



SHANGRI-LA ASIA LIMITED

香格里拉(亞洲)有限公司

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



ANNUAL REPORT

2017

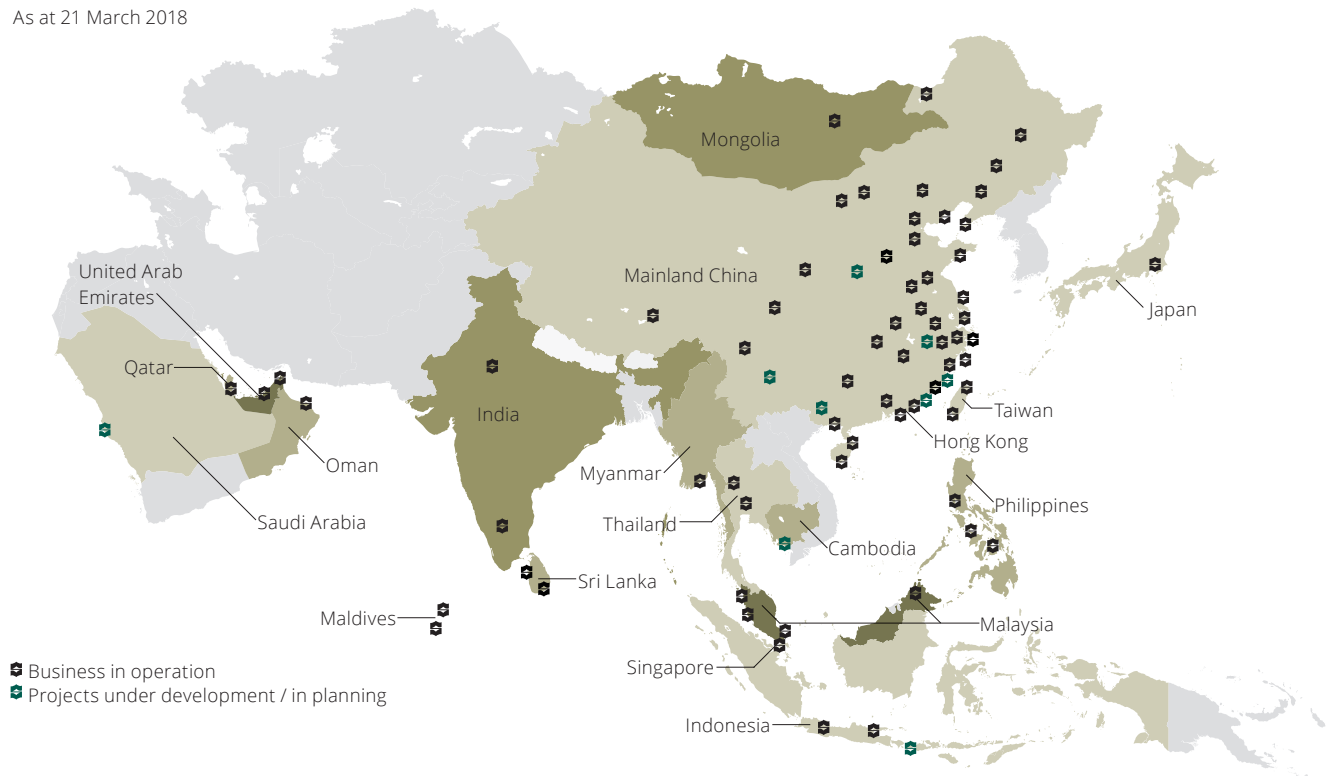


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# THE GROUP'S BUSINESS PRESENCE

