20% to 25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

Properties under development and freehold land for hotel properties are not subject to depreciation and are stated at cost less accumulated impairment, if any. Leasehold land classified as finance lease commences depreciation from the time when the land is available for its intended use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other operating expenses in the income statement if the disposal is arising from normal operation of the business.

2.6 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property. Property that is being constructed or developed for future use as investment property is also classified as investment property before construction or development is completed.

Investment property comprises land held under operating lease or freehold and buildings. Land held under operating leases is classified and accounted for as investment property without amortisation when the rest of the definition of investment property is met.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Investment properties (continued)

Investment property is measured initially at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment property is carried at fair value, representing open market value determined by external professional valuers. Property under construction that is being classified as investment property is revalued to fair value when it becomes reliably determinable on a continuing basis. The valuations performed by the independent valuers for financial reporting purposes would be reviewed by the Group's management and discussions of valuation processes and results are held with the valuers at least once every six months to be in line with the Group's interim and annual reporting requirements. Changes in fair values are recognised in the income statement.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

2.7 Leasehold land and land use rights

Prepaid leasehold land premiums or land use rights for hotel properties or for development of hotel properties, other than those considered as finance lease as grouped under property, plant and equipment, are classified and accounted for as leasehold land and land use rights and are stated at cost and amortised over the period of the lease on a straight-line basis to the income statement.

2.8 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in interest in associates. Goodwill on acquisitions is tested for impairment at least annually or more frequently if events or changes in circumstances indicate a potential impairment. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to cash-generating units ("**CGUs**"), or groups of CGUs, that is expected to benefit from the synergies of the combination for the purpose of impairment testing.

The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Trademarks and licences

Trademarks and licences are shown at historical cost. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation and impairment, if any. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 20 to 50 years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Intangible assets (continued)

(c) Website and system development costs

Website and system development costs that are directly associated with the development of identifiable and unique products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Such development costs are carried at cost less accumulated amortisation and impairment, if any. Amortisation is calculated using the straight-line method to allocate the cost over their estimated useful lives of 3 years upon commencement of operation.

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.10 Impairment of investments in subsidiaries, associates and non-financial assets

Intangible assets that have an indefinite useful life, for example goodwill, or intangible assets not ready for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries or associates is required if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.11 Investments

The Group classifies its investments in the following categories: financial assets held for trading, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this classification at every reporting date.

(a) Financial assets held for trading

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months from the date of the statement of financial position; otherwise, they are classified as non-current assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Investments (continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the date of the statement of financial position which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the statement of financial position (Note 2.15).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months from the date of the statement of financial position.

Purchases and sales of investments are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets held for trading are subsequently carried at fair value based on current market closing bid prices with realised and unrealised gains and losses arising from changes in the fair value included in the income statement in the period in which they arise. Loans and receivables are carried at amortised cost using the effective interest method less impairment with changes in carrying value to be recognised in the income statement. Unlisted equity as included in available-for-sale financial assets are stated at cost less impairment (which is charged to the income statement) as the fair value of these unlisted financial assets cannot be reliably measured. Club debentures held for long-term investment purpose and included in available-for-sale financial assets are stated at fair value and the changes in fair value are recognised in equity.

The Group assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of available-for-sale financial assets, a significant or prolonged decline in the fair value below its cost is considered as an indicator whether the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is removed from equity and recognised in the income statement. Impairment testing of loans and receivables is the same as trade and other receivables as disclosed in Note 2.15.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Derivative financial instruments (hedging and non-hedging)

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair values.

In order to determine whether the instruments qualify for hedge accounting or not, the Group performs an analysis to assess whether changes in the cash flows of the instruments are deemed highly effective in offsetting changes in the cash flows of the hedged items.

(a) Hedging

Hedging instruments are initially recognised at fair value on the date of the contract entered into and are re-measured to their fair value at subsequent reporting dates. The effective portion of the change in the fair value of the contracts is recognised in "Hedging reserve" in equity. The gain or loss relating to the ineffective portion is recognised immediately in the "Other gains/(losses) – net" of income statement.

For interest-rate swap contracts used for hedging bank loan interest payment under bank loan agreements in order to swap the floating interest rate borrowings to fixed interest rate borrowings, the related cash flows in the same period of the hedged transaction are classified as interest expenses in the income statement.

For currency forward contracts used to hedge the currency risk associated with the forecast foreign currency payment obligation under certain sale and purchase agreements for capital expenditure investment executed, the amounts accumulated in the "Hedging reserve" were transferred out and were included in the initial investment cost of the net asset acquired when the payment was made.

For currency forward contracts used to hedge the currency risk associated with the forecast foreign currency receipt during the year, the difference between the net cash received and the then book value of the receivable are classified as finance cost.

If at any time the hedging instruments are no longer highly effective as a hedge, the Group discontinues hedge accounting for those hedging instruments and all subsequent changes in fair value are recorded in "Other gains/(losses) – net".

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to the income statement within "Other gains/(losses) – net".

(b) Non-hedging

Derivative financial instruments that do not qualify for hedge accounting are categorised as derivatives at fair value through profit or loss and changes in the fair value of these derivative instruments are recognised immediately in the consolidated income statement within "Other gains/(losses) – net".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost, being cost of purchase, is determined on a weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expense.

2.14 Properties for sale

Properties for sale are initially measured at the carrying amount of the property at the date of reclassification from properties under development. Subsequently, the properties are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less selling expenses.

2.15 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of loss is recognised in the income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

2.16 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts, if any, are shown within bank loans in current liabilities on the statement of financial position.

2.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from the consolidated equity attributable to the Company's equity holders until the shares are resold. Where such shares are subsequently resold, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, will increase the consolidated equity attributable to the Company's equity holders. The dividends on these own shares held are excluded from the dividend distribution to the Company's equity holders recognised in the consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

2.19 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. The difference between the proceeds received and fair value at inception (fair value gain/loss) is recognised in the income statement. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the date of the statement of financial position.

2.20 Convertible bonds

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

2.21 Pre-operating expenditure

Pre-operating expenditure is charged to the income statement in the year in which it is incurred.

2.22 Income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted for the year, and any adjustment to tax payable in respect of previous years in the countries where the Group's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Income tax (continued)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax liabilities are provided on temporary differences arising from investments in subsidiaries, associates and joint arrangements, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profit is not recognised.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities when there is an intention to settle the balances on a net basis.

2.23 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the date of the statement of financial position.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The Group operates a number of defined benefit and defined contribution plans, most of the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies, taking account of the applicable laws and regulations at different jurisdictions and the recommendations of independent qualified actuaries for defined benefit plans.

For the Group's defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no legal or constructive obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions, where applicable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Employee benefits (continued)

(b) Pension obligations (continued)

For defined benefit plans, pension costs are assessed using the projected unit credit method: the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans at least every 3 years. The pension obligation is measured as the present value of the estimated future cash outflows less the fair value of plan assets. Actuarial gains and losses are recognised in full in the period in which they occur, in other comprehensive income.

The Group's defined benefit plans are funded by the relevant Group companies taking into account the recommendations of independent qualified actuaries.

(c) Bonus plans

The Group recognises a provision where contractually obliged or when it prepares to declare discretionary bonus after evaluating employee performance as well as the financial performance of business units.

2.24 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of an amount can be made. Provisions are not recognised for future operating losses.

2.25 Revenue recognition

Revenue comprises the fair value for the sales of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue/income is recognised as follows:

(i) Hotel revenue from room rental, food and beverage sales and other ancillary services is recognised when the services are rendered.

(ii) Revenue in respect of hotel management and related services is recognised when the services are rendered.

(iii) Rental revenue from investment properties is recognised on a straight-line basis over the periods of the respective leases.

(iv) Revenue from sales of properties is recognised when the significant risks and rewards of ownership of properties are transferred to the purchasers. Payments received from purchasers prior to this stage are recorded as deposits received on sales of properties, which are included in current liabilities.

(v) Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

(vi) Dividend income from other investments is recognised when the right to receive payment is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Operating leases

(a) As the lessee

Leases, other than those leasehold land and land use rights as stated in Note 2.7, in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the leases.

(b) As the lessor

Assets leased out under operating leases are included in either property, plant and equipment or investment properties in the statement of financial position. In case of property, plant and equipment, they are depreciated over their expected useful lives on a basis consistent with other similar property, plant and equipment owned by the Group. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

2.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.28 Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the share options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets) and performance vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each date of the statement of financial position, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. The related balance previously recognised in the option reserve is also credited to the share premium.

2.29 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are charged to the income statement in the year in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.30 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries or associates to secure loans, overdrafts and other banking facilities.

The Company has not charged any fee for guarantee issued on behalf of its subsidiaries and associates and does not expect the guarantees issued by the Company will be called upon.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Group Treasury under guidance of the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides principles for overall risk management and covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group has investments in different foreign operations, whose net assets are exposed to foreign currency translation risk.

There is a natural economic hedge to the extent that all the Group's business units in Hong Kong, Mainland China, the Philippines, Singapore, Malaysia, Thailand, Japan, France, United Kingdom, Turkey, Australia, Indonesia and Mauritius derive their revenues (and most of the expenses associated therewith) in local currencies. Most of the Group's hotels are quoting room tariffs in the local currency. 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.

The Group has not felt it appropriate to substantially hedge against currency risks through forward exchange contracts upon consideration of the currency risk involved and the cost of obtaining such cover.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

The Group analyses its exchange exposure based on the financial position at year end. The Group's exchange risk mainly arises from long-term bank loans and shareholders' loans and the Group calculates such impact on the income statement. The Group also calculates the impact on the exchange fluctuation reserve of the exchange risk on consolidation arising from the translation of the net investment in foreign entities. At 31 December 2017, if US dollar has weakened/strengthened by 5% (2016: 5%) against all other currencies (except Hong Kong dollar) with all other variables held constant, the Group's profit attributable to the equity holders of the Company and exchange fluctuation reserve would have increased/decreased by US$10,281,000 (2016: US$6,668,000) and US$434,004,000 (2016: US$414,044,000), respectively. The exchange rate between US dollar and Hong Kong dollar is only allowed to fluctuate in a narrow range under the Hong Kong's linked exchange rate system.

(ii) Equity securities price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated statement of financial position as financial assets held for trading and are stated at fair value through profit or loss. Available-for-sale financial assets are mainly investments in unquoted shares which are not subject to price risk. The Group is not exposed to commodity price risk.

Equity securities price risk is the risk that the fair values of the trading securities decrease as a result of changes in the value of individual securities which are also affected by the change in the level of equity indices.

For every 5% increase/decrease in the fair value of the trading securities classified under financial assets held for trading, the carrying value of the trading securities will increase/decrease by US$1,177,000 (2016: US$749,000) while the Group's profit attributable to the equity holders of the Company will increase/decrease by US$1,177,000 (2016: US$749,000) assuming that no account is given for factors such as impairment which may have additional impact on the income statement.

Based on the market value of all the trading securities as at 31 December 2017, 100% (2016: 100%) of the Group's trading securities are listed on HKSE and are valued at closing market bid prices at the date of the statement of financial position. The market equity index for the HKSE, at the close of business of the nearest trading day in the year to the date of the statement of financial position, and the highest and lowest points during the year were as follows:

	31 December 2017	High/low 2017	31 December 2016	High/low 2016
Hong Kong – Hang Seng Index	29,919	30,200/ 21,884	22,001	24,364/ 18,278

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest-rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash inflows are substantially independent of changes in market interest rates.

The Group's interest-rate risk mainly arises from long-term bank loans under floating rates.

Bank loans issued at variable rates expose the Group to cash flow interest-rate risk. Group policy is to maintain an optimal portion of its borrowings at fixed rate, considering fixed rate bonds and Renminbi bank loans are fixed rate in nature and taking into account the principal amount of all interest-rate swap contracts executed. As at 31 December 2017, 28% (31 December 2016: 27%) of borrowings were at fixed rates on that basis.

The Group analyses its interest rate exposure on bank loans not hedged by interest-rate swap contracts based on the assumption that the loan position at year end could be wholly refinanced and/or renewed. The Group calculates the impact on income statement of a defined interest rate shift. The same interest rate shift is used for all currencies. The sensitivity test is run only for bank loans that represent the major interest bearing portion. Based on the simulation performed, the impact on income statement of one percentage point increase would be a decrease of the Group's profit attributable to the equity holders of the Company of US$34,177,000 (2016: US$29,781,000) after interest capitalisation for properties under development.

The Group manages its cash flow interest-rate risk by using floating-to-fixed interest-rate swap contracts which qualify for hedge accounting. Such interest-rate swap contracts have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term bank loans at floating rates. The Group closely monitors the movement of interest rates from time to time and enters into interest-rate swap contracts. Under the interest-rate swap contracts, the Group agrees with other parties to exchange the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sale of rooms to wholesalers are made to customers with an appropriate credit history. Sales to retail customers are made via credit cards to a significant extent. Sales to corporate customers are made to customers with good credit history. The Group has policies that limit the amount of global credit exposure to any customer. Cash and bank deposits are mainly placed in major international and local banks.

The maximum exposure of credit risk at the reporting date in respect of each class of financial assets is disclosed in the notes to the consolidated financial statements of the relevant financial assets.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

The analysis of the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the date of the statement of financial position to the contractual maturity date is as follows. The Group's estimated and actual financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows.

	Less than 3 months US$'000	Between 3 months and 1 year US$'000	Between 1 and 2 years US$'000	Over 2 years US$'000
At 31 December 2017				
Bank loans	117,332	117,499	1,014,804	3,935,040
Interest payable for bank loans	31,467	93,751	106,651	121,145
Derivative financial instruments	182	306	–	–
Due to non-controlling shareholders	–	27,942	–	–
Accounts payable and accruals	98,405	777,979	–	–
Financial guarantee contracts for bank loans granted to associates	4,967	15,986	48,255	168,548
At 31 December 2016				
Bank loans	57,558	151,336	981,074	3,505,795
Fixed rate bonds	–	600,000	–	–
Interest payable for bank loans	25,128	74,543	82,581	111,042
Interest payable for fixed rate bonds	–	14,250	–	–
Derivative financial instruments	374	1,123	919	–
Due to non-controlling shareholders	–	22,769	–	30,531
Accounts payable and accruals	105,892	681,554	–	–
Financial guarantee contracts for bank loans granted to associates	930	22,208	18,501	61,347

The amounts disclosed in the table are the contractual undiscounted cash flows which are equal to their carrying balances in the respective consolidated statement of financial position except that the amount due to non-controlling shareholders with maturities over two years and the fixed rate bonds included in the consolidated statement of financial position as at 31 December 2016 are US$29,547,000 and US$599,730,000, respectively; and that the estimated amount of interest payable for bank loans are arrived at based on the principal loan balance and prevailing interest rates at year end date up to the final maturity date of the loan agreements.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current bank loans and fixed rate bonds as shown in the consolidated statement of financial position) less cash and bank balances. Total capital is calculated as "equity", as shown in the consolidated statement of financial position.

The gearing ratios at 31 December 2017 and 2016 were as follows:

	2017 US$'000	2016 US$'000
Total borrowings	5,184,675	5,295,493
Less: Cash and bank balances (Note 17)	(921,862)	(944,218)
Net debt	4,262,813	4,351,275
Total equity	7,041,996	6,412,434
Gearing ratio (net debt over total equity)	60.5%	67.9%

The Group's bank loan facilities require it to meet certain ratios based on adjusted consolidated capital and reserves attributable to the Company's equity holders and adjusted consolidated total equity. The Group monitors compliance with these ratios on a monthly basis. The Group has satisfactorily complied with all covenants under its borrowing agreements.

3.3 Accounting for interest-rate swap contracts

Interest-rate swap contracts, a kind of derivative financial instruments, are set up for the purpose of managing risk (since the Group's policy does not permit speculative transactions). Interest-rate swap contracts are initially recognised at fair value on the date a contract is entered into and are subsequently re-measured at their fair value.

As at 31 December 2017, the Group had interest-rate swap contracts with a total principal amount of HK$1,600,000,000 (equivalent to US$206,452,000) (2016:HK$1,900,000,000 (equivalent to US$245,161,000)) and US$806,000,000 (2016: US$206,000,000), all these contracts qualify for hedge accounting. Under the accounting treatment of interest-rate swap contracts, the effective portion of the change in the fair value of the contracts is recognised in "Hedging reserve" in equity while the gain or loss relating to the ineffective portion is recognised immediately in "Other gains/(losses) – net" of income statement and the related cash flows arising from these interest-rate swap contracts in the period is classified as interest expenses in the income statement.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Fair value estimation of financial instruments

The Group measures fair values 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 fair value of financial instruments traded in active markets (such as publicly traded equity securities and available-for-sale securities) is based on quoted market prices at the date of the statement of financial position. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The Group uses widely recognised valuation models for determining the fair value of common and simple financial instruments, like interest-rate swap contracts, that use only observable market data and require little management judgement and estimation.

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2017. See Note 8 for disclosures of the investment properties that are measured at fair value.

	Level 1 US$'000	Level 2 US$'000	Total US$'000
Assets			
Available-for-sale financial assets (Note 13)			
– Club debentures	9,198	–	9,198
Financial assets held for trading (Note 16)			
– Equity securities	23,534	–	23,534
Derivative financial instruments (Note 22)			
– Interest-rate swap contracts	–	6,805	6,805
Total assets	32,732	6,805	39,537
Liabilities			
Derivative financial instruments (Note 22)			
– Interest-rate swap contracts	–	488	488

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Fair value estimation of financial instruments (continued)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2016.

	Level 1 US$'000	Level 2 US$'000	Total US$'000
Assets			
Available-for-sale financial assets (Note 13)			
– Club debentures	7,539	–	7,539
Financial assets held for trading (Note 16)			
– Equity securities	14,963	–	14,963
Derivative financial instruments (Note 22)			
– Interest-rate swap contracts	–	4	4
Total assets	22,502	4	22,506
Liabilities			
Derivative financial instruments (Note 22)			
– Interest-rate swap contracts	–	2,416	2,416

The nominal value less estimated credit adjustments of receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. There were no transfers between Level 1 and 2 during the year.

(a) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

(b) Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to arrive at the fair value of an instrument are observable, the instrument is included in Level 2.