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

### 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

Colombo  
Hambantota

### Taiwan

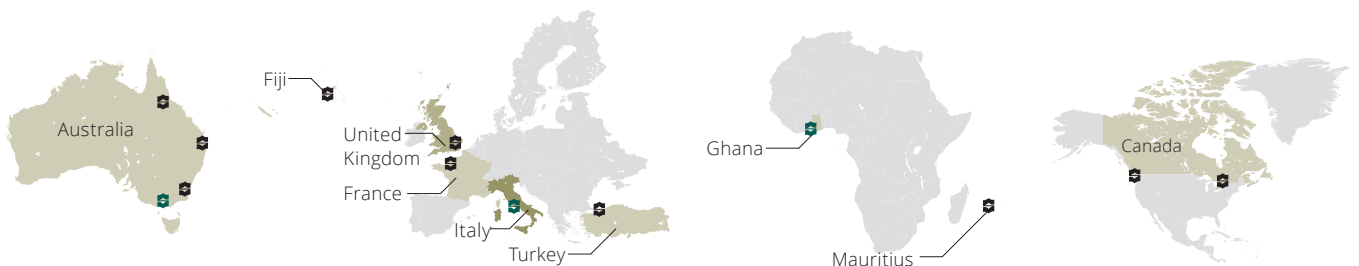
Tainan  
Taipei

### 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

# FINANCIAL HIGHLIGHTS

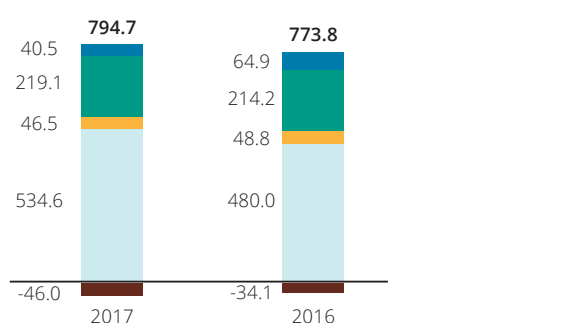
The following table summarises the highlights of our financial results:

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

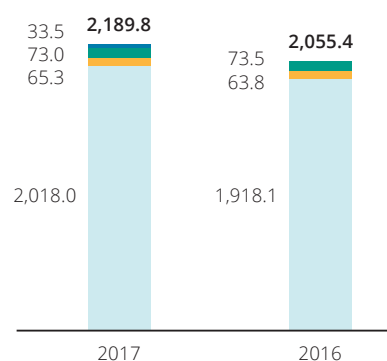
Notes:

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)**



■ Property Sales & Other Business    ■ Hotel Ownership  
■ Property Rentals    ■ Corporate & Pre-opening Expenses  
■ Hotel Management Services

■ Property Sales    ■ Hotel Management Services  
■ Property Rentals    ■ Hotel Ownership

# 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](http://www.ir.shangri-la.com)  
Business – [www.shangri-la.com](http://www.shangri-la.com)

## INVESTOR RELATIONS CONTACT

Ms Lori LINCOLN  
[enquiry.ir@shangri-la.com](mailto: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

### 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.

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.