Specific valuation techniques used to value financial instruments include:

- Dealer quotes for similar instruments.
- The fair value of interest-rate swap contracts is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the date of statement of financial position, with the resulting value discounted back to present value.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

(a) Estimated impairment of goodwill; property, plant and equipment; and investments in subsidiaries, associates and non-financial assets

The Group tests whether goodwill and investments in subsidiaries, associates and non-financial assets have suffered any impairment in accordance with the accounting policies stated in Note 2.8 and Note 2.10, respectively. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amounts of cash-generating units are predominantly determined based on value-in-use calculations which require the use of estimates. The Group assesses the fair value of some of its property, plant and equipment based on valuations determined by independent professional qualified valuers on an open market for existing use basis or sales basis.

(b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due in accordance with local tax practice and professional advice. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Estimate of fair value of investment properties

The Group assesses the fair value of its investment properties based on valuations determined by independent professional qualified valuers. The fair values of investment properties are determined by independent valuers on an open market for existing use basis. In making the judgement, consideration is given to assumptions that are mainly based on market conditions existing at the date of the statement of financial position, expected rental from future leases in the light of current market conditions and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group. For investment properties under construction, the estimated costs to completion and allowances for contingencies would be taken into account.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.2 Critical judgements in applying the Group's accounting policies

Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property. In making its judgement, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for these portions separately. If the portions cannot be sold separately, the entire property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgement.

5 SALES AND SEGMENT INFORMATION

The Group owns/leases and operates hotels and associated properties; and provides hotel management and related services. The Group also owns investment properties for property rentals and engages in property sales business. Most of the associates are engaged in hotel ownership, property rentals and property sales businesses and these revenues of the associates are not included in the consolidated sales revenue of the Group. Sales recognised in the consolidated financial statements during the year are as follows:

	2017 US$'000	2016 US$'000
Sales		
Hotel ownership		
Revenue from rooms	1,042,504	986,371
Food and beverage sales	861,130	824,536
Rendering of ancillary services	114,378	107,182
Hotel management and related service fees	65,345	63,786
Property rentals	73,003	73,548
Property sales	33,463	–
	2,189,823	2,055,423

The Group is domiciled in Hong Kong. The sales revenue from external customers attributed to Hong Kong and other countries are US$358,872,000 (2016: US$300,103,000) and US$1,830,951,000 (2016: US$1,755,320,000), respectively.

5 SALES AND SEGMENT INFORMATION (CONTINUED)

The total of non-current assets other than available-for-sale financial assets, derivative financial instruments, deferred income tax assets and interest in associates located in Hong Kong and other countries are US$898,817,000 (2016: US$843,694,000) and US$7,434,246,000 (2016: US$7,090,985,000), 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 ownership (including hotels under lease)

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

ii. Hotel management services

iii. Property rentals (ownership and leasing of office, commercial and serviced apartments/residences)

- Mainland China
- Singapore
- Malaysia
- Mongolia
- Other countries (including Australia and Myanmar)

iv. Property sales

The Group is also engaged in other businesses including 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.

5 SALES AND SEGMENT INFORMATION (CONTINUED)

Segment income statement

For the year ended 31 December 2017 and 2016 (US$ million)

	2017		2016	
	Sales (Note ii)	Profit/ (Loss) after tax (Note i)	Sales (Note ii)	Profit/ (Loss) after tax (Note i)
Hotel ownership				
Hong Kong	312.5	55.0	258.2	58.3
Mainland China	794.9	17.1	751.7	(12.5)
Singapore	184.6	16.3	198.1	23.7
Malaysia	121.3	13.9	115.5	13.9
The Philippines	184.9	7.2	189.7	5.6
Japan	63.7	1.5	62.6	0.8
Thailand	70.1	10.7	60.4	8.8
Australia	101.9	4.3	95.9	3.9
France	42.6	(16.1)	41.0	(16.3)
United Kingdom	47.4	(15.2)	47.6	(18.6)
Mongolia	13.4	(4.5)	14.3	(7.1)
Sri Lanka	12.6	(12.0)	4.4	(7.9)
Other countries	68.1	(9.7)	78.7	(6.8)
	2,018.0	68.5	1,918.1	45.8
Hotel management services	159.7	32.7	151.8	33.2
Property rentals				
Mainland China	17.1	125.8	22.2	118.5
Singapore	13.3	8.0	14.3	9.9
Malaysia	5.9	1.5	6.1	1.5
Mongolia	12.4	(2.5)	9.2	(2.3)
Other countries	24.3	3.9	21.7	4.0
	73.0	136.7	73.5	131.6
Property sales	33.5	31.1	–	54.7
Other business	–	(0.2)	–	(1.3)
Total	2,284.2	268.8	2,143.4	264.0
Less: Hotel management – Inter-segment sales	(94.4)		(88.0)	
Total external sales	2,189.8		2,055.4	
Net corporate finance costs (including foreign exchange gains and losses)		(77.5)		(83.2)
Land cost amortisation and pre-opening expenses for projects		(26.6)		(24.9)
Corporate expenses		(24.0)		(18.3)
Profit before non-operating items		140.7		137.6

5 SALES AND SEGMENT INFORMATION (CONTINUED)

Segment income statement (continued)

For the year ended 31 December 2017 and 2016 (US$ million) (continued)

	2017	2016
	Profit/(Loss) after tax (Note i)	Profit/(Loss) after tax (Note i)
Profit before non-operating items	140.7	137.6
Non-operating items		
Share of net fair value gains on investment properties	4.9	48.3
Net unrealised gains/(losses) on financial assets held for trading	8.6	(0.6)
Fair value adjustments on loans from non-controlling shareholders and security deposit on leased premises	(0.9)	(0.9)
Share of provision for impairment losses on hotel properties and property under development	–	(76.6)
Reversal of impairment losses on a hotel property and a self-used property	–	5.5
Losses on major renovation of hotels	(10.2)	(7.2)
Gains on disposal of equity interests in a subsidiary and an associate	14.9	–
Total non-operating items	17.3	(31.5)
Profit attributable to equity holders of the Company	158.0	106.1

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.

5 SALES AND SEGMENT INFORMATION (CONTINUED)

Segment income statement (continued)

For the year ended 31 December 2017 and 2016 (US$ million) (continued)

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 is analysed as follows:

	2017	2016
	Share of profit/ (loss) of associates	Share of profit/ (loss) of associates
Hotel ownership		
Hong Kong	(0.1)	(0.5)
Mainland China	11.4	5.9
Singapore	–	(1.3)
Malaysia	4.2	3.8
The Philippines	(1.6)	(2.9)
Other countries	(1.1)	(0.4)
	12.8	4.6
Property rentals		
Mainland China	127.8	117.7
Singapore	4.0	4.2
	131.8	121.9
Property sales	33.5	56.6
Other business	(0.2)	(1.3)
Total	177.9	181.8

5 SALES AND SEGMENT INFORMATION (CONTINUED)

Segment income statement (continued)

For the year ended 31 December 2017 and 2016 (US$ million) (continued)

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

	2017		2016	
	Depreciation and amortisation	Income tax expense	Depreciation and amortisation	Income tax expense
Hotel ownership				
Hong Kong	25.1	10.7	12.3	13.8
Mainland China	150.2	39.3	155.0	30.6
Singapore	17.9	4.1	16.5	6.3
Malaysia	14.8	5.2	14.8	4.5
The Philippines	35.4	7.9	38.2	7.2
Japan	0.4	–	0.2	–
Thailand	7.8	6.7	7.4	4.8
Australia	13.9	2.5	13.5	0.2
France	14.7	–	16.1	–
United Kingdom	8.7	–	9.6	–
Mongolia	9.3	–	11.1	–
Sri Lanka	7.3	1.4	5.6	0.6
Other countries	18.7	0.4	18.8	1.9
	324.2	78.2	319.1	69.9
Hotel management services	2.2	13.2	3.1	12.4
Property rentals				
Mainland China	–	10.0	–	6.9
Singapore	–	0.8	–	1.2
Malaysia	–	0.9	–	0.9
Mongolia	–	4.3	–	2.6
Other countries	–	3.7	–	2.5
	–	19.7	–	14.1
Property sales	–	1.8	–	1.9
Total	326.4	112.9	322.2	98.3

5 SALES AND SEGMENT INFORMATION (CONTINUED)

Segment assets

As at 31 December 2017 and 2016 (US$ million)

	As at 31 December	
	2017	2016
Hotel ownership		
Hong Kong	881.1	180.2
Mainland China	3,417.8	3,089.0
Singapore	563.2	492.4
Malaysia	328.9	277.3
The Philippines	379.3	415.0
Japan	11.2	10.2
Thailand	281.4	242.0
Australia	310.6	307.8
France	316.7	290.2
United Kingdom	134.0	134.0
Mongolia	217.1	209.5
Sri Lanka	382.3	145.6
Other countries	271.0	286.1
	7,494.6	6,079.3
Hotel management services	146.8	183.6
Elimination	(51.1)	(76.6)
Property rentals		
Mainland China	403.1	345.7
Singapore	428.6	392.7
Malaysia	71.5	72.9
Mongolia	332.9	400.9
Other countries	300.1	305.4
	1,536.2	1,517.6
Total segment assets	9,126.5	7,703.9
Assets allocated to projects	448.7	1,496.6
Unallocated assets	140.0	121.3
Intangible assets	89.9	90.4
Assets of disposal group classified as held for sale	–	16.7
Total assets of the Company and its subsidiaries	9,805.1	9,428.9
Interest in associates	3,870.1	3,564.9
Total assets	13,675.2	12,993.8

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.

6 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables US$'000	Assets at fair value through income statement US$'000	Derivatives qualifying for hedge accounting US$'000	Available-for-sale assets US$'000	Total US$'000
Assets as per consolidated statement of financial position					
31 December 2017					
Available-for-sale financial assets (Note 13)	–	–	–	13,343	13,343
Other receivables (Note 14)	14,254	–	–	–	14,254
Accounts receivable (Note 15)	226,789	–	–	–	226,789
Short term advance to a third party (Note 15)	3,500	–	–	–	3,500
Due from associates (Note 12)	205,994	–	–	–	205,994
Due from non-controlling shareholders (Note 23)	37	–	–	–	37
Financial assets held for trading (Note 16)	–	23,534	–	–	23,534
Derivative financial instruments (Note 22)	–	–	6,805	–	6,805
Cash and bank balances (Note 17)	921,862	–	–	–	921,862
Total	1,372,436	23,534	6,805	13,343	1,416,118
31 December 2016					
Available-for-sale financial assets (Note 13)	–	–	–	10,189	10,189
Other receivables (Note 14)	13,929	–	–	–	13,929
Accounts receivable (Note 15)	192,830	–	–	–	192,830
Due from associates (Note 12)	191,914	–	–	–	191,914
Due from non-controlling shareholders (Note 23)	69	–	–	–	69
Financial assets held for trading (Note 16)	–	14,963	–	–	14,963
Derivative financial instruments (Note 22)	–	–	4	–	4
Cash and bank balances (Note 17)	944,218	–	–	–	944,218
Total	1,342,960	14,963	4	10,189	1,368,116

6 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

	Derivatives qualifying for hedge accounting US$'000	Other financial liabilities US$'000	Total US$'000
Liabilities as per consolidated statement of financial position			
31 December 2017			
Bank loans (Note 20)	–	5,184,675	5,184,675
Derivative financial instruments (Note 22)	488	–	488
Due to non-controlling shareholders (Note 23)	–	27,942	27,942
Accounts payable and accruals (Note 25)	–	876,384	876,384
Total	488	6,089,001	6,089,489
31 December 2016			
Bank loans (Note 20)	–	4,695,763	4,695,763
Fixed rate bonds (Note 21)	–	599,730	599,730
Derivative financial instruments (Note 22)	2,416	–	2,416
Due to non-controlling shareholders (Note 23)	–	52,316	52,316
Accounts payable and accruals (Note 25)	–	787,446	787,446
Total	2,416	6,135,255	6,137,671

7 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings US$'000	Vehicles and machinery US$'000	Furniture, fixtures and equipment US$'000	Properties under development US$'000	Total US$'000
At 1 January 2016					
Cost	6,567,647	674,584	1,345,507	818,482	9,406,220
Accumulated depreciation and impairment provision	(1,709,315)	(370,612)	(940,166)	–	(3,020,093)
Net book amount	4,858,332	303,972	405,341	818,482	6,386,127
Year ended 31 December 2016					
Opening net book amount	4,858,332	303,972	405,341	818,482	6,386,127
Exchange differences	(195,584)	(18,700)	(18,729)	6,933	(226,080)
Additions	57,541	18,225	38,686	402,092	516,544
Provision for impairment loss (Note 27)	(70,485)	–	–	–	(70,485)
Reversal of impairment loss (Note 27)	5,451	–	–	–	5,451
Disposals	(12,607)	(470)	(1,421)	(1,103)	(15,601)
Reclassifed as disposal group classified as held for sale	(3,827)	(670)	(1,684)	–	(6,181)
Transfer to investment properties (Note 8)	64,416	27,417	22,186	(391,589)	(277,570)
Depreciation	(161,059)	(54,837)	(93,619)	–	(309,515)
Closing net book amount	4,542,178	274,937	350,760	834,815	6,002,690
At 31 December 2016					
Cost	6,361,023	678,080	1,297,786	834,815	9,171,704
Accumulated depreciation and impairment provision	(1,818,845)	(403,143)	(947,026)	–	(3,169,014)
Net book amount	4,542,178	274,937	350,760	834,815	6,002,690
Year ended 31 December 2017					
Opening net book amount	4,542,178	274,937	350,760	834,815	6,002,690
Exchange differences	247,853	13,229	17,894	268	279,244
Additions	138,033	14,213	79,015	204,169	435,430
Disposals	(10,943)	(667)	(729)	(308)	(12,647)
Transfer	657,878	55,605	28,080	(741,563)	–
Transfer to investment properties (Note 8)	(36,566)	–	–	(31,713)	(68,279)
Transfer to properties for sale	–	–	–	(41,941)	(41,941)
Depreciation	(165,314)	(48,476)	(99,115)	–	(312,905)
Closing net book amount	5,373,119	308,841	375,905	223,727	6,281,592
At 31 December 2017					
Cost	7,438,301	778,139	1,464,410	223,727	9,904,577
Accumulated depreciation and impairment provision	(2,065,182)	(469,298)	(1,088,505)	–	(3,622,985)
Net book amount	5,373,119	308,841	375,905	223,727	6,281,592

7 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) All depreciation expenses (net of amount capitalised of US$53,000 in 2017 (2016: US$53,000)) have been included as part of the other operating expenses.

(b) For year 2017, bank loans of US$129,264,000 (2016: US$153,898,000) are secured on certain fixed assets as disclosed under Note 36(c).

(c) Buildings comprise mainly hotel properties. Details of the hotel properties of the Company's subsidiaries are summarised in Note 40(a).

(d) Properties under development include construction work in progress in respect of the renovation of certain hotel properties.

(e) For the year 2016, the Group recognised an impairment loss of US$70,485,000 for the property, plant and equipment in respect of a hotel in Mainland China wholly owned by the Group.

8 INVESTMENT PROPERTIES

	2017 US$'000	2016 US$'000
At 1 January	1,328,352	1,120,279
Exchange differences	55,359	(40,248)
Additions	54,997	116,134
Disposals	(254)	(1,438)
Transferred from property, plant and equipment (Note 7)	68,279	277,570
Fair value losses (Note 27)	(57,880)	(143,945)
At 31 December	1,448,853	1,328,352

(a) As at 31 December 2017, all investment properties are recorded at fair value which were revalued by independent professionally qualified valuers on the basis of their market value as fully operational entities for existing use which equates to the highest and best use of the assets. The fair value gains or losses on revaluation are included in "Other losses – net" in the income statement (Note 27).

(b) The carrying values of investment properties comprised:

	2017 US$'000	2016 US$'000
Outside Hong Kong, held on:		
Freehold	584,601	439,649
Leases of over 50 years	212,000	241,000
Leases of between 10 and 50 years	652,252	647,703
	1,448,853	1,328,352

(c) Details of investment properties of the Company's subsidiaries are summarised in Note 41(a).

8 INVESTMENT PROPERTIES (CONTINUED)

The following table presents the Group's investment properties that are measured at fair value at 31 December 2017.

	Fair value measurements at 31 December 2017 using		
	Quoted prices in active markets for identical assets (Level 1) US$'000	Significant other observable inputs (Level 2) US$'000	Significant unobservable inputs (Level 3) US$'000
Recurring fair value measurements			
Investment properties:			
– Office, serviced apartments and commercial complex in Mainland China	–	–	334,685
– Serviced apartments in Singapore	–	–	412,024
– Office, serviced apartments and commercial complex in Mongolia	–	–	276,000
– Office, serviced apartments and commercial complex in other regions	–	–	426,144
	–	–	1,448,853

	Fair value measurements at 31 December 2016 using		
	Quoted prices in active markets for identical assets (Level 1) US$'000	Significant other observable inputs (Level 2) US$'000	Significant unobservable inputs (Level 3) US$'000
Recurring fair value measurements			
Investment properties:			
– Office, serviced apartments and commercial complex in Mainland China	–	–	309,500
– Serviced apartments in Singapore	–	–	375,261
– Office, serviced apartments and commercial complex in Mongolia	–	–	308,898
– Office, serviced apartments and commercial complex in other regions	–	–	334,693
	–	–	1,328,352

The fair value of an asset to be transferred between the levels is determined as of the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1, 2 and 3 during the year.

8 INVESTMENT PROPERTIES (CONTINUED)

The following table shows a reconciliation of Level 3 fair values using significant unobservable inputs.

	Office, serviced apartments and commercial complex in Mainland China US$'000	Serviced apartments in Singapore US$'000	Office, serviced apartments and commercial complex in Mongolia US$'000	Office, serviced apartments and commercial complex in other regions US$'000	Total US$'000
At 1 January 2017	309,500	375,261	308,898	334,693	1,328,352
Transferred from property, plant and equipment	–	–	–	68,279	68,279
Additions	17,079	594	869	36,455	54,997
Disposals	(29)	(76)	(146)	(3)	(254)
Changes in fair value	(10,930)	7,459	(34,457)	(19,952)	(57,880)
Exchange differences	19,065	28,786	836	6,672	55,359
At 31 December 2017	334,685	412,024	276,000	426,144	1,448,853

	Office, serviced apartments and commercial complex in Mainland China US$'000	Serviced apartments in Singapore US$'000	Office, serviced apartments and commercial complex in Mongolia US$'000	Office, serviced apartments and commercial complex in other regions US$'000	Total US$'000
At 1 January 2016	351,731	383,250	100,900	284,398	1,120,279
Transferred from property, plant and equipment	–	–	277,570	–	277,570
Additions	13,645	53	48,922	53,514	116,134
Disposals	(13)	(53)	(1,346)	(26)	(1,438)
Changes in fair value	(33,916)	–	(109,699)	(330)	(143,945)
Exchange differences	(21,947)	(7,989)	(7,449)	(2,863)	(40,248)
At 31 December 2016	309,500	375,261	308,898	334,693	1,328,352

8 INVESTMENT PROPERTIES (CONTINUED)

The following table shows the valuation techniques used by the valuers in the determination of Level 3 fair values. There were no significant changes to the valuation techniques during the year.

Description	Fair value at 31 December 2017 US$'000	Valuation technique	Unobservable inputs	
Mainland China				
– Office, serviced apartments and commercial complex	334,685	Direct comparison approach and income capitalisation approach	Rental rate from US$9 to US$42 per sq.m. per month and occupancy from 88% to 95%	Capitalisation rate in the range of 4% to 9%
Singapore				
– Serviced apartments	412,024	Direct comparison approach and income capitalisation approach	Rental rate at US$241 per room per day and occupancy at 80%	Capitalisation rate of 3%
Mongolia				
– Office, serviced apartments and commercial complex	276,000	Direct comparison approach and income capitalisation approach	Rental rate from US$8 to US$28 per sq.m. per month and occupancy from 85% to 95%	Capitalisation rate in the range of 5% to 10%
Other regions				
– Office, serviced apartments and commercial complex	426,144	Direct comparison approach and income capitalisation approach	Rental rate from US$12 to US$86 per sq.m. per month	Capitalisation rate in the range of 6% to 9.25%

8 INVESTMENT PROPERTIES (CONTINUED)

Description	Fair value at 31 December 2016 US$'000	Valuation technique	Unobservable inputs	
Mainland China				
– Office, serviced apartments and commercial complex	309,500	Direct comparison approach and income capitalisation approach	Rental rate from US$12 to US$40 per sq.m. per month and occupancy from 85% to 95%	Capitalisation rate in the range of 4.5% to 9%
Singapore				
– Serviced apartments	375,261	Direct comparison approach and income capitalisation approach	Rental rate at US$228 per room per day and occupancy at 84%	Capitalisation rate of 3%
Mongolia				
– Office, serviced apartments and commercial complex	308,898	Direct comparison approach and income capitalisation approach	Rental rate from US$8 to US$27 per sq.m. per month and occupancy from 85% to 95%	Capitalisation rate in the range of 7.25% to 9%
Other regions				
– Office, serviced apartments and commercial complex	334,693	Direct comparison approach and income capitalisation approach	Rental rate from US$11 to US$65 per sq.m. per month	Capitalisation rate in the range of 6% to 11.5%

Under the income capitalisation approach, fair value is determined by discounting the projected cash flow streams with the properties using risk-adjusted discount rate. An exit or terminal value projected based on capitalisation rate is also included in the projection. The valuation takes into account expected market rental rate and occupancy rate of the respective properties. The capitalisation rates used are based on the quality and location of the properties and taking into account market data at the valuation date. The fair value measurement is positively correlated to the rental rate and occupancy rate, and negatively correlated to the capitalisation rate and discount rate.

Under the direct comparison approach, fair value is determined with reference to recent sales price of comparable properties in nearby locations and adjusting a premium or a discount specific to the quality of the respective properties compared to the recent sales. Higher premium for higher quality properties will result in a higher fair value measurement.

9 LEASEHOLD LAND AND LAND USE RIGHTS

	2017 US$'000	2016 US$'000
At 1 January		
Cost	669,330	705,962
Accumulated amortisation and impairment provision	(169,989)	(163,602)
Net book amount	499,341	542,360
Opening net book amount	499,341	542,360
Exchange differences	27,376	(27,951)
Additions	387	38
Transfer to properties for sale	(14,210)	–
Amortisation of prepaid operating lease payment	(14,477)	(15,106)
Closing net book value	498,417	499,341
At 31 December		
Cost	691,607	669,330
Accumulated amortisation	(193,190)	(169,989)
Net book amount	498,417	499,341

All amortisation expenses (net of amount capitalised of nil in 2017 (2016: US$382,000)) have been included as part of the other operating expenses.

	2017 US$'000	2016 US$'000
Outside Hong Kong, held on:		
Leases of over 50 years	73,615	70,552
Leases of between 10 and 50 years	424,802	428,789
	498,417	499,341

10 INTANGIBLE ASSETS

	Goodwill US$'000	Trademark and licences US$'000	Website and system development US$'000	Total US$'000
At 1 January 2016				
Cost	83,127	11,958	3,167	98,252
Accumulated amortisation	–	(5,676)	(2,806)	(8,482)
Net book amount	83,127	6,282	361	89,770
Year ended 31 December 2016				
Opening net book amount	83,127	6,282	361	89,770
Exchange difference	(249)	–	–	(249)
Additions	–	–	1,993	1,993
Amortisation expenses	–	(568)	(579)	(1,147)
Closing net book amount	82,878	5,714	1,775	90,367
At 31 December 2016				
Cost	82,878	11,958	5,160	99,996
Accumulated amortisation	–	(6,244)	(3,385)	(9,629)
Net book amount	82,878	5,714	1,775	90,367
Year ended 31 December 2017				
Opening net book amount	82,878	5,714	1,775	90,367
Exchange difference	974	–	–	974
Amortisation expenses	–	(568)	(826)	(1,394)
Closing net book amount	83,852	5,146	949	89,947
At 31 December 2017				
Cost	83,852	11,958	5,160	100,970
Accumulated amortisation	–	(6,812)	(4,211)	(11,023)
Net book amount	83,852	5,146	949	89,947

The principal component of goodwill represented the excess of cost of acquisition of the hotel management group, SLIM International Limited, over the fair value of the identified net assets acquired. Due to the synergies of the combination of the hotel operation and hotel management sub-groups, the goodwill impairment assessment is based on the future cashflow generated from the hotel management group. The future cashflow is based on the recent forecasts taking into account the terms and final maturities of all existing management agreements, the past performance of the hotels and the prevailing market conditions. A growth rate of 5% per annum (2016: 5% per annum) on net cash inflow from 2017 and a discount rate of 5% (2016: 5%) have been applied to the cashflow projection. In view of the cashflow projection, provision for impairment losses is not considered necessary.

11 SUBSIDIARIES

(a) Details of principal subsidiaries are set out in Note 39(a).

(b) Material non-controlling interests

The total non-controlling interests as at 31 December 2017 is US$439,440,000 (2016: US$421,606,000), of which US$190,992,000 (2016: US$167,888,000) is attributable to Shangri-La Hotels (Malaysia) Berhad Group, US$-32,081,000 (2016: US$-5,358,000) is attributable to Intense Power Limited and US$4,302,000 (2016: US$5,131,000) is attributable to Shangri-La International Hotels (Pacific Place) Limited. The remaining non-controlling interests in respect of other subsidiaries are not material in terms of profit contribution.

Summarised financial information of subsidiaries with material non-controlling interests

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. These summarised financial information are based on the local statutory financial statements of the relevant subsidiaries after adjustments for compliance with the Group's accounting policies.

Summarised statement of financial position as at 31 December

	Shangri-La Hotels (Malaysia) Berhad		Intense Power Limited		Shangri-La International Hotels (Pacific Place) Limited	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
Current						
Assets	53,399	40,964	67,150	87,392	28,677	27,702
Liabilities	(66,489)	(61,603)	(84,223)	(84,108)	(18,979)	(16,923)
Total net current (liabilities)/assets	(13,090)	(20,639)	(17,073)	3,284	9,698	10,779
Non-current						
Assets	391,364	353,602	407,298	445,389	62,939	65,799
Liabilities	(11,730)	(9,331)	(323,096)	(327,007)	(51,124)	(50,925)
Total non-current net assets	379,634	344,271	84,202	118,382	11,815	14,874
Net assets	366,544	323,632	67,129	121,666	21,513	25,653
Attributable to:						
Equity holders of the Company	175,552	155,744	99,210	127,024	17,211	20,522
Non-controlling interests	190,992	167,888	(32,081)	(5,358)	4,302	5,131
	366,544	323,632	67,129	121,666	21,513	25,653

11 SUBSIDIARIES (CONTINUED)

(b) Material non-controlling interests (continued)

Summarised statement of comprehensive income for the year ended 31 December

	Shangri-La Hotels (Malaysia) Berhad		Intense Power Limited		Shangri-La International Hotels (Pacific Place) Limited	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
Revenue	127,157	121,570	20,208	16,588	148,832	145,694
Profit/(Loss) before income tax	27,103	27,330	(51,225)	(113,856)	49,274	48,173
Income tax expense	(6,165)	(5,435)	(3,311)	–	(8,254)	(8,327)
Other comprehensive income/(loss)	32,941	(14,281)	–	10,116	–	–
Total comprehensive income/(loss)	53,879	7,614	(54,536)	(103,740)	41,020	39,846
Attributable to:						
Equity holders of the Company	27,255	3,342	(27,813)	(52,907)	32,816	31,877
Non-controlling interests	26,624	4,272	(26,723)	(50,833)	8,204	7,969
	53,879	7,614	(54,536)	(103,740)	41,020	39,846
Dividends paid to non-controlling interests	6,663	6,998	–	–	9,032	14,194

11 SUBSIDIARIES (CONTINUED)

(b) Material non-controlling interests (continued)

Summarised cash flow for the year ended 31 December

	Shangri-La Hotels (Malaysia) Berhad		Intense Power Limited		Shangri-La International Hotels (Pacific Place) Limited	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
Net cash generated from operating activities	41,618	34,783	392	16,493	48,093	45,167
Net cash used in investing activities	(19,262)	(19,982)	(851)	(52,584)	(1,861)	(2,082)
Net cash (used in)/ generated from financing activities	(14,354)	(15,011)	(7,222)	79,329	(45,162)	(70,968)
Net increase/ (decrease) in cash and cash equivalents	8,002	(210)	(7,681)	43,238	1,070	(27,883)
Cash and cash equivalents at beginning of the year	21,530	22,710	58,169	14,893	14,036	41,919
Exchange gains/(losses) on cash and cash equivalents	2,770	(970)	–	38	–	–
Cash and cash equivalent at end of the year	32,302	21,530	50,488	58,169	15,106	14,036

12 INTEREST IN ASSOCIATES AND AMOUNTS DUE FROM ASSOCIATES

	2017 US$'000	2016 US$'000
Interest in associates		
At 1 January	3,373,164	3,351,748
Share of profit of associates (Note 31)		
– profit before taxation	279,707	387,411
– taxation	(76,023)	(93,868)
	203,684	293,543
Exchange difference	209,982	(223,502)
Dividends declared by associates	(127,345)	(48,625)
Disposal of interests in an associate	(35,305)	–
Investment in associates under equity method	3,624,180	3,373,164
Equity loans (Note (a))	130,333	136,452
Other long term shareholder loans (Note (b))	115,544	124,943
	3,870,057	3,634,559
Amounts due from associates (Note (c))	90,450	66,971

Notes:

(a) Equity loans are unsecured, interest-free and with no fixed repayment terms.

(b) Other long term shareholder loans are interest bearing at:

	2017 US$'000	2016 US$'000
– HIBOR plus 1.5% per annum and wholly repayable on 17 November 2019 (in Hong Kong dollars)	3,250	3,250
– HIBOR plus 2.6% per annum and wholly repayable on 17 July 2018 (in Hong Kong dollars)	–	21,677
– HIBOR plus 1% per annum and wholly repayable on 17 July 2023 (in Hong Kong dollars)	22,374	–
– LIBOR plus 2% per annum and wholly repayable on 31 December 2020 (in United States dollars)	12,250	12,250
– Fixed rate at 1% per annum and wholly repayable on 21 April 2026 (in Renminbi)	11,478	10,811
– HIBOR plus 1.5% per annum and wholly repayable on 15 May 2021 (in Hong Kong dollars)	36,982	36,982
– HIBOR plus 2% per annum and wholly repayable on 31 Dec 2020 (in Hong Kong dollars)	29,210	29,210
– PBOC rate per annum and wholly repayable on 15 March 2018 (in Renminbi)	–	10,763
	115,544	124,943

Other long term shareholder loans are unsecured and not repayable within twelve months. The fair values of other long term shareholder loans are not materially different from their carrying amounts.

12 INTEREST IN ASSOCIATES AND AMOUNTS DUE FROM ASSOCIATES (CONTINUED)

Notes: (continued)

(c) Amounts due from associates are unsecured and with the following terms:

	2017 US$'000	2016 US$'000
- interest bearing at HIBOR plus 2% per annum and wholly repayable on 21 November 2017 (in Hong Kong dollars)	–	7,312
- interest bearing at PBOC rate per annum and wholly repayable on 15 March 2018 (in Renminbi)	5,633	–
- interest-free and repayable within one year	84,817	59,659
	90,450	66,971

(d) The maximum exposure to credit risk at the reporting date is the fair value of the long term shareholder loans of US$115,544,000 (2016: US$124,943,000) and amounts due from associates of US$90,450,000 (2016: US$66,971,000).

(e) The Group's proportionate share of the carrying value of hotel properties (including properties, plant and equipment; and leasehold land and land use rights) owned by the Group's associates amounted to US$1,051,983,000 (2016: US$1,078,812,000). The Group's proportionate share of the fair value of investment properties owned by the Group's associates amounted to US$3,766,142,000 (2016: US$3,453,982,000).

(f) Set out below are the associates of the Group as at 31 December 2017, which, in the opinion of the directors, are material to the Group. The associates as listed below are held directly by the Group. The country of incorporation or registration is also their principal place of business.

Nature of investment in the associates as at 31 December 2017 and 2016:

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of the business	Measurement method
China World Trade Center Limited	The People's Republic of China	50	Note	Equity
Shanghai Ji Xiang Properties Co, Limited	The People's Republic of China	49	Note	Equity

Note: Both China World Trade Center Limited and Shanghai Ji Xiang Properties Co, Limited own and operate hotels and investment properties.

12 INTEREST IN ASSOCIATES AND AMOUNTS DUE FROM ASSOCIATES (CONTINUED)

Notes: (continued)

(f) (continued)

Summarised financial information for associates

Set out below are the summarised financial information for China World Trade Center Limited and Shanghai Ji Xiang Properties Co, Limited which are accounted for using the equity method. These summarised financial information are based on the local statutory financial statements of the relevant associates after adjustments for compliance with the Group's accounting policies.

	China World Trade Center Limited		Shanghai Ji Xiang Properties Co, Limited	
	As at 31 December		As at 31 December	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
Current				
Assets	331,971	184,572	67,715	44,311
Liabilities	(491,707)	(421,128)	(110,658)	(110,465)
Net current liabilities	(159,736)	(236,556)	(42,943)	(66,154)
Non-current				
Assets	5,545,885	5,126,735	1,931,354	1,866,409
Liabilities	(2,097,907)	(1,901,385)	(585,264)	(637,467)
Net non-current assets	3,447,978	3,225,350	1,346,090	1,228,942
Net assets	3,288,242	2,988,794	1,303,147	1,162,788

Summarised statement of comprehensive income

	China World Trade Center Limited		Shanghai Ji Xiang Properties Co, Limited	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
Revenue	517,700	478,580	217,332	214,326
Profit before tax (including fair value gains on investment properties)	233,532	316,937	114,522	138,837
Income tax expense	(57,668)	(78,766)	(32,910)	(33,244)
Other comprehensive income/(loss)	180,163	(190,724)	76,477	(78,247)
Total comprehensive income	356,027	47,447	158,089	27,346
Dividends received from associates (net of tax)	22,019	–	7,819	–

12 INTEREST IN ASSOCIATES AND AMOUNTS DUE FROM ASSOCIATES (CONTINUED)

Notes: (continued)

(f) (continued)

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the associates.

	China World Trade Center Limited		Shanghai Ji Xiang Properties Co, Limited	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
Closing net assets	3,288,242	2,988,794	1,303,147	1,162,788
Respective equity interest	50%	50%	49%	49%
Interest in associates	1,644,121	1,494,397	638,542	569,766
Goodwill	–	–	290	290
Carrying amount	1,644,121	1,494,397	638,832	570,056

(g) The Group has interests in a number of individually immaterial associates that are accounted for using the equity method. The aggregated financial information on these associates are as follows:

	2017 US$'000	2016 US$'000
Aggregate carrying amount of individually immaterial associates	1,587,104	1,570,106
Aggregate amounts of the Group's share of		
Profit after tax	75,762	122,717
Other comprehensive income/(loss)	83,560	(89,796)
Total comprehensive income	159,322	32,921

There were no contingent liabilities relating to the Group's interest in associates as at 31 December 2017 and 2016.

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 US$'000	2016 US$'000
Equity securities:		
Overseas unlisted shares, at cost	3,862	2,562
– Exchange differences	283	88
	4,145	2,650
Club debentures, at fair value	9,198	7,539
	13,343	10,189

There were no disposals on available-for-sale financial assets in 2017 and 2016.

14 OTHER RECEIVABLES

	2017 US$'000	2016 US$'000
Security deposit on leased premises	14,254	13,929

An interest-free security deposit amounting to JPY1,751,000,000 (equivalent to US$15,541,000) (31 December 2016: JPY1,751,000,000 (equivalent to US$15,273,000)) 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.