### 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

# BOARD OF DIRECTORS, COMPANY SECRETARY AND SENIOR MANAGEMENT

## 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%

# BOARD OF DIRECTORS, COMPANY SECRETARY AND SENIOR MANAGEMENT

## 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)

# BOARD OF DIRECTORS, COMPANY SECRETARY AND SENIOR MANAGEMENT

## 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



# BOARD OF DIRECTORS, COMPANY SECRETARY AND SENIOR MANAGEMENT



## **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

# BOARD OF DIRECTORS, COMPANY SECRETARY AND SENIOR MANAGEMENT

## 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





## 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 | Hotels under Owned Hotels | Management contracts |
| <br><b>SHANGRI-LA</b><br>HOTELS and RESORTS | 71           | 30.9          | 15        | 4.7           | 86                     | 35.6          | 4                         | 7                    |
| <b>KERRY HOTELS</b>  | 3            | 1.6           | —         | —             | 3                      | 1.6           | —                         | —                    |
| <br><b>HOTEL JEN</b><br>By Shangri-La       | 8            | 3.0           | 2         | 0.6           | 10                     | 3.6           | —                         | 1                    |
| <br><b>TRADERS</b><br>HOTELS                | —            | —             | 3         | 1.2           | 3                      | 1.2           | 1                         | —                    |
| Other <sup>(Note)</sup>  | 1            | 0.6           | —         | —             | 1                      | 0.6           | —                         | —                    |
| <b>Total</b>   | <b>83</b>    | <b>36.1</b>   | <b>20</b> | <b>6.5</b>    | <b>103</b>             | <b>42.6</b>   | <b>5</b>                  | <b>8</b>             |

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

## DISCUSSION AND ANALYSIS

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

| (in square metres) |                                  | Group's equity interest         | Total GFA of the operating investment properties as at 31 December 2017 |                   |                     |        |
|--------------------|----------------------------------|---------------------------------|---|-------------------|---------------------|--------|
|                    |                                  |                                 | 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              |        |
| <b>TOTAL</b>       |                                  |                                 | <b>981,774</b>  | <b>599,038</b>    | <b>435,691</b>      |        |

# DISCUSSION AND ANALYSIS

## RESULTS OF OPERATIONS

### Sales

Consolidated sales consisted of the following:

|  | Year ended 31 December |                      | 2017/16     |
|--|------------------------|----------------------|-------------|
|  | 2017<br>US\$ Million   | 2016<br>US\$ Million | % change    |
| <b>Hotel ownership</b>                                     |                        |                      |             |
| 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%        |
| <b>Hotel management and related services</b>               |                        |                      |             |
| 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%        |
| <b>Property rentals</b>                                    | 73.0                   | 73.5                 | -0.7%       |
| <b>Property sales</b>                                      | 33.5                   | —                    | N/M         |
| <b>Consolidated sales</b>                                  | <b>2,189.8</b>         | <b>2,055.4</b>       | <b>6.5%</b> |

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<br>US\$ Million   | 2016<br>US\$ Million | % change |
| The People's Republic of China  |                        |                      |          |
| Hong Kong                       | <b>156.9</b>           | 131.4                | 19.4%    |
| Mainland China                  | <b>357.6</b>           | 333.3                | 7.3%     |
| Singapore                       | <b>104.1</b>           | 111.0                | -6.2%    |
| Malaysia                        | <b>69.8</b>            | 66.0                 | 5.8%     |
| The Philippines                 | <b>96.4</b>            | 97.9                 | -1.5%    |
| Japan                           | <b>38.5</b>            | 37.5                 | 2.7%     |
| Thailand                        | <b>40.8</b>            | 36.8                 | 10.9%    |
| France                          | <b>23.7</b>            | 21.8                 | 8.7%     |
| Australia                       | <b>73.2</b>            | 68.0                 | 7.6%     |
| United Kingdom                  | <b>29.3</b>            | 27.4                 | 6.9%     |
| Mongolia                        | <b>5.8</b>             | 6.9                  | -15.9%   |
| Sri Lanka                       | <b>7.0</b>             | 2.6                  | 169.2%   |
| Other countries                 | <b>39.4</b>            | 45.8                 | -14.0%   |
| Consolidated revenue from rooms | <b>1,042.5</b>         | 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<br>interest | Available<br>rooms |
|---|----------------------------|--------------------|
| <b>(A) Hotels owned by the Group</b>    |                            |                    |
| <b>Hong Kong</b>                        |                            |                    |
| 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                |
| <b>Mainland China</b>                   |                            |                    |
| 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                |