15 ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS

	2017 US$'000	2016 US$'000
Trade receivables	118,442	94,960
Less: Provision for impairment of receivables	(1,763)	(1,975)
Trade receivables – net	116,679	92,985
Other receivables	110,110	99,845
Prepayments and other deposits	93,359	112,006
Short term advance to a third party (note (c))	3,500	–
	323,648	304,836

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 based on invoice date after provision for impairment is as follows:

	2017 US$'000	2016 US$'000
0 – 3 months	92,998	79,959
4 – 6 months	15,998	4,156
Over 6 months	7,683	8,870
	116,679	92,985

15 ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS (CONTINUED)

(b) (continued)

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2017, trade receivables of US$65,239,000 (2016: US$46,789,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2017 US$'000	2016 US$'000
Up to 3 months	41,874	33,938
4 – 6 months	15,707	3,997
Over 6 months	7,658	8,854
	65,239	46,789

As of 31 December 2017, trade receivables of US$1,763,000 (2016: US$1,975,000) were considered impaired. These receivables were all overdue for more than three months.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2017 US$'000	2016 US$'000
Hong Kong dollars	37,491	30,732
United States dollars	12,307	7,066
Renminbi	59,804	55,791
Singapore dollars	16,409	14,642
Malaysian Ringgit	6,749	5,412
Thai Baht	5,393	4,412
Philippines Pesos	16,216	15,583
Japanese Yen	4,159	5,100
Euros	5,294	5,819
Australian dollars	5,047	4,383
British Pounds	3,192	1,729
Mongolian Tugrik	14,120	29,256
Sri Lankan Rupee	35,748	6,005
Other currencies	4,860	6,900
	226,789	192,830

15 ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS (CONTINUED)

(b) (continued)

Movements on the Group's provision for impairment of trade receivables are as follows:

	2017 US$'000	2016 US$'000
At 1 January	1,975	2,126
Exchange differences	83	(119)
Provision for receivables impairment	1,918	2,915
Receivables written off during the year as uncollectible	(188)	(71)
Unused amounts reversed	(2,025)	(2,874)
Reclassed to disposal group classified as held for sale	–	(2)
At 31 December	1,763	1,975

The creation and release of provision for impaired receivables have been included in "administrative expenses" in the consolidated income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above.

(c) A short term advance of US$3,500,000 bearing interest at a fixed rate of 6.25% per annum maturing in June 2018 was provided to the purchaser under the sale and purchase transaction in relation to the disposal of equity interest in an associate incorporated in Indonesia. Details of the disposal are set out in Note 35(c) to the consolidated financial statements. The maximum exposure to credit risk at the reporting date is the fair value of the advance.

16 FINANCIAL ASSETS HELD FOR TRADING

	2017 US$'000	2016 US$'000
Equity securities, at market value		
Shares listed in Hong Kong	23,534	14,963

17 CASH AND BANK BALANCES

	2017 US$'000	2016 US$'000
Cash at bank and in hand	503,962	508,488
Short-term bank deposits	417,900	435,730
Cash and bank balances	921,862	944,218
Maximum exposure to credit risk for all balances at bank	915,718	938,982

The effective interest rate on short-term bank deposits was 1.74% per annum (2016: 2.0% per annum); these deposits have an average maturity of 4.0 months (2016: 3.9 months).

Cash and cash equivalents include the following for the purposes of the consolidated cash flow statement:

	2017 US$'000	2016 US$'000
Cash and bank balances (as above)	921,862	944,218
Less: Short-term bank deposits with original maturities over 3 months	(124,584)	(166,641)
Cash and cash equivalents	797,278	777,577

18 SHARE CAPITAL

	No. of shares ('000)	Amount: Ordinary shares US$'000	Amount: Share premium US$'000	Amount: Total US$'000
Authorised – Ordinary shares of HK$1 each				
At 31 December 2016 and 31 December 2017	5,000,000	646,496	–	646,496
Issued and fully paid – Ordinary shares of HK$1 each				
At 1 January 2016	3,580,024	462,195	2,729,606	3,191,801
Exercise of share options				
– allotment of shares	–	–	–	–
– transfer from share option reserve	–	–	–	–
At 31 December 2016 and 1 January 2017	3,580,024	462,195	2,729,606	3,191,801
Exercise of share options				
– allotment of shares	4,036	520	5,786	6,306
– transfer from share option reserve	–	–	313	313
At 31 December 2017	3,584,060	462,715	2,735,705	3,198,420

As at 31 December 2017, 10,501,055 (2016: 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 recognised in equity in prior years.

18 SHARE CAPITAL (CONTINUED)

Share options

The shareholders of the Company approved the adoption of a share option scheme on 28 May 2012 ("**2012 Option 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 with 22 August 2023 being the last exercisable date. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

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

	Number of option shares issued at HK$12.11 per option share	Total consideration US$'000
In year 2017		
June	455,000	711
July	300,000	469
September	585,000	914
October	730,000	1,140
November	1,486,000	2,322
December	480,000	750
For the year ended 31 December 2017	4,036,000	6,306
For the year ended 31 December 2016	–	–

The weighted average closing price of the shares immediately before the dates on which the options were exercised for the year ended 31 December 2017 was HK$15.53. No share option was exercised for the year ended 31 December 2016.

18 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 year ended 31 December 2017		For the year ended 31 December 2016	
	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	12.11	14,603,000	12.50	18,726,000
Granted	–	–	–	–
Exercised	12.11	(4,036,000)	–	–
Lapsed	12.11	(754,000)	13.87	(4,123,000)
At 31 December	12.11	9,813,000	12.11	14,603,000

No new option was granted during the year ended 31 December 2017 and 2016.

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

		Number of outstanding option shares as at	
Last exercisable date	Exercise price in HK$ per option share	31 December 2017	31 December 2016
23 February 2018	12.11	200,000	–
31 December 2018	12.11	80,000	–
31 December 2019	12.11	350,000	–
22 August 2023	12.11	9,183,000	14,603,000
		9,813,000	14,603,000

Options on 1,015,000 shares with exercise price of HK$12.11 per share have been exercised subsequent to 31 December 2017 and up to the approval date of the financial statements.

19 OTHER RESERVES

	Share option reserve US$'000	Hedging reserve US$'000
Balance at 1 January 2016	10,452	(5,849)
Currency translation differences	–	–
Transfer of share options reserve to retained earnings upon expiry of share options	(2,637)	–
Transfer of convertible bonds reserve to retained earnings upon maturity of convertible bonds	–	–
Fair value changes of interest-rate swap contracts	–	3,436
Fair value changes of available-for-sale financial assets	–	–
Balance at 31 December 2016 and 1 January 2017	7,815	(2,413)
Currency translation differences	–	–
Exercise of share options		
– Transfer to share premium	(313)	–
Fair value changes of interest-rate swap contracts	–	8,730
Fair value changes of available-for-sale financial assets	–	–
Balance at 31 December 2017	7,502	6,317

(a) A subsidiary is required by local law to appropriate a certain percentage of its annual net profits as other reserve until the reserve reaches 10 percent of its registered share capital. This reserve is not available for dividend distribution.

(b) The contributed surplus of the Group arises when the Group issues shares in exchange for the shares of companies being acquired, and represents the difference between the nominal value of the Company's issued shares and the value of net assets of the companies acquired. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to the shareholders. At the Group level, the contributed surplus is reclassified into its components of reserves of the underlying subsidiaries, whenever appropriate.

Convertible bonds reserve US$'000	Capital redemption reserve US$'000	Exchange fluctuation reserve US$'000	Capital reserve US$'000	Available-for-sale financial assets reserve US$'000	Other reserve US$'000 (Note (a))	Contributed surplus US$'000 (Note (b))	Total US$'000
44,518	10,666	62,035	601,490	–	1,368	389,741	1,114,421
–	–	(469,592)	–	–	–	–	(469,592)
–	–	–	–	–	–	–	(2,637)
(44,518)	–	–	–	–	–	–	(44,518)
–	–	–	–	–	–	–	3,436
–	–	–	–	5,210	–	–	5,210
–	10,666	(407,557)	601,490	5,210	1,368	389,741	606,320
–	–	501,394	–	–	–	–	501,394
–	–	–	–	–	–	–	(313)
–	–	–	–	–	–	–	8,730
–	–	–	–	1,632	–	–	1,632
–	10,666	93,837	601,490	6,842	1,368	389,741	1,117,763

20 BANK LOANS

	2017 US$'000	2016 US$'000
Bank loans – secured (Note 36(c))	129,264	153,898
Bank loans – unsecured	5,055,411	4,541,865
Total	5,184,675	4,695,763
Less: Non-current portion	(4,949,844)	(4,486,869)
Current portion	234,831	208,894

The maturity of bank loans is as follows:

	2017 US$'000	2016 US$'000
Within 1 year	234,831	208,894
Between 1 and 2 years	1,014,804	981,074
Between 2 and 5 years	3,895,162	3,457,403
Repayable within 5 years	5,144,797	4,647,371
Over 5 years	39,878	48,392
	5,184,675	4,695,763

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

	31 December 2017							
	HK$	RMB	GBP	US$	JPY	Euros	SGD	AUD
Bank loans	2.17%	4.84%	1.58%	2.50%	0.60%	0.98%	1.61%	2.93%

	31 December 2016							
	HK$	RMB	GBP	US$	JPY	Euros	SGD	AUD
Bank loans	1.73%	4.96%	1.69%	2.14%	1.31%	0.99%	1.18%	2.96%

20 BANK LOANS (CONTINUED)

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

	2017 US$'000	2016 US$'000
Hong Kong dollars	1,717,135	1,726,168
Renminbi	452,943	377,125
United States dollars	2,471,940	2,094,051
Euros	243,887	221,152
Japanese Yen	44,379	43,612
Singapore dollars	98,295	60,580
Australian dollars	95,334	117,423
British pounds	60,762	55,652
	5,184,675	4,695,763

The Group has the following undrawn borrowing facilities:

	2017 US$'000	2016 US$'000
Floating rate		
– expiring within one year	62,581	152,912
– expiring beyond one year	1,088,607	1,867,530
Fixed rate		
– expiring within one year	765	865
– expiring beyond one year	49,868	93,328
	1,201,821	2,114,635

21 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. During the year, the entire outstanding fixed rate bonds with face value of US$600,000,000 were redeemed on the maturity date of 10 April 2017. The fixed rate bonds recognised in the consolidated statement of financial position is calculated as follows:

	2017 US$'000	2016 US$'000
Face value of fixed rate bonds issued on 10 April 2012	600,000	600,000
Issuing expenses	(4,859)	(4,859)
Net bonds proceeds received	595,141	595,141
Accumulated amortisation of issuing expenses	4,859	4,589
Final redemption at maturity	(600,000)	–
Carrying amount of fixed rate bonds at 31 December	–	599,730

22 DERIVATIVE FINANCIAL INSTRUMENTS

	2017 US$'000	2016 US$'000
Non-current liabilities		
Interest-rate swap contracts – hedging	–	919
Current liabilities		
Interest-rate swap contracts – hedging	488	1,497
Total	488	2,416
Non-current assets		
Interest-rate swap contracts – hedging	5,067	2
Current assets		
Interest-rate swap contracts – hedging	1,738	2
Total	6,805	4

All the interest-rate swap contracts qualify for hedge accounting. The notional principal amounts of the outstanding HIBOR and LIBOR interest-rate swap contracts at 31 December 2017 were as follows:

– HK$1,600,000,000 (31 December 2016: HK$1,900,000,000) with fixed interest rate of 1.395% to 1.635% per annum (31 December 2016: 0.940% to 1.635% per annum).

– US$806,000,000 (31 December 2016: US$206,000,000) with fixed interest rates of 1.420% to 1.850% per annum (31 December 2016: 1.420% to 1.785% per annum).

23 NON-CONTROLLING INTERESTS AND BALANCES WITH NON-CONTROLLING SHAREHOLDERS

	2017 US$'000	2016 US$'000
Non-controlling interests		
Share of equity	276,321	280,975
Equity loans (Note (a))	163,119	140,631
	439,440	421,606

Notes:

(a) Equity loans are unsecured, with no fixed repayment terms and bearing interest at:

	2017 US$'000	2016 US$'000
– LIBOR per annum	8,724	8,724
– LIBOR plus 1% per annum	104,375	107,180
– fixed rate of 2.5% per annum	21,789	22,177
– interest-free	28,231	2,550
	163,119	140,631

(b) Amounts due to non-controlling shareholders (non-current portion) are unsecured and with the following terms:

	2017 US$'000	2016 US$'000
– interest-free and not payable within 12 months	–	29,547

The effective interest rate of the interest-free portion of the amounts due to non-controlling shareholders is 4.1% per annum for the year ended 31 December 2016.

(c) Amounts due to/(from) non-controlling shareholders (current portion) are unsecured and with the following terms:

	2017 US$'000	2016 US$'000
Amounts due to non-controlling shareholders		
– interest-free with no fixed repayment terms	27,942	22,769
Amounts due from non-controlling shareholders		
– interest-free with no fixed repayment terms	(37)	(69)
	27,905	22,700

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

24 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2016: 16.5%) for subsidiaries operating in Hong Kong. Deferred income tax assets and liabilities of overseas subsidiaries are calculated at the rates of taxation prevailing in the countries in which the respective subsidiaries operate.

The movement on the deferred income tax account is as follows:

	2017 US$'000	2016 US$'000
At 1 January	303,931	312,956
Exchange differences	8,085	(5,207)
Deferred taxation charged/(credited) to consolidated income statement (Note 32)	8,996	(1,158)
Deferred taxation charged/(credited) to other comprehensive income	107	(379)
Transfer to liability of disposal group classified as held for sale	–	(2,281)
At 31 December	321,119	303,931

The following amounts which are expected only to be substantially recovered/settled after more than twelve months from the date of the statement of financial position, determined after appropriate offsetting, are shown in the consolidated statement of financial position. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

	2017 US$'000	2016 US$'000
Deferred income tax assets	(8,138)	(6,213)
Deferred income tax liabilities	329,257	310,144
	321,119	303,931

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2017, the Group has the following unrecognised tax losses to carry forward against future taxable income.

	2017 US$'000	2016 US$'000
With no expiry date	122,071	165,886
Lapsed within the next five years	621,495	508,252
Lapsed within the next ten years	9,133	17,553
	752,699	691,691

24 DEFERRED INCOME TAX (CONTINUED)

The movement in deferred income tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred income tax liabilities	Accelerated tax depreciation		Properties valuation surplus		Dividend withholding tax		Others		Total	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
At 1 January	189,622	187,373	47,091	63,536	79,674	72,757	1,127	1,010	317,514	324,676
Charged/(credited) to income statement	15,160	6,739	(8,924)	(14,904)	4,309	8,458	(754)	117	9,791	410
Transfer to liability of disposal group classified as held for sale	-	(2,281)	-	-	-	-	-	-	-	(2,281)
Exchange differences	6,267	(2,209)	1,320	(1,541)	1,795	(1,541)	-	-	9,382	(5,291)
At 31 December	211,049	189,622	39,487	47,091	85,778	79,674	373	1,127	336,687	317,514

Deferred income tax assets	Provision of assets		Tax losses		Others		Total	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
At 1 January	(3,182)	(2,805)	(31)	(36)	(10,370)	(8,879)	(13,583)	(11,720)
Charged/(credited) to income statement	166	(115)	-	-	(961)	(1,453)	(795)	(1,568)
Charged/(credited) to other comprehensive income	-	-	-	-	107	(405)	107	(405)
Exchange differences	(455)	(262)	(5)	5	(837)	367	(1,297)	110
At 31 December	(3,471)	(3,182)	(36)	(31)	(12,061)	(10,370)	(15,568)	(13,583)

25 ACCOUNTS PAYABLE AND ACCRUALS

	2017 US$'000	2016 US$'000
Trade payables	119,984	118,741
Construction cost payable, other payables and accrued expenses	756,400	668,705
	876,384	787,446

The ageing analysis of the trade payables based on invoice date is as follows:

	2017 US$'000	2016 US$'000
0 – 3 months	98,405	105,892
4 – 6 months	9,804	6,086
Over 6 months	11,775	6,763
	119,984	118,741

26 EXPENSES BY NATURE

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

	2017 US$'000	2016 US$'000
Depreciation of property, plant and equipment (net of amount capitalised of US$53,000 (2016: US$53,000)) (Note 7)	312,852	309,462
Amortisation of leasehold land and land use rights (net of amount capitalised (2017: Nil; 2016: US$382,000)) (Note 9)	14,477	14,724
Amortisation of trademark; and website and system development (Note 10)	1,394	1,147
Employee benefit expenses excluding directors' emoluments (net of amount capitalised and amount grouped under pre-opening expenses) (Note 28)	717,800	669,683
Cost of sales of properties	33,073	–
Cost of inventories sold or consumed in operation	284,336	263,329
Loss on disposal of property, plant and equipment; and partial replacement of investment properties	1,430	5,721
Discarding of property, plant and equipment due to renovation of hotels and resorts	10,208	9,722
Operating lease expenses	69,138	68,946
Pre-opening expenses	17,356	16,359
Auditors' remuneration		
– audit services	1,828	1,803
– non-audit services	637	632

27 OTHER LOSSES – NET

	2017 US$'000	2016 US$'000
Fair value losses on investment properties (Note 8)	(57,880)	(143,945)
Net unrealised gains/(losses) on financial assets held for trading – equity securities	8,571	(570)
Provision for impairment losses on hotel properties (Note 7)	–	(70,485)
Reversal of impairment loss on a hotel property (Note 7)	–	3,794
Reversal of impairment loss on a self-used property (Note 7)	–	1,657
Gain on disposal of equity interests in a subsidiary and an associate (Note 35(b) and (c))	14,886	–
Others	801	–
Non-operating items	(33,622)	(209,549)
Interest income	15,969	15,156
Dividend income	1,489	1,301
	(16,164)	(193,092)

28 EMPLOYEE BENEFIT EXPENSES

(excluding Directors' emoluments and share options granted to Directors and employees)

	2017 US$'000	2016 US$'000
Wages and salaries (including unutilised annual leave)	558,034	512,219
Pension costs – defined contribution plans	40,258	37,968
Pension costs – defined benefit plans	1,556	1,634
Other welfare	123,359	121,128
	723,207	672,949
Less: Amount included in pre-opening expenses	(5,407)	(3,266)
	717,800	669,683

Total pension cost including charges for Directors charged to the income statement for the year under all pension schemes was US$41,966,000 (2016: US$39,717,000).

28 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

Pension scheme arrangement

The Group operates and participates in a number of pension and retirement schemes of both the defined contribution and defined benefit types. Principal schemes are described below:

(a) Defined contribution retirement plan

The Company and subsidiaries in Hong Kong participate in a mandatory provident fund scheme ("**MPF**") which requires both the employers and employees in Hong Kong to contribute 5% of their monthly gross earnings with a ceiling of HK$1,500 (equivalent to US$194). Normally, the employees can only take all the benefits when reaching the statutory retirement age. These companies also participate in other defined contribution schemes which only require the employers to make monthly contribution of the net difference between 10% of the employees' monthly basic salaries (subject to a ceiling of HK$10,000) and the amount already contributed by the employers to the MPF for the relevant employees. Under such schemes, any unvested benefits of employees terminating employment can be utilised by the employers to reduce their future contributions. The assets of these schemes are held separately in independently administrated funds. Contributions made by the employers were charged to income statements as incurred.

The Group's subsidiaries in Mainland China, Singapore and Malaysia participate in defined contribution schemes managed by the respective local governments in these countries. The Group's subsidiaries in Australia participate in the government-supported superannuation fund scheme (a defined contribution scheme). Contributions are made based on a percentage, ranging from 9.5% to 20%, of the employee's salaries and bonuses, as applicable, and are charged to the income statement as incurred. The maximum contributions by the subsidiaries for each employee for the Group's subsidiaries in Singapore are fixed by the government at S$1,020 (equivalent to US$763) per month for monthly salaries and bonus payment. The employees of the Group's subsidiaries in Singapore and Malaysia are also required to contribute 20% and 8%, respectively of their gross salaries and bonus, if applicable, to the respective local fund.

The Group also operates a global defined contribution scheme for senior expatriates employed by the Group which requires the employers to contribute 6% to 10% (varying with staff grading) of the employees' basic salaries. Employees can contribute to the scheme on a voluntary basis. Under such scheme, the unvested benefits of employees terminating employment can be utilised by the employers to reduce their future contributions. The assets of the scheme are held separately in independently administered funds. Contributions made by the employers were charged to income statements as incurred.

(b) Defined benefit retirement plan

The hotels in the Philippines and Malaysia have adopted funded non-contributory defined benefit pension plans covering their regular employees. The benefits are based on years of service and the employees' final covered compensation. The plans require periodic contributions by the participating subsidiaries as determined by periodic actuarial reviews. For the hotels in the Philippines and Malaysia, actuarial valuations were performed by qualified actuaries at 31 December 2017 using the Projected Unit Credit Actuarial Cost Method.

28 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

Pension scheme arrangement (continued)

(b) Defined benefit retirement plan (continued)

Movements in the present value of the defined benefit obligations:

	Defined benefit obligations		Fair value of plan assets		Net defined benefit liability	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
Balance at 1 January	16,821	16,327	(7,157)	(7,227)	9,664	9,100
Exchange difference	443	(817)	50	369	493	(447)
Included in income statement						
Current service cost	1,045	1,195	–	–	1,045	1,195
Interest cost/(interest income)	874	797	(363)	(357)	511	439
	1,919	1,992	(363)	(357)	1,556	1,634
Included in other comprehensive income						
Actuarial loss/(gain)	(502)	347	–	–	(502)	347
Loss on assets excluding amount included in net interest cost	–	–	224	596	224	596
	(502)	347	224	596	(278)	943
Other						
Contributions	–	–	(1,356)	(1,140)	(1,356)	(1,140)
Benefits paid	(1,557)	(1,028)	1,433	602	(124)	(426)
	(1,557)	(1,028)	77	(538)	(1,480)	(1,566)
Balance at 31 December	17,124	16,821	(7,169)	(7,157)	9,955	9,664

Net defined benefit liability of US$9,955,000 (2016:US$9,664,000) was recorded as accounts payable and accruals under current liabilities.

28 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

Pension scheme arrangement (continued)

(b) Defined benefit retirement plan (continued)

The distribution of the plan assets at year end is as follows:

	2017	2016
Cash equivalents	37%	36%
Equity securities	12%	12%
Government bonds, treasury notes and other assets	51%	52%

The principal actuarial assumptions used to determine retirement benefits costs are as follows:

	2017		2016	
For hotels in	Malaysia	The Philippines	Malaysia	The Philippines
Discount rate at 31 December	5.5%	5.67% to 5.74%	5.5%	5.16% to 5.33%
Future salary growth rate	4% to 7%	4% to 5%	4% to 7%	4% to 5%

The average duration of the defined benefit obligation as of 31 December 2017 ranged from 11 years to 18.61 years (31 December 2016: ranged from 12 years to 18.66 years).

The pension liability is subject to several key assumptions. The sensitivity analysis has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation by assuming all other assumptions were held constant. The defined benefit obligation would be affected by the amount as shown below.

	Increase/ (decrease) in percentage points	Increase/(decrease) in the Group's net defined benefit obligation	
		2017 US$'000	2016 US$'000
Discount rate	1%	(1,412)	(1,446)
	(1%)	1,630	1,674
Future salary growth rate	1%	1,741	1,731
	(1%)	(1,532)	(1,522)

29 BENEFIT AND INTERESTS OF DIRECTORS

The remuneration received from the Group by every Director of the Company for the year ended 31 December 2017 is set out below:

Name of Director	Fees US$'000	Salary US$'000	Discretionary bonuses US$'000	Inducement fees US$'000	Allowances and benefits in kind[12] US$'000	Employer's contribution to retirement benefit schemes US$'000	Remunerations paid or receivable in respect of accepting office as director US$'000	Compensation paid or receivable in respect of loss office as director US$'000	Emoluments paid or receivable in respect of director other service in connection with the management of the affairs of the Company or its subsidiary undertaking US$'000	Total US$'000
KUOK Hui Kwong[1]	-	542	1,935[10]	-	26	15	-	-	-	2,518
LIM Beng Chee[2]	-	774	2,323[11]	-	164	16	-	-	-	3,277
LUI Man Shing	5	418	774	-	18	15	-	-	-	1,230
KUOK Khoon Chen[4]	12	-	-	-	2	-	-	-	-	14
LIU Kung Wei, Christopher[5]	-	153	-	-	23	4	-	-	-	180
Madhu Rama Chandra RAO[6]	-	542	1,290	-	290	54	-	-	-	2,176
HO Kian Guan	59	-	-	-	-	-	-	-	-	59
Alexander Reid HAMILTON	72	-	-	-	-	-	-	-	-	72
Timothy David DATTELS[7]	12	-	-	-	-	-	-	-	-	12
LI Kwok Cheung Arthur	72	-	-	-	-	-	-	-	-	72
LEE Kai Fu	30	-	-	-	-	-	-	-	-	30
YAP Chee Keong[8]	2	-	-	-	-	-	-	-	-	2
HO Chung Tao[9]	-	-	-	-	-	-	-	-	-	-

29 BENEFIT AND INTERESTS OF DIRECTORS (CONTINUED)

The remuneration received from the Group by every Director of the Company for the year ended 31 December 2016 is set out below:

Name of Director	Fees US$'000	Salary US$'000	Discretionary bonuses US$'000	Inducement fees US$'000	Allowances and benefits in kind[12] US$'000	Employer's contribution to retirement benefit schemes US$'000	Remunerations paid or receivable in respect of accepting office as director US$'000	Compensation paid or receivable in respect of loss office as director US$'000	Emoluments paid or receivable in respect of director other service in connection with the management of the affairs of the Company or its subsidiary undertaking US$'000	Total US$'000
KUOK Hui Kwong[1]	14	218	516	-	2	8	-	-	-	758
LIM Beng Chee[2]	8	-	-	-	-	-	-	-	-	8
LUI Man Shing	5	418	774	-	17	15	-	-	-	1,229
KUOK Khoon Chen[4]	-	743	1,548	-	14	13	-	-	-	2,318
LIU Kung Wei, Christopher[5]	-	458	812	-	10	11	-	-	-	1,291
Madhu Rama Chandra RAO[6]	-	472	1,226	-	242	47	-	-	-	1,987
Gregory Allan DOGAN[3]	-	209	272	-	97	21	-	860	-	1,459
HO Kian Guan	59	-	-	-	-	-	-	-	-	59
Alexander Reid HAMILTON	72	-	-	-	-	-	-	-	-	72
Timothy David DATTELS[7]	30	-	-	-	-	-	-	-	-	30
LI Kwok Cheung Arthur	72	-	-	-	-	-	-	-	-	72
LEE Kai Fu	30	-	-	-	-	-	-	-	-	30
Ho Kian Hock[9]	-	-	-	-	-	-	-	-	-	-
HO Chung Tao[9]	-	-	-	-	-	-	-	-	-	-

29 BENEFIT AND INTERESTS OF DIRECTORS (CONTINUED)

Notes:

(1) Ms KUOK Hui Kwong was re-designated as Executive Director on 23 June 2016.

(2) Mr LIM Beng Chee was appointed as Non-executive Director on 26 September 2016 and re-designated as Executive Director on 1 January 2017.

(3) Mr Gregory Allan DOGAN retired as Director on 2 June 2016.

(4) Mr KUOK Khoon Chen was re-designated as Non-executive Director on 1 January 2017 and retired as Director on 2 June 2017.

(5) Mr LIU Kung Wei, Christopher was appointed as Director on 5 April 2016 and resigned as Director on 31 March 2017.

(6) Mr Madhu Rama Chandra RAO retired as Director on 31 December 2017.

(7) Mr Timothy David DATTELS resigned as Director on 29 May 2017.

(8) Mr YAP Chee Keong was appointed as Director on 11 December 2017.

(9) Mr HO Chung Tao was appointed as Alternate Director to Mr HO Kian Guan in place of Mr HO Kian Hock on 18 October 2016.

(10) Discretionary bonus for Ms KUOK Hui Kwong for the year ended 31 December 2017 includes a portion amounting to US$743,000 being granted in the form of the Company's shares in 2018.

(11) Discretionary bonus for Mr LIM Beng Chee for the year ended 31 December 2017 includes a portion amounting to US$929,000 being granted in the form of the Company's shares in 2018.

(12) Other benefits include housing, holiday warrant, medical expenses and insurance premium. Pursuant to the existing option scheme of the Company (Note 18), the Company granted to the Directors options to subscribe for shares in the Company subject to terms and conditions stipulated therein. The fair values of option shares granted to the Directors in the past years were included in the total expenses on share options granted in the same year.

29 BENEFIT AND INTERESTS OF DIRECTORS (CONTINUED)

Movement of option shares granted to the Directors for the year ended 31 December 2017 are as follows:

Grantees	Date of grant	Tranche	Closing price per share on the business day immediately before date of grant HK$	No. of option shares held as at 1 January 2017	No. of option shares granted during the year	Transfer from other category during the year
KUOK Khoon Chen	23 Aug 2013	–	11.92	350,000	–	–
LUI Man Shing	23 Aug 2013	–	11.92	350,000	–	–
Madhu Rama Chandra RAO	23 Aug 2013	–	11.92	350,000	–	–
HO Kian Guan	23 Aug 2013	–	11.92	100,000	–	–
Alexander Reid HAMILTON	23 Aug 2013	–	11.92	100,000	–	–
Timothy David DATTELS	23 Aug 2013	–	11.92	100,000	–	–
LI Kwok Cheung Arthur	23 Aug 2013	–	11.92	100,000	–	–
LIU Kung Wei Christopher	23 Aug 2013	–	11.92	350,000	–	–

Transfer to other category during the year	No. of option shares exercised during the year	No. of option shares lapsed during the year	No. of option shares held as at 31 December 2017	Exercise price per option share HK$	Excess of weighted average closing price per share on exercise date over exercise price HK$	Exercise period
(350,000)	–	–	–	12.11	–	23 Aug 2013 – 22 Aug 2023
–	–	–	350,000	12.11	–	23 Aug 2013 – 22 Aug 2023
(350,000)	–	–	–	12.11	–	23 Aug 2013 – 22 Aug 2023
–	(100,000)	–	–	12.11	–	23 Aug 2013 – 22 Aug 2023
–	–	–	100,000	12.11	–	23 Aug 2013 – 22 Aug 2023
–	–	(100,000)	–	12.11	–	23 Aug 2013 – 22 Aug 2023
–	–	–	100,000	12.11	–	23 Aug 2013 – 22 Aug 2023
(350,000)	–	–	–	12.11	–	23 Aug 2013 – 22 Aug 2023

29 BENEFIT AND INTERESTS OF DIRECTORS (CONTINUED)

Movement of option shares granted to the Directors for the year ended 31 December 2016 are as follows:

Grantees	Date of grant	Tranche	Closing price per share on the business day immediately before date of grant HK$	No. of option shares held as at 1 January 2016	No. of option shares granted during the year	Transfer from other category during the year
KUOK Khoon Chen	23 Aug 2013	–	11.92	350,000	–	–
LUI Man Shing	16 Jun 2006	II	14.00	60,000	–	–
	23 Aug 2013	–	11.92	350,000	–	–
Madhu Rama Chandra RAO	16 Jun 2006	I	14.00	50,000	–	–
	16 Jun 2006	II	14.00	50,000	–	–
	23 Aug 2013	–	11.92	350,000	–	–
Gregory Allan DOGAN	16 Jun 2006	I	14.00	37,500	–	–
	16 Jun 2006	II	14.00	37,500	–	–
	23 Aug 2013	–	11.92	350,000	–	–
HO Kian Guan	23 Aug 2013	–	11.92	100,000	–	–
Alexander Reid HAMILTON	23 Aug 2013	–	11.92	100,000	–	–
Timothy David DATTELS	16 Jun 2006	I	14.00	30,000	–	–
	16 Jun 2006	II	14.00	30,000	–	–
	23 Aug 2013	–	11.92	100,000	–	–
LI Kwok Cheung Arthur	23 Aug 2013	–	11.92	100,000	–	–
LIU Kung Wei Christopher	16 Jun 2006	I	14.00	–	–	25,000
	16 Jun 2006	II	14.00	–	–	25,000
	23 Aug 2013	–	11.92	–	–	350,000

Transfer to other category during the year	No. of option shares exercised during the year	No. of option shares lapsed during the year	No. of option shares held as at 31 December 2016	Exercise price per option share HK$	Excess of weighted average closing price per share on exercise date over exercise price HK$	Exercise period
–	–	–	350,000	12.11	–	23 Aug 2013 – 22 Aug 2023
–	–	(60,000)	–	14.60	–	16 Jun 2008 – 15 Jun 2016
–	–	–	350,000	12.11	–	23 Aug 2013 – 22 Aug 2023
–	–	(50,000)	–	14.60	–	16 Jun 2007 – 15 Jun 2016
–	–	(50,000)	–	14.60	–	16 Jun 2008 – 15 Jun 2016
–	–	–	350,000	12.11	–	23 Aug 2013 – 22 Aug 2023
(37,500)	–	–	–	14.60	–	16 Jun 2007 – 15 Jun 2016
(37,500)	–	–	–	14.60	–	16 Jun 2008 – 15 Jun 2016
(350,000)	–	–	–	12.11	–	23 Aug 2013 – 22 Aug 2023
–	–	–	100,000	12.11	–	23 Aug 2013 – 22 Aug 2023
–	–	–	100,000	12.11	–	23 Aug 2013 – 22 Aug 2023
–	–	(30,000)	–	14.60	–	16 Jun 2007 – 15 Jun 2016
–	–	(30,000)	–	14.60	–	16 Jun 2008 – 15 Jun 2016
–	–	–	100,000	12.11	–	23 Aug 2013 – 22 Aug 2023
–	–	–	100,000	12.11	–	23 Aug 2013 – 22 Aug 2023
–	–	(25,000)	–	14.60	–	16 Jun 2007 – 15 Jun 2016
–	–	(25,000)	–	14.60	–	16 Jun 2008 – 15 Jun 2016
–	–	–	350,000	12.11	–	23 Aug 2013 – 22 Aug 2023

29 BENEFIT AND INTERESTS OF DIRECTORS (CONTINUED)

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2016: five) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual in 2017 are as follows:

	2017 US$'000
Basic salaries, housing allowances, other allowances and benefits in kind	1,283
Employer's contribution to pension scheme	16
Discretionary bonuses	663
Inducement fee to join the Group	252
Compensation for loss of office:	
– contractual payments	–
– other payment	–
	2,214

The emoluments of the five highest paid individuals fell within the following bands:

	Number of individuals	
Emolument bands (in HK dollar)	2017	2016
HK$9,500,001 – HK$10,000,000	1	1
HK$13,000,001 – HK$13,500,000	–	1
HK$14,500,001 – HK$15,000,000	–	1
HK$15,000,001 – HK$15,500,000	–	1
HK$16,500,001 – HK$17,000,000	1	–
HK$17,000,001 – HK$17,500,000	1	–
HK$17,500,001 – HK$18,000,000	–	1
HK$19,500,001 – HK$20,000,000	1	–
HK$25,000,001 – HK$25,500,000	1	–

30 FINANCE COSTS - NET

	2017 US$'000	2016 US$'000
Interest expense:		
– bank loans	137,310	112,345
– convertible bonds	–	8,742
– fixed rate bonds	8,189	29,476
– other loans	4,179	3,805
	149,678	154,368
Less: amount capitalised	(16,796)	(36,976)
	132,882	117,392
Net foreign exchange (gains)/losses	(1,463)	13,177
	131,419	130,569

The effective capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 2.8% per annum (2016: 3.4%).

31 SHARE OF PROFIT OF ASSOCIATES

	2017 US$'000	2016 US$'000
Share of profit before tax of associates before share of net fair value gains of investment properties and impairment loss of a hotel property	239,587	233,024
Share of impairment loss of a hotel property	–	(6,154)
Share of net fair value gains of investment properties	40,120	160,541
Share of profit before tax of associates	279,707	387,411
Share of tax before provision for deferred tax liabilities on fair value gains of investment properties	(66,802)	(56,705)
Share of provision for deferred tax liabilities on fair value gains of investment properties	(9,221)	(37,163)
Share of associates' taxation	(76,023)	(93,868)
Share of profit of associates	203,684	293,543

32 INCOME TAX EXPENSE

	2017 US$'000	2016 US$'000
Current income tax		
– Hong Kong profits tax	2,243	14,690
– overseas taxation	94,881	73,997
Deferred income tax (Note 24)	8,996	(1,158)
	106,120	87,529

Share of associates' taxation for the year ended 31 December 2017 of US$76,023,000 (2016: US$93,868,000) is included in the consolidated income statement as share of profit of associates.

32 INCOME TAX EXPENSE (CONTINUED)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2017 US$'000	2016 US$'000
Profit before income tax	250,166	149,561
Calculated at a taxation rate of 16.5% (2016: 16.5%)	41,277	24,678
Effect of different taxation rates of subsidiaries operating in other countries	16,066	12,928
Income not subject to taxation	(64,369)	(63,875)
Tax effect on unrecognised tax losses	28,767	25,693
Expenses not deductible for taxation purposes	57,876	71,838
Utilisation of previously unrecognised tax losses	(2,432)	(495)
Under/(Over) provision in prior year	450	(328)
Withholding tax	28,703	17,201
Tax incentive	(218)	(111)
Taxation charge	106,120	87,529

(a) Hong Kong profits tax is provided at a rate of 16.5% (2016: 16.5%) on the estimated assessable profits of group companies operating in Hong Kong.

(b) 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.

33 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.

	2017	2016
Profit attributable to equity holders of the Company (US$'000)	157,997	106,054
Weighted average number of ordinary shares in issue (thousands)	3,570,417	3,569,523
Basic earnings per share (US cents per share)	4.43	2.97

33 EARNINGS PER SHARE (CONTINUED)

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 only has the potential dilutive effect of the outstanding share options for the year ended 31 December 2017 and 2016. 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 for the year) 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.

The dilution effect on the earnings per share for the year ended 31 December 2017 and 2016 are as follows:

	2017	2016
Profit attributable to equity holders of the Company (US$'000)	157,997	106,054
Weighted average number of ordinary shares in issue (thousands)	3,570,417	3,569,523
Adjustments (thousands)	579	–
Weighted average number of ordinary shares for diluted earnings per share (thousands)	3,570,996	3,569,523
Diluted earnings per share (US cents per share)	4.42	2.97

34 DIVIDENDS

	Group		Company	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
Interim dividend paid of HK6 cents (2016: HK5 cents) per ordinary share	27,647	23,029	27,727	23,097
Proposed final dividend of HK11 cents (2016: HK8 cents) per ordinary share	50,736	36,847	50,885	36,955
	78,383	59,876	78,612	60,052

At a meeting held on 21 March 2018, the Board proposed a final dividend of HK11 cents per ordinary share for the year ended 31 December 2017. This proposed dividend is not reflected as a dividend payable in these financial statements.

The proposed final dividend of US$50,736,000 for the year ended 31 December 2017 is calculated based on 3,585,075,056 shares in issue as at 21 March 2018, after elimination on consolidation the amount of US$149,000 for the 10,501,055 ordinary shares in the Company held by a subsidiary of the Company (Note 18).

35 NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Cash generated from operations

	2017 US$'000	2016 US$'000
Profit before income tax	250,166	149,561
Share of profit of associates	(203,684)	(293,543)
Fair value losses on investment properties	57,880	143,945
Gain on disposal of equity interests in a subsidiary and an associate	(14,886)	–
Provision for impairment losses on hotel properties	–	70,485
Reversal of impairment loss on a hotel property	–	(3,794)
Reversal of impairment loss on an other property	–	(1,657)
Depreciation	312,852	309,462
Amortisation of leasehold land and land use rights, trademark; and website and system development	15,871	15,871
Interest on convertible bonds, fixed rate bonds, bank loans and overdrafts	132,882	117,392
Interest income	(15,969)	(15,156)
Dividend income	(1,489)	(1,301)
Loss on disposal of fixed assets and discarding of fixed assets due to properties renovations	11,638	15,443
Net unrealised (gains)/losses on financial assets held for trading	(8,571)	570
Net foreign exchange (gains)/losses	(1,464)	13,177
Operating profit before working capital changes	535,226	520,455
Decrease in inventories	3,762	843
Increase in accounts receivable, prepayments and deposits	(19,410)	(2,603)
Decrease/(Increase) in amounts due from associates	1,821	(3,712)
Increase in accounts payable and accruals	70,952	831
Increase in deposits received from property sales	106,517	97,686
Decrease in properties for sale	28,558	–
Net cash generated from operations	727,426	613,500

35 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(b) Disposal of interest in a subsidiary

On 16 June 2016, the Group entered into a sale and purchase agreement with an independent third party to dispose of its entire equity interest of 100% in an investment holding company which owns the Golden Flower Hotel, Xian in Mainland China for a cash consideration of RMB56,000,000 (equivalent to US$8,266,000) subject to adjustment in accordance with the change in working capital of the investment holding company.

The sale and purchase transaction was completed in February 2017 after obtaining the necessary approvals from the local government authorities and the changes of registration of the investment holding company as required by local laws. The final adjusted cash consideration of RMB53,015,000 (equivalent to US$7,826,000) was received on 4 July 2017 and the financial effects of the disposal transaction are as follows:

Assets and liabilities disposed of:	US$'000
Gross assets	17,190
Gross liabilities	(12,963)
Net assets disposed of	4,227
Final adjusted cash consideration received on 4 July 2017	7,826
Less: Net assets disposed of	(4,227)
Add: Cumulative exchange differences in respect of the net assets of the subsidiary released from exchange fluctuation reserve to profit or loss	1,053
Gain on disposal recognised	4,652

(c) Disposal of interest in an associate

On 22 June 2017, the Group completed a sale and purchase transaction to dispose of its entire equity interest of 100% in an investment holding company which owns 53.3% equity interest in an associate incorporated in Indonesia for the development of a hotel project and the operation of a golf course in Bali, Indonesia for a total cash consideration of US$53,300,000. Under the agreement, the Group granted a one-year short term advance of US$3,500,000 bearing interest at a fixed rate of 6.25% per annum maturing in June 2018 to the purchaser. The financial effects of the disposal transaction are as follows:

	US$'000
Assets disposed of - interest in associates	41,620
Cash consideration received	53,300
Less: Assets disposed of	(41,620)
Less: Cumulative exchange differences in respect of the net assets of the associate released from exchange fluctuation reserve to profit or loss	(1,446)
Gain on disposal recognised	10,234

35 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(d) Reconciliation of liabilities arising from financing activities

	Bank loans US$'000	Fixed rate bonds US$'000	Amounts due to non-controlling shareholders US$'000	Total US$'000
Balance as at 31 December 2016	4,695,763	599,730	52,316	5,347,809
Cash flows	417,300	(600,000)	(25,017)	(207,717)
Foreign exchange movement	71,612	–	761	72,373
Finance cost charged to profit or loss	–	270	4,260	4,530
Reclassed to non-controlling interests	–	–	(25,771)	(25,771)
Dividends declared to non-controlling shareholders	–	–	21,393	21,393
Balance as at 31 December 2017	5,184,675	–	27,942	5,212,617

36 FINANCIAL GUARANTEES, CONTINGENCIES AND CHARGES OVER ASSETS

(a) Financial guarantees

As at 31 December 2017, financial guarantees of the Company and the Group were as follows:

(i) The Company executed proportionate guarantees in favour of banks for securing banking facilities granted to certain subsidiaries and associates. The utilised amount of such facilities covered by the Company's guarantees and which also represented the financial exposure of the Company at the date of the statement of financial position amounted to US$4,313,969,000 (2016: US$3,840,383,000) for the subsidiaries and US$178,664,000 (2016: US$102,986,000) for associates.

(ii) The Company executed guarantees in favour of banks for securing certain banking facilities granted to four non-wholly owned subsidiaries. The non-controlling shareholders of four non-wholly owned subsidiaries provided proportionate counter guarantees to the Company under the joint venture agreements. The utilised amount of these facilities covered by the Company's guarantees after setting off the amount of counter guarantees from the non-controlling shareholders and which also represented the net financial exposure of the Company at the date of the statement of financial position amounted to US$352,610,000 (2016: US$349,446,000).

(iii) The Group executed proportionate guarantees in favour of banks for securing banking facilities granted to certain associates. The utilised amount of such facilities covered by the Group's guarantees for these associates amounted to US$178,664,000 (2016: US$102,986,000).

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 2017, 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$7,652,000 (2016: US$7,208,000). These facilities were undrawn as at 31 December 2017.

36 FINANCIAL GUARANTEES, CONTINGENCIES AND CHARGES OVER ASSETS (CONTINUED)

(c) Charges over assets

As at 31 December 2017, bank loans of certain subsidiaries amounting to US$129,264,000 (2016: US$153,898,000) were secured by legal mortgage over the property owned by two subsidiaries with an aggregate net book value of US$356,293,000 (2016: US$338,385,000).

37 COMMITMENTS

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

	2017 US$'000	2016 US$'000
Existing properties - Property, plant and equipment and investment properties		
– contracted but not provided for	75,088	124,267
– authorised but not contracted for	43,143	24,325
Development projects		
– contracted but not provided for	176,106	416,957
– authorised but not contracted for	368,225	250,134
	662,562	815,683

(b) The Group's commitments under operating leases to make future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	2017 US$'000	2016 US$'000
Not later than one year	71,882	52,014
Later than one year and not later than five years	232,356	213,375
Later than five years	1,279,221	1,011,203
	1,583,459	1,276,592

(c) At 31 December 2017, the Group had future aggregate minimum lease rental receivable under non-cancellable operating leases in respect of land and buildings as follows:

	2017 US$'000	2016 US$'000
Not later than one year	50,285	39,553
Later than one year and not later than five years	40,693	29,599
Later than five years	1,741	3,620
	92,719	72,772

38 RELATED PARTY TRANSACTIONS

Kerry Holdings Limited ("**KHL**"), a substantial shareholder and a related party of the Company, has significant influence over the Company.

The following transactions were carried out with related parties:

		2017 US$'000	2016 US$'000
(a)	Transactions with subsidiaries of KHL during the year (other than subsidiaries of the Company)		
	Receipt of hotel management, consultancy and related services and royalty fees	(Note ii) 13,465	13,111
	Reimbursement of office expenses and payment of administration and related expenses	2,483	3,287
	Reimbursement of office rental, management fees and rates	276	338
	Payment of office rental, management fees and rates	6,959	6,712
	Purchase of wine	3,268	3,138
(b)	Transactions with associates of the Group during the year (other than the subsidiaries of KHL included under item (a) above)		
	Receipt of hotel management, consultancy and related services and royalty fees	23,393	19,858
	Receipt for laundry services	(Note i) 532	509
(c)	Financial assistance provided to subsidiaries of KHL as at 31 December (other than subsidiaries of the Company)		
	Balance of loan to associates of the Group	161,372	160,009
	Balance of guarantees executed in favour of banks for securing bank loans/facilities granted to associates of the Group	114,682	15,499
(d)	Financial assistance provided to associates of the Group as at 31 December (excluding item (c) above)		
	Balance of loan to associates of the Group	77,821	85,890
	Balance of guarantees executed in favour of banks for securing bank loans/facilities granted to an associate of the Group	63,982	87,487
There are no material changes to the terms of the above transactions during the year.			
(e)	Key management compensation		
	Fees, salaries and other short-term employee benefits of executive directors	9,277	8,927
	Post employment benefits of executive directors	104	115

38 RELATED PARTY TRANSACTIONS (CONTINUED)

Notes:

(i) These transactions constitute connected transactions or continuing connected transactions as defined in Chapter 14A of The Rules Governing the Listing of Securities on HKSE ("**Listing Rules**") and are exempted from reporting, annual review, announcement and independent shareholders' approval requirement under Chapter 14A of Listing Rules.

(ii) These transactions include continuing connected transactions as defined in Chapter 14A of Listing Rules of US$4,125,000 which are exempted from reporting, annual review, announcement and independent shareholders' approval requirement under Chapter 14A of Listing Rules.

39 GROUP STRUCTURE - PRINCIPAL SUBSIDIARIES AND ASSOCIATES

(a) At 31 December 2017, the Company held interests in the following principal subsidiaries:

Name	Place of establishment/ operation	Paid up/ issued capital	Percentage holding in the voting shares		Nature of business	Notes
			Direct	Indirect		
Seanoble Assets Limited	The British Virgin Islands	HK$578,083,745	100	–	Investment holding	1
Shangri-La Asia Treasury Limited	The British Virgin Islands	HK$8,530	100	–	Group financing	1
Shangri-La China Limited	Hong Kong	HK$1,162,500,000	–	100	Investment holding	1
Shangri-La Hotels (Europe)	Luxembourg	EUR206,600,000	100	–	Investment holding	
Kerry Industrial Company Limited	Hong Kong	HK$10,000,002	–	100	Investment holding	1
Shangri-La Hotel (Kowloon) Limited	Hong Kong	HK$10,000,002	–	100	Hotel ownership and operation	1
Shangri-La International Hotels (Pacific Place) Limited	Hong Kong	HK$10,005,000	–	80	Hotel ownership and operation	1
Shenzhen Shangri-La Hotel Limited	The People's Republic of China	US$32,000,000	–	72	Hotel ownership and operation	2,6,8
Beihai Shangri-La Hotel Limited	The People's Republic of China	US$16,000,000	–	100	Hotel ownership and operation	7,8
Shanghai Pudong New Area Shangri-La Hotel Co, Limited	The People's Republic of China	US$47,000,000	–	100	Hotel ownership and operation	2,5,8
Shenyang Hotel Jen Limited	The People's Republic of China	US$39,040,470	–	100	Hotel ownership and operation	7,8
Changchun Shangri-La Hotel Co, Limited	The People's Republic of China	RMB167,000,000	–	100	Hotel ownership and operation and real estate operation	7,8
Jilin Province Kerry Real Estate Development Limited	The People's Republic of China	RMB25,000,000	–	100	Real estate development and operation	7,8
Qingdao Shangri-La Hotel Co, Limited	The People's Republic of China	US$79,000,000	–	100	Hotel ownership and operation and real estate development and operation	7,8
Dalian Shangri-La Hotel Co, Limited	The People's Republic of China	US$149,000,000	–	100	Hotel ownership and operation and real estate development and operation	7,8
Harbin Shangri-La Hotel Co, Limited	The People's Republic of China	US$20,767,000	–	100	Hotel ownership and operation	7,8
Wuhan Shangri-La Hotel Co, Limited	The People's Republic of China	US$38,767,000	–	92	Hotel ownership and operation	6,8

39 GROUP STRUCTURE - PRINCIPAL SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(a) At 31 December 2017, the Company held interests in the following principal subsidiaries: (continued)

Name	Place of establishment/ operation	Paid up/ issued capital	Percentage holding in the voting shares Direct	Percentage holding in the voting shares Indirect	Nature of business	Notes
Fujian Kerry World Trade Centre Co, Limited	The People's Republic of China	HK$700,000,000	–	100	Real estate development	3,7,8
Fuzhou Shangri-La Hotel Co, Limited	The People's Republic of China	US$22,200,000	–	100	Hotel ownership and operation	7,8
Shangri-La Hotel (Chengdu) Co, Limited	The People's Republic of China	US$53,340,000	–	80	Hotel ownership and operation and real estate development and operation	7,8
Shangri-La Hotel (Guangzhou Pazhou) Co, Limited	The People's Republic of China	US$60,340,000	–	80	Hotel ownership and operation	7,8
Shangri-La Hotel (Shenzhen Futian) Co, Limited	The People's Republic of China	US$71,000,000	–	100	Hotel ownership and operation	2,7,8
Shangri-La Hotel (Ningbo) Co, Limited	The People's Republic of China	US$83,000,000	–	95	Hotel ownership and operation	7,8
Shangri-La Hotel (Wenzhou) Co, Limited	The People's Republic of China	US$46,250,000	–	75	Hotel ownership and operation	7,8
Shangri-La Hotel (Xian) Co, Limited	The People's Republic of China	US$42,800,000	–	100	Hotel ownership and operation	7,8
Shangri-La Hotel (Guilin) Co, Limited	The People's Republic of China	US$70,150,000	–	100	Hotel ownership and operation	7,8
Shangri-La Hotel (Baotou) Co, Limited	The People's Republic of China	US$24,400,000	–	100	Hotel ownership and operation	7,8
Shangri-La Hotel (Huhhot) Co, Limited	The People's Republic of China	US$43,670,000	–	100	Hotel ownership and operation	7,8
Shangri-La Hotel (Manzhouli) Co, Limited	The People's Republic of China	US$84,615,000	–	100	Hotel ownership and operation	7,8
Shangri-La Hotel (Zhoushan) Co, Limited	The People's Republic of China	RMB120,000,000	–	100	Hotel ownership and operation	3,7,8
Shangri-La Hotel (Hefei) Co, Limited	The People's Republic of China	US$90,000,000	–	100	Hotel ownership and operation	7,8
Shangri-La Hotel (Qinhuangdao) Co, Limited	The People's Republic of China	RMB880,000,000	–	100	Hotel ownership and operation	7,8
Sanya Shangri-La Hotel Co, Limited	The People's Republic of China	RMB1,775,614,140	–	100	Hotel ownership and operation	7,8
Shangri-La Hotel (Lhasa) Co, Limited	The People's Republic of China	US$132,000,000	–	100	Hotel ownership and operation	7,8
Shangri-La Hotel (Qufu) Co, Limited	The People's Republic of China	RMB844,000,000	–	100	Hotel ownership and operation	7,8
Shangri-La Hotel (Nanjing) Co, Limited	The People's Republic of China	RMB750,000,000	–	55	Hotel ownership and operation	7,8

39 GROUP STRUCTURE - PRINCIPAL SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(a) At 31 December 2017, the Company held interests in the following principal subsidiaries: (continued)

Name	Place of establishment/ operation	Paid up/ issued capital	Percentage holding in the voting shares		Nature of business	Notes
			Direct	Indirect		
Shangri-La Hotel (Diqing) Co, Limited	The People's Republic of China	RMB610,000,000	–	100	Hotel ownership and operation	7,8
Shangri-La Hotel (Xiamen) Co, Limited	The People's Republic of China	RMB640,000,000	–	100	Hotel ownership and operation	2,7,8
Dalian Wolong Bay Shangri-La Hotel Co, Limited	The People's Republic of China	RMB430,000,000	–	100	Hotel ownership and operation and real estate development and operation	3,7,8
Kerry Real Estate (Yangzhou) Co, Limited	The People's Republic of China	US$102,600,000	–	100	Hotel ownership and operation and real estate development	7,8
Harbin Songbei Shangri-La Hotel Co, Limited	The People's Republic of China	RMB658,000,000	–	100	Hotel ownership and operation	7,8
Shangri-La Ulaanbaatar LLC	Mongolia	US$5,000,000	–	51	Office ownership and operation	
Shangri-La Ulaanbaatar Hotel LLC	Mongolia	US$20,000,000	–	51	Hotel, serviced apartments and office ownership and operation	
Makati Shangri-La Hotel & Resort, Inc	The Philippines	Peso1,100,000,000	–	100	Hotel ownership and operation	
Edsa Shangri-La Hotel & Resort, Inc	The Philippines	Peso 792,128,700	–	100	Hotel ownership and operation	
Mactan Shangri-La Hotel & Resort, Inc	The Philippines	Common Peso 272,630,000 Preferred Peso 170,741,500 Redeemable Common Peso 285,513,000	–	93.95	Hotel ownership and operation	
Addu Investments Private Limited	Republic of Maldives	Rufiyaa 640,000,000	–	70	Hotel ownership and operation	
Traders Hotel Malé Private Limited	Republic of Maldives	Rufiyaa 64,000,000	–	100	Hotel ownership and operation	
Yanuca Island Pte Limited	Fiji	F$1,262,196	–	71.64	Hotel ownership and operation	2
Shangri-La Hotel Limited	Singapore	S$165,433,560	–	100	Investment holding, hotel ownership and operation and leasing of residential and serviced apartments	2

39 GROUP STRUCTURE - PRINCIPAL SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(a) At 31 December 2017, the Company held interests in the following principal subsidiaries: (continued)

Name	Place of establishment/ operation	Paid up/ issued capital	Percentage holding in the voting shares		Nature of business	Notes
			Direct	Indirect		
Sentosa Beach Resort Pte Limited	Singapore	S$30,000,000	–	100	Hotel ownership and operation	2
Traders Hotel Management Pte Limited	Singapore	S$1	–	100	Hotel operation	2
Shangri-La Hotels (Malaysia) Berhad	Malaysia	RM544,501,853	–	52.78	Investment holding and hotel ownership and operation	
Shangri-La Hotel (KL) Sdn Berhad	Malaysia	RM150,000,000	–	52.78	Hotel ownership and operation	
Golden Sands Beach Resort Sdn Berhad	Malaysia	RM6,000,000	–	52.78	Hotel ownership and operation	
Pantai Dalit Beach Resort Sdn Berhad	Malaysia	RM135,000,000	–	64.59	Hotel and golf club ownership and operation	
Komtar Hotel Sdn Berhad	Malaysia	RM6,000,000	–	31.67	Hotel ownership and operation	
UBN Tower Sdn Berhad	Malaysia	RM500,000	–	52.78	Property investment and office management	
UBN Holdings Sdn Berhad	Malaysia	RM45,186,400	–	52.78	Investment holding and property investment	
Traders Yangon Company Limited	Myanmar	Kyat 21,600,000	–	59.16	Hotel ownership and operation	
Shangri-La Yangon Company Limited	Myanmar	Kyat 11,880,000	–	55.86	Serviced apartments and hotel ownership and operation	
Traders Square Company Limited	Myanmar	Kyat 522,000	–	59.28	Real estate development and operation	
Shangri-La Hotel Public Company Limited	Thailand	Baht1,300,000,000	–	73.61	Hotel, serviced apartments and office ownership and operation	
Shangri-La Hotels (Paris)	France	EUR13,772,210	–	100	Hotel ownership and operation	2
Shangri-La Hotels Japan KK	Japan	YEN902,500,000	–	100	Hotel operation	2
Shangri-La Hotels Pte Limited	United Kingdom	GBP81,000,000	–	100	Hotel operation	2
Shangri-La Hotel (Cairns) Pty Limited	Australia	AUD8,250,000	–	100	Investment holding and hotel operation	9
Abelian Pty Limited	Australia	AUD1	–	100	Investment holding and hotel operation	9
Roma Hotel Pty Limited	Australia	AUD34,000,000	–	100	Hotel ownership and operation	9

39 GROUP STRUCTURE - PRINCIPAL SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(a) At 31 December 2017, the Company held interests in the following principal subsidiaries: (continued)

Name	Place of establishment/ operation	Paid up/ issued capital	Percentage holding in the voting shares		Nature of business	Notes
			Direct	Indirect		
Lilyvale Hotel Pty Limited	Australia	AUD140,000,004	–	100	Hotel ownership and operation	2,9
Shangri-La Hotels Lanka (Private) Limited	Sri Lanka	LKR2,219,000,000	–	90	Hotel ownership and operation and real estate development and operation	4
Shangri-La Investments Lanka (Private) Limited	Sri Lanka	LKR1,214,245,300	–	90	Hotel ownership and operation	
Turati Properties Srl	Italy	EUR10,000	–	100	Hotel ownership and operation	3
SLIM International Limited	Cook Islands	US$1,000	100	–	Investment holding	1
Shangri-La International Hotel Management Limited	Hong Kong	HK$10,000,000	–	100	Hotel management, marketing, consultancy and reservation services	1
Shangri-La Hotel Management (Shanghai) Co, Limited	The People's Republic of China	US$7,340,000	–	100	Hotel management, marketing and consultancy services	7,8
Shangri-La International Hotel Management BV	The Netherlands	EUR18,151	–	100	Sub-licensing use of intellectual property rights	

Notes:

1 Subsidiaries audited by PricewaterhouseCoopers, Hong Kong.

2 Subsidiaries audited by other member firms of PricewaterhouseCoopers.

3 Subsidiaries which are under various stages of real estate and hotel development and have not yet commenced business operations as at the date of the statement of financial position.

4 Subsidiaries which are under various stages of real estate and hotel development and have partially commenced business operations as at the date of the statement of financial position.

5 Co-operative Joint Venture.

6 Equity Joint Venture.

7 Wholly Foreign Owned Enterprise.

8 The amount of paid up/issued capital for subsidiaries incorporated in The People's Republic of China represented the amount of paid in registered capital.

9 A Deed of Cross Guarantee was entered on 24 December 2015 between Shangri-La Asia Limited and its wholly owned Australian subsidiaries for the purpose of obtaining the benefit of the Class Order to relieve the entities from the requirement to lodge reports with ASIC (Australian Securities and Investments Commission). Apart from the stated principal subsidiaries, this deed also includes Shangri-La Investments (Australian) Pty Limited (Australian parent company), Shangri-La Hotels Pty Limited (hotel management company), Langley Terrace Hotel Pty Limited (dormant), Traders Hotel Pty Limited (dormant) and The Piers Cairns Management Services Pty Limited (agent company for Pier Cairns). All of these entities form a Closed Group. There are no other Extended Closed Group Entities involved. A Revocation Deed was entered in October 2017 between Shangri-La Asia Limited and its wholly owned Australian subsidiaries for the purpose of removing Langley Terrace Hotel Pty Limited from the Deed of Cross Guarantee.

39 GROUP STRUCTURE - PRINCIPAL SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(b) At 31 December 2017, the Group held interests in the following principal associates:

Name	Place of establishment/operation	Percentage holding in the registered capital by the Group	Nature of business	Notes
China World Trade Center Limited	The People's Republic of China	50	Hotel ownership and operation and property investment	2
Beijing Shangri-La Hotel Co, Limited	The People's Republic of China	38	Hotel ownership and operation	
Hangzhou Shangri-La Hotel Limited	The People's Republic of China	45	Hotel ownership and operation	
Seacliff Limited	The People's Republic of China	30	Hotel ownership and operation and property investment	1
Beijing Jia Ao Real Estate Development Co, Limited	The People's Republic of China	23.75	Real estate development and operation	2
Beijing Kerry Hotel Co, Limited	The People's Republic of China	23.75	Hotel ownership and operation	2
Shanghai Xin Ci Hou Properties Co, Limited	The People's Republic of China	24.75	Real estate development and operation	2
Shanghai Ji Xiang Properties Co, Limited	The People's Republic of China	49	Hotel ownership and operation and property investment	2
Shanghai Pudong Kerry City Properties Co, Limited	The People's Republic of China	23.20	Hotel ownership and operation and property investment	2
Tianjin Kerry Real Estate Development Co, Limited	The People's Republic of China	20	Hotel ownership and operation and property investment	4
Kerry Real Estate (Nanchang) Co, Limited	The People's Republic of China	20	Hotel ownership and operation and property investment	4
Hengyun Real Estate (Tangshan) Co, Limited	The People's Republic of China	35	Property investment	
Ruihe Real Estate (Tangshan) Co, Limited	The People's Republic of China	35	Hotel ownership and operation	
Xiang Heng Real Estate (Jinan) Co, Limited	The People's Republic of China	45	Hotel ownership and operation and property investment	
Kerry (Shenyang) Real Estate Development Co, Limited	The People's Republic of China	25	Property investment	4
Sheng Xiang Real Estate (Shenyang) Co, Limited	The People's Republic of China	25	Property investment	3
Shangri-La Hotel (Shenyang) Co, Limited	The People's Republic of China	25	Hotel ownership and operation	
Kerry Real Estate (Hangzhou) Co Limited	The People's Republic of China	25	Hotel ownership and operation and property investment	
Full Fortune Real Estate (Putian) Co, Limited	The People's Republic of China	40	Property investment	3
Well Fortune Real Estate (Putian) Co, Limited	The People's Republic of China	40	Hotel ownership and operation	3

39 GROUP STRUCTURE - PRINCIPAL SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(b) At 31 December 2017, the Group held interests in the following principal associates: (continued)

Name	Place of establishment/operation	Percentage holding in the registered capital by the Group	Nature of business	Notes
Zhengzhou Yuheng Real Estate Co, Limited	The People's Republic of China	45	Hotel ownership and operation and property investment	3
Jian'an Real Estate (Kunming) Co, Limited	The People's Republic of China	45	Hotel ownership and operation	3
Cuscaden Properties Pte Limited	Singapore	44.60	Hotel ownership and operation and property investment	
Tanjong Aru Hotel Sdn Berhad	Malaysia	40	Hotel ownership and operation	
Komtar Hotel Sdn Berhad	Malaysia	31.67	Hotel ownership and operation	
PT Swadharma Kerry Satya	Indonesia	25	Hotel ownership and operation	2
Fine Winner Holdings Limited	Hong Kong	30	Hotel ownership and operation	1
Shang Global City Properties, Inc	The Philippines	40	Hotel ownership and operation and property investment	
SRL Touessrok Hotel Limited	Mauritius	26	Hotel ownership and operation	
Besiktas Emlak Yatirim ve Turizm Anonim Sirketi	Turkey	50	Hotel ownership and operation	
Kerry Wines Limited	Hong Kong	20	Wines trading	1
Perennial Ghana Development Limited	The Republic of Ghana	45	Hotel ownership and operation	3

Notes:

1 Associates audited by PricewaterhouseCoopers, Hong Kong.

2 Associates audited by other member firms of PricewaterhouseCoopers.

3 Associates which are under various stages of real estate and hotel development and have not yet commenced business operations as at the date of the statement of financial position.

4 Associates which are under various stages of real estate and hotel development and have partially commenced business operations as at the date of the statement of financial position.

(c) The above tables list out the subsidiaries and associates of the Company as at 31 December 2017 which, in the opinion of the Directors, principally affected the results for the year or form a substantial portion of the net assets of the Group. To give details of other subsidiaries and associates would, in the opinion of the Directors, result in particulars of excessive length.

40 HOTEL PROPERTIES OF SUBSIDIARIES AND ASSOCIATES

(a) Details of hotel properties of the Company's subsidiaries are as follows:
(lease term represents unexpired lease term of land use rights unless otherwise stated)

Address	Existing use	Lease term
Kowloon Shangri-La, Hong Kong 64 Mody Road, Tsimshatsui East, Kowloon, Hong Kong	Hotel operation	Medium lease
Island Shangri-La, Hong Kong Pacific Place, Supreme Court Road, Central, Hong Kong	Hotel operation	Medium lease
Kerry Hotel, Hong Kong 38 Hung Luen Road,Hung Hom Bay, Kowloon, Hong Kong	Hotel operation	Medium lease
Shangri-La Hotel, Shenzhen East Side, Railway Station, 1002 Jianshe Road, Shenzhen 518001, The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Beihai 33 Chating Road, Beihai, Guangxi 536007, The People's Republic of China	Hotel operation	Medium lease
Pudong Shangri-La, East Shanghai 33 Fu Cheng Lu, Pudong New Area, Shanghai 200120, The People's Republic of China	Hotel operation	Medium lease
Hotel Jen, Shenyang 68 Zhong Hua Road, He Ping District, Shenyang 110001, The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Changchun 569 Xian Road, Changchun 130061, The People's Republic of China	Hotel operation and commercial and residential rental	Medium lease
Shangri-La Hotel, Qingdao 9 Xiang Gang Zhong Lu, Qingdao 266071, The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Dalian 66 Renmin Road, Dalian 116001, The People's Republic of China	Hotel operation	Medium lease

40 HOTEL PROPERTIES OF SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(a) Details of hotel properties of the Company's subsidiaries are as follows: (continued)
(lease term represents unexpired lease term of land use rights unless otherwise stated)

Address	Existing use	Lease term
Shangri-La Hotel, Harbin 555 You Yi Road,Dao Li District, Harbin 150018, The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Wuhan No. 700, Jianshe Avenue, Hankou, Wuhan 430015, The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Fuzhou No. 9 Xin Quan Nan Road, Fuzhou 350005, The People's Republic of China	Hotel operation	Long lease
Shangri-La Hotel, Guangzhou 1 Hui Zhan Dong Road, Hai Zhu District, Guangzhou 510308, The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Chengdu 9 Binjiang Dong Road, Chengdu, Sichuan 610021, The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Xian 38B Keji Road, Xian 710075, The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Baotou 66 Min Zu East Road, Qing Shan District, Baotou 014030, Inner Mongolia, The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Yangzhou 472 Wen Chang Xi Lu, New Western District, Yangzhou Jiangsu Province, 225009, The People's Republic of China	Hotel operation	Medium lease

40 HOTEL PROPERTIES OF SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(a) Details of hotel properties of the Company's subsidiaries are as follows: (continued)
(lease term represents unexpired lease term of land use rights unless otherwise stated)

Address	Existing use	Lease term
Shangri-La Hotel, Huhhot 5 Xi Lin Guo Le South Road, Huhhot 010020, Inner Mongolia, The People's Republic of China	Hotel operation	Medium lease
Futian Shangri-La, Shenzhen 4088 Yi Tian Road Futian District Shenzhen 518048 The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Wenzhou 1 Xiangyuan Road, Wenzhou 325000, Zhejiang Province, The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Ningbo 88 Yuyuan Road, Jiangdong District, Ningbo 315040, Zhejiang, The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Guilin 111 Huan Cheng Bei Er Lu, Guilin 541004, Guangxi, The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Manzhouli 99 Liudao Street, Manzhouli Inner Mongolia, 021400, The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Qufu 3 Chunqiu Road, Qufu, Shandong, 273100, The People's Republic of China	Hotel operation	Medium lease
Shangri-La's Sanya Resort & Spa, Hainan No.88 North Hai Tang Road, Sanya Hainan, 572000, The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Lhasa 19 Norbulingka Road, Lhasa, Tibet Autonomous Region, 850000, The People's Republic of China	Hotel operation	Medium lease

40 HOTEL PROPERTIES OF SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(a) Details of hotel properties of the Company's subsidiaries are as follows: (continued)
(lease term represents unexpired lease term of land use rights unless otherwise stated)

Address	Existing use	Lease term
Shangri-La Hotel, Nanjing 329 Zhongyang Road, Gulou District, Nanjing, Jiangsu Province, 210037, The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Qinhuangdao 123 Hebin Road, Haigang District, Qinhuangdao, Hebei, 066000, The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Hefei No.256 Suixi Road, Luyang District, Hefei, Anhui Province, 230041 The People's Republic of China	Hotel operation	Medium lease
Shangri-La Resort, Shangri-La No.1, Chicika Street, Jiantang Town, Shangri-La City, Diqing Tibetan Autonomous Prefecture, Yunnan Province, The People's Republic of China	Hotel operation	Medium lease
Songbei Shangri-La, Harbin No. 1 Songbei Avenue, Songbei District, Harbin 150028, The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Xiamen Guanyinshan International Business Centre, No. 168 Taidong Road, Siming District, Fujian, The People's Republic of China	Hotel operation	Medium lease
Makati Shangri-La, Manila Ayala Avenue, corner Makati Avenue, Makati City, Metro Manila 1200, The Philippines	Hotel operation	Medium lease
Edsa Shangri-La, Manila 1 Garden Way, Ortigas Center, Mandaluyong City 1650, Metro Manila, The Philippines	Hotel operation	Medium lease

40 HOTEL PROPERTIES OF SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(a) Details of hotel properties of the Company's subsidiaries are as follows: (continued)
(lease term represents unexpired lease term of land use rights unless otherwise stated)

Address	Existing use	Lease term
Shangri-La's Mactan Resort & Spa, Cebu Punta Engano Road, Lapu Lapu City, Cebu 6015, The Philippines	Hotel operation	Medium lease
Shangri-La's Boracay Resort & Spa Barangay Yapak Boracay Island Malay, Aklan 5608, The Philippines	Hotel operation	Medium lease
Shangri-La's Fijian Resort & Spa, Yanuca Yanuca Island Cuvu, Sigatoka, Fiji	Hotel operation	Long lease
Shangri-La Hotel, Singapore 22 Orange Grove Road, Singapore 258350	Hotel operation	Freehold
Shangri-La's Rasa Sentosa Resort & Spa, Singapore 101 Siloso Road, Sentosa, Singapore 098970	Hotel operation	Long lease
Hotel Jen Orchardgateway Singapore 277 Orchard Road, Singapore 238858	Hotel operation	Medium lease for building
Shangri-La Hotel, Kuala Lumpur 11 Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia	Hotel operation	Freehold
Shangri-La's Rasa Sayang Resort & Spa, Penang Batu Feringgi Beach, 11100 Penang, Malaysia	Hotel operation	Freehold
Hotel Jen Penang Magazine Road, George Town, 10300 Penang, Malaysia	Hotel operation	Long lease

40 HOTEL PROPERTIES OF SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(a) Details of hotel properties of the Company's subsidiaries are as follows: (continued)
(lease term represents unexpired lease term of land use rights unless otherwise stated)

Address	Existing use	Lease term
Golden Sands Resort, Penang Batu Feringgi Beach, 11100 Penang, Malaysia	Hotel operation	Freehold
Shangri-La's Rasa Ria Resort & Spa, Kota Kinabalu Pantai Dalit Beach, Tuaran, Sabah 89208, Malaysia	Hotel and golf club operation	Long lease
Sule Shangri-La, Yangon 223 Sule Pagoda Road, Yangon, Myanmar	Hotel operation	Medium lease
Shangri-La Hotel, Bangkok 89 Soi Wat Suan Plu, New Road, Bangrak, Bangkok 10500, Thailand	Hotel operation, residential and office rental	Freehold
Shangri-La Hotel, Chiang Mai 89/8 Chang Klan Road, Muang, Chiang Mai 50100, Thailand	Hotel operation	Freehold
Shangri-La's Villingili Resort & Spa, Maldives Villingili Island, Addu Atoll, Republic of Maldives	Hotel operation	Medium lease
Hotel Jen Malé Maldives Ameer Ahmed Magu, Malé 20096, Republic of Maldives	Hotel operation	Medium lease
Shangri-La Hotel, Tokyo Marunouchi Trust Tower Main, 1-8-3 Marunouchi, Chiyoda-ku, Tokyo 100-8283, Japan	Hotel operation	Medium lease for building
Shangri-La Hotel, At The Shard, London 31 St Thomas Street, SE1 9QU, London United Kingdom	Hotel operation	Medium lease for building

40 HOTEL PROPERTIES OF SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(a) Details of hotel properties of the Company's subsidiaries are as follows: (continued)
(lease term represents unexpired lease term of land use rights unless otherwise stated)

Address	Existing use	Lease term
Shangri-La Hotel, Paris 10 Avenue d'Iena, 75116 Paris, France	Hotel operation	Freehold
Shangri-La Hotel, The Marina, Cairns Pierpoint Road, Marlin Marina, Cairns, Queensland 4870, Australia	Hotel operation	Medium lease
Shangri-La Hotel, Sydney 176 Cumberland Street, The Rocks, Sydney NSW 2000, Australia	Hotel operation	Long lease
Hotel Jen Brisbane 159, Roma Street, Brisbane, Queensland 4000, Australia	Hotel operation	Freehold
Shangri-La Hotel, Ulaanbaatar 19 Olympic Street, Sukhbaatar District-1, Ulaanbaatar, 14241, Mongolia	Hotel operation	Long lease
Shangri-La's Hambantota Golf Resort & Spa, Sri Lanka Sittrakala Estate, Chithragala, Ambalantota, Sri Lanka	Hotel operation	Medium lease
Shangri-La Hotel, Colombo 1 Galle Face, Colombo 2, Sri Lanka	Hotel operation	Freehold

40 HOTEL PROPERTIES OF SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(b) Details of hotel properties of the operating associates are as follows:
(lease term represents unexpired lease term of land use rights unless otherwise stated)

Address	Existing use	Lease term
China World Hotel, Beijing 1 Jian Guo Men Wai Avenue, Beijing 100004, The People's Republic of China	Hotel operation	Medium lease
Hotel Jen, Beijing 1 Jian Guo Men Wai Avenue, Beijing 100004, The People's Republic of China	Hotel operation	Medium lease
China World Summit Wing, Beijing 1 Jian Guo Men Wai Avenue, Beijing 100004, The People's Republic of China	Hotel operation	Medium lease
Kerry Hotel, Beijing 1 Guanghua Road, Chaoyang District, Beijing 100020, The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Beijing 29 Zizhuyuan Road, Beijing 100089, The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Hangzhou 78 Beishan Road, Hangzhou 310007, The People's Republic of China	Hotel operation	Medium lease
Kerry Hotel Pudong, Shanghai No. 1388 Hua Mu Road, Pudong, Shanghai 201204, The People's Republic of China	Hotel operation	Medium lease
Jing An Shangri-La, West Shanghai 1218 Middle Yan'an Road, Jing An Kerry Centre, West Nanjing Road, Shanghai 200040, The People's Republic of China	Hotel operation	Medium lease

40 HOTEL PROPERTIES OF SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(b) Details of hotel properties of the operating associates are as follows: (continued)
(lease term represents unexpired lease term of land use rights unless otherwise stated)

Address	Existing use	Lease term
Shangri-La Hotel, Shenyang 115 Qingnian Avenue Shenhe District, Shenyang Liaoning, 110016, The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Tianjin No. 328 Haihe East Road, Hedong District, Tianjin, 300019 The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Jinan No. 106 Luoyuan Street, Lixia District, Jinan, Shandong Province, 250011, The People's Republic of China	Hotel operation	Medium lease
The Portman Ritz-Carlton, Shanghai 1376 Nanjing Road West, Shanghai 200040, The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Nanchang No. 669, Cui Lin Road, Honggutan New District, Nanchang, Jiangxi Province, 330038, The People's Republic of China	Hotel operation	Medium lease
Shangri-La Hotel, Tangshan 889, Changhong West Road, Lubei District, Tangshan, Hebei, 063000, The People's Republic of China	Hotel operation	Medium lease
Midtown Shangri-La, Hangzhou 6 Changshou Road, Kerry Central, Yan'an Roan, Hangzhou, 310006, China	Hotel operation	Medium lease
Hotel Jen Tanglin Singapore 1A Cuscaden Road, Singapore 249716	Hotel operation	Long lease
Shangri-La's Tanjung Aru Resort & Spa, Kota Kinabalu 20 Jalan Aru, Kota Kinabalu, Sabah 88100, Malaysia	Hotel operation	Long lease

40 HOTEL PROPERTIES OF SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(b) Details of hotel properties of the operating associates are as follows: (continued)
(lease term represents unexpired lease term of land use rights unless otherwise stated)

Address	Existing use	Lease term
Shangri-La Hotel, Jakarta Kota BNI, Jalan Jend. Sudirman Kav. 1, Jakarta 10220, Indonesia	Hotel operation	Medium lease
Hotel Jen Hong Kong No. 508 Queen's Road West, Western District, Hong Kong	Hotel operation	Long lease
Shangri-La Bosphorus, Istanbul Sinanpasa Mah, Hayrettin, Iskelesi Sok, No.1, Besiktas, Istanbul, 34353 Turkey	Hotel operation	Freehold
Shangri-La's Le Touessrok Resort & Spa, Mauritius Coastal Road, Trou d'Eau Douce, 42212, Mauritius	Hotel operation	Freehold/Long lease
Shangri-La at the Fort, Manila 30th street corner 5th Avenue, Bonifacio Global City, Taguig City, Philippines	Hotel operation	Freehold

41 INVESTMENT PROPERTIES OF SUBSIDIARIES AND ASSOCIATES

(a) Details of principal investment properties of the subsidiaries are as follows:
(lease term represents unexpired lease term of land use rights unless otherwise stated)

Address	Existing use	Lease term
Shangri-La Residences, Dalian 66 Renmin Road, Dalian 116001, The People's Republic of China	Residential rental	Medium lease
Shangri-La Centre, Chengdu 9 Binjiang Dong Road Chengdu, Sichuan 610021, The People's Republic of China	Office and commercial rental	Medium lease
Shangri-La Centre, Qingdao 9 Xiang Gang Zhong Lu, Qingdao 266071, The People's Republic of China	Office and commercial rental	Medium lease

41 INVESTMENT PROPERTIES OF SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(a) Details of principal investment properties of the subsidiaries are as follows: (continued)
(lease term represents unexpired lease term of land use rights unless otherwise stated)

Address	Existing use	Lease term
Central Tower, Ulaanbaatar 2 Sukhbaatar Square, SBD -8, Ulaanbaatar 210620a, Mongolia	Office rental	Medium lease
Shangri-La Centre, Ulaanbaatar 19A-C Olympic Street, Sukhbaatar District 1, Ulaanbaatar 14241, Mongolia	Office, commercial and residential rental	Long lease
Shangri-La Apartments, Singapore 1 Anderson Road, Singapore 259983	Residential rental	Freehold
Shangri-La Residences, Singapore No. 1A Lady Hill Road, Singapore 258685	Residential rental	Freehold
UBN Tower, Kuala Lumpur UBN Complex, 10 Jalan P. Ramlee, 50250 Kuala Lumpur, Malaysia	Office and commercial rental	Freehold
UBN Apartments, Kuala Lumpur UBN Complex, 10 Jalan P. Ramlee, 50250 Kuala Lumpur, Malaysia	Residential rental	Freehold
Sule Square 221, Sule Pagoda Road, Yangon, Myanmar	Office and commercial rental	Medium lease
Shangri-La Residences, Yangon Kan Yeik Tha Street, Yangon, Myanmar	Residential rental	Medium lease
The Pier Retail Complex, Cairns Pierpoint Road, Marlin Marina, Cairns, Queensland 4870, Australia	Office and commercial rental	Medium lease

41 INVESTMENT PROPERTIES OF SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(b) Details of principal investment properties of the operating associates are as follows:
(lease term represents unexpired lease term of land use rights unless otherwise stated)

Address	Existing use	Lease term
China World Trade Center 1 Jian Guo Men Wai Avenue, Beijing 100004, The People's Republic of China	Office, commercial and residential rental	Medium lease
Century Towers, Beijing 18 Guang Qu Men Wai Avenue, Beijing 100022, The People's Republic of China	Residential rental	Long lease
Shanghai Centre 1376 Nanjing Road West, Shanghai 200040, The People's Republic of China	Office, commercial, residential and exhibition hall space rental	Medium lease
Beijing Kerry Centre 1 Guanghua Road, Chaoyang District, Beijing 100020, The People's Republic of China	Office, commercial and residential rental	Medium lease
Jing An Kerry Centre 1218, 1228 and 1238 Yanan Zhong Road, 1515, 1539, 1551 and 1563 Nanjing Road West, Jing An District, Shanghai 200040, The People's Republic of China	Office, commercial and residential rental	Medium lease

41 INVESTMENT PROPERTIES OF SUBSIDIARIES AND ASSOCIATES (CONTINUED)

(b) Details of investment properties of the operating associates are as follows: (continued)
(lease term represents unexpired lease term of land use rights unless otherwise stated)

Address	Existing use	Lease term
Kerry Parkside Shanghai Pudong No. 1378 Hua Mu Road, Pudong, Shanghai 201204, The People's Republic of China	Office, commercial and residential rental	Medium lease
Tianjin Kerry Centre Liuwei Road, Hedong District, Tianjin 300171, The People's Republic of China	Office, commercial and residential rental	Medium lease
Hangzhou Kerry Centre 385 Yan'an Road, Xiacheng District, Hangzhou, The People's Republic of China	Office and commercial rental	Medium lease
Tanglin Mall, Singapore 163 Tanglin Road, Singapore 247933	Commercial rental	Long lease
Tanglin Place, Singapore 91 Tanglin Road, Singapore 247918	Office and commercial rental	Freehold

42 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	As at 31 December	
	2017	2016
	US$'000	US$'000
ASSETS		
Non-current assets		
Property, plant and equipment	1,215	1,068
Investments in subsidiaries	4,538,365	4,513,195
Available-for-sale financial assets - Club debentures	1,635	1,362
	4,541,215	4,515,625
Current assets		
Amounts due from subsidiaries	14,791	17,608
Dividends receivable, prepayments and deposits	740,700	653,150
Cash and bank balances	10,666	5,751
	766,157	676,509
Total assets	5,307,372	5,192,134
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	3,198,420	3,191,801
Other reserves	1,543,157	1,543,197
Retained earnings	103,643	47,899
Total equity	4,845,220	4,782,897
LIABILITIES		
Current liabilities		
Accounts payable and accruals	9,253	8,255
Amounts due to subsidiaries	452,899	400,982
	462,152	409,237
Total liabilities	462,152	409,237
Total equity and liabilities	5,307,372	5,192,134
Net current assets	304,005	267,272
Total assets less current liabilities	4,845,220	4,782,897

The statement of financial position of the Company was approved by the Board of Directors on 21 March 2018 and was signed on its behalf.

KUOK Hui Kwong	**LIM Beng Chee**
Director	*Director*

42 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Movement of other reserves of the Company:

	Share option reserve US$'000	Capital redemption reserve US$'000	Available-for-sale financial assets reserve US$'000	Contributed surplus US$'000 (Note)	Total US$'000
Balance at 1 January 2016	10,452	10,666	–	1,524,231	1,545,349
Transfer of share option reserve to retained earnings upon expiry of share options	(2,637)	–	–	–	(2,637)
Fair value changes of available-for-sale financial assets	–	–	485	–	485
Balance at 31 December 2016 and 1 January 2017	7,815	10,666	485	1,524,231	1,543,197
Exercise of share options – transfer from share option reserve to share premium	(313)	–	–	–	(313)
Fair value changes of available-for-sale financial assets	–	–	273	–	273
Balance at 31 December 2017	7,502	10,666	758	1,524,231	1,543,157

Note:

The contributed surplus of the Company arises when the Company issues shares in exchange for the shares of companies being acquired, and represents the difference between the nominal value of the Company's issued shares and the value of net assets of the companies acquired. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to the shareholders.

42 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Movement of retained earnings of the Company:

	2017 US$'000	2016 US$'000
Balance at 1 January	47,899	58,658
Transfer from share option reserve upon expiry of share options	–	2,637
Profit for the year	120,426	32,798
2016/2015 final dividend paid	(36,955)	(23,097)
2017/2016 interim dividend paid (Note 34)	(27,727)	(23,097)
Balance at 31 December	103,643	47,899
Representing:		
2017/2016 final dividend proposed (Note 34)	50,885	36,955
Others	52,758	10,944
Balance at 31 December	103,643	47,899

43 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 21 March 2018.

FIVE YEAR SUMMARY

The financial summary of the Group for the last five years is as follows:

	Year ended 31 December				
	2017 US$'000	2016 US$'000	2015 US$'000	2014 US$'000	2013 US$'000
Results					
Profit/(Loss) attributable to:					
Equity holders	157,997	106,054	140,131	180,889	392,298
Non-controlling interests	(13,951)	(44,022)	29,847	26,606	48,818

	As at 31 December				
	2017 US$'000	2016 US$'000	2015 US$'000	2014 US$'000	2013 US$'000
Assets and liabilities					
Total assets	13,675,173	12,993,784	13,285,413	13,740,279	12,898,257
Total liabilities	6,633,177	6,581,350	6,395,728	6,301,032	6,030,913
Total equity	7,041,996	6,412,434	6,889,685	7,439,247	6,867,344

ABBREVIATIONS

In this Annual Report (except for the independent Auditor's report and the Financial Statements), the following expressions have the following meanings:

"Annual General Meeting"	forthcoming 2018 annual general meeting of the Company
"Annual Report"	this 2017 annual report of the Company
"Audit & Risk Committee"	audit and risk committee of the Company (formerly known as audit committee and was re-designated as audit & risk committee on 21 March 2018)
"Auditor"	statutory auditor of the Company, currently being PricewaterhouseCoopers, Hong Kong
"Board"	board of Directors
"Bye-Laws"	bye-laws of the Company
"CEO", "CFO" and "COO"	chief executive officer, chief financial officer and chief operating officer, respectively, of the Company
"CG Model Code"	code provisions as set out in the Corporate Governance Code and Corporate Governance Report as contained in Appendix 14 to the Listing Rules
"CG Principles"	corporate governance principles of the Company adopted by the Board on 19 March 2012 and as revised from time to time, and such principles align with and/or incorporate terms that are stricter than the CG Model Code, save for that disclosed (if any) in the corporate governance report in this Annual Report
"Chairman" or "Deputy Chairman"	chairman and deputy chairman (if any), respectively, of the Board
"China" or "Mainland China"	The People's Republic of China, excluding Hong Kong and Macau
"Company"	Shangri-La Asia Limited
"Director(s)"	director(s) of the Company
"Directors' Report"	the Directors' report as set out in this Annual Report
"EBITDA"	earnings before finance costs, tax, depreciation and amortisation and non-recurring items such as gain/loss on disposal of fixed assets and interest in investee companies; fair value gains/losses on investment properties and financial assets held for trading; and impairment losses on fixed assets
"Executive Committee"	executive committee of the Company
"Executive Director(s)" or "ED(s)"	executive Director(s)
"Financial Statements"	consolidated financial statements of the Group for the Financial Year as set out on pages 123 to 239 of this Annual Report
"Financial Year"	financial year ended 31 December 2017
"Group"	Company and its subsidiaries

ABBREVIATIONS

"HKFRS"	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
"HKSE"	The Stock Exchange of Hong Kong Limited
"Hotel Management Services"	hotel management, marketing, communication and/or reservation services, and/or any hotel related services
"Independent Non-executive Director(s)" or "INED(s)"	independent non-executive Director(s)
"KGL"	Kerry Group Limited, a Substantial Shareholder, and a connected person of the Company
"KHL"	Kerry Holdings Limited, a Substantial Shareholder and a subsidiary of KGL, and a connected person of the Company
"KPL"	Kerry Properties Limited, whose controlling shareholders include KHL and KGL, and thus is an associate of each of them, and accordingly a connected person of the Company
"Listing Rules"	Rules Governing the Listing of Securities on HKSE
"Managing Director"	managing director of the Company
"Nomination Committee"	nomination committee of the Company
"Non-executive Director(s)" or "NED(s)"	non-executive Director(s)
"Other Major Shareholder(s)"	Shareholder(s) (other than Substantial Shareholder(s)) whose interests and short positions in Shares and underlying Shares are recorded in the register required to be kept by the Company under Section 336 of the SFO, and in general, being Shareholder(s) deemed to have interest of 5% or more but less than 10% in the Company
"Remuneration Committee"	remuneration committee of the Company
"Securities Model Code"	code set out in the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules
"Securities Principles"	principles for securities transactions by Directors or any non-Directors of the Company adopted by the Board on 19 March 2012 and as revised from time to time, and such principles align with and/or incorporate terms that are stricter than the Securities Model Code
"Senior Management"	member(s) of the senior management of the Group as indicated in the section entitled "Board of Directors, Company Secretary and Senior Management" in the Annual Report
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$1.00 each in the Company
"Shareholder(s)"	shareholder(s) of the Company

"SLIM"	SLIM International Limited, a wholly owned subsidiary of the Company incorporated in the Cook Islands, and its subsidiaries (including SLIM-HK) whose principal businesses include the provision of Hotel Management Services
"SLIM-HK"	Shangri-La International Hotel Management Limited, a wholly owned subsidiary of the Company incorporated in Hong Kong and entrusted with the primary responsibility of operating the assets of the Group, and whose principal business is the provision of Hotel Management Services
"substantial shareholder(s)"	as defined in the Listing Rules and in general, being shareholder(s) deemed to have interest of 10% or more in a company, and "Substantial Shareholder(s)" shall mean substantial shareholder(s) of the Company
"Year End"	31 December 2017

THE GROUP'S LISTED MEMBERS

Shangri-La Asia Limited
(stock exchange - Hong Kong)
(stock code - 00069)

(subsidiary)

Shangri-La Hotels (Malaysia) Berhad
(stock exchange - Malaysia)
(stock code - 5517)

(subsidiary)

Shangri-La Hotels Public Company Limited
(stock exchange - Thailand)
(stock code - SHANG)

(associate)

China World Trade Center Company Limited
(stock exchange - Shanghai, China)
(stock code - 600007)

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