## DISCUSSION AND ANALYSIS

|   | Group's equity<br>interest | Available<br>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                |
| <b>Singapore</b>  |                            |                    |
| Shangri-La Hotel, Singapore   | 100%                       | 792                |
| Shangri-La's Rasa Sentosa Resort & Spa                                  | 100%                       | 454                |
| Hotel Jen Tanglin Singapore   | 44.6%                      | 565                |
| <b>Malaysia</b>   |                            |                    |
| 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                |
| <b>The Philippines</b>  |                            |                    |
| 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                |
| <b>Thailand</b>   |                            |                    |
| Shangri-La Hotel, Bangkok   | 73.61%                     | 802                |
| Shangri-La Hotel, Chiang Mai  | 73.61%                     | 277                |
| <b>Australia</b>  |                            |                    |
| Shangri-La Hotel, Sydney  | 100%                       | 565                |
| Shangri-La Hotel, The Marina, Cairns                                    | 100%                       | 255                |
| Hotel Jen Brisbane  | 100%                       | 191                |
| <b>France</b>   |                            |                    |
| Shangri-La Hotel, Paris   | 100%                       | 101                |
| <b>Maldives</b>   |                            |                    |
| Shangri-La's Villingili Resort & Spa, Maldives                          | 70%                        | 132                |
| Hotel Jen Malé, Maldives  | 100%                       | 114                |

## DISCUSSION AND ANALYSIS

|  | Group's equity<br>interest | Available<br>rooms |
|--|----------------------------|--------------------|
| <b>Other areas</b>                                   |                            |                    |
| 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                |
| <b>Total of 80 owned hotels</b>                      |                            | <b>35,155</b>      |
| <b>(B) Hotels under operating lease agreements</b>   |                            |                    |
| Shangri-La Hotel, Tokyo                              |                            | 200                |
| Shangri-La Hotel, At The Shard, London               |                            | 202                |
| Hotel Jen Orchardgateway Singapore                   |                            | 499                |
| <b>Total of 3 leased hotels</b>                      |                            | <b>901</b>         |
| <b>Grand total</b>                                   |                            | <b>36,056</b>      |

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:

| Country                        | 2017 Weighted Average |                     |                  | 2016 Weighted Average |                     |                  |
|--------------------------------|-----------------------|---------------------|------------------|-----------------------|---------------------|------------------|
|                                | Occupancy<br>(%)      | Room Rate<br>(US\$) | RevPAR<br>(US\$) | Occupancy<br>(%)      | Room Rate<br>(US\$) | RevPAR<br>(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               |
| <b>Weighted Average</b>        | <b>67</b>             | <b>162</b>          | <b>109</b>       | <b>65</b>             | <b>160</b>          | <b>104</b>       |

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.

## DISCUSSION AND ANALYSIS

### *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.

# DISCUSSION AND ANALYSIS

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

# DISCUSSION AND ANALYSIS

## (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.

| <i>(in square metres)</i> | Total GFA* of operating investment properties as at 31 December 2017 |                   |                     |
|---------------------------|--|-------------------|---------------------|
|                           | 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              |
| <b>Total</b>              | <b>981,774</b>   | <b>599,038</b>    | <b>435,691</b>      |

\* 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.

# DISCUSSION AND ANALYSIS

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

# DISCUSSION AND ANALYSIS

## 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 |          |
| <b>Hotel ownership</b>  |                 |                        |          |          |
|   | 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%    |
| <b>Hotel management</b>   |                 | 32.7                   | 33.2     | -1.5%    |
| <b>Sub-total hotel operations</b>   |                 | 101.2                  | 79.0     | 28.1%    |
| <b>Property rentals</b>   |                 |                        |          |          |
|   | 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%    |
| <b>Sub-total property rentals</b>   |                 | 136.7                  | 131.6    | 3.9%     |
| <b>Property sales &amp; other business</b>  |                 | 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%   |
| <b>Consolidated profit attributable to equity holders of the Company before non-operating items</b> |                 | 140.7                  | 137.6    | 2.3%     |
| <b>Non-operating items</b>  |                 | 17.3                   | (31.5)   | N/M      |
| <b>Consolidated profit attributable to equity holders of the Company after non-operating items</b>  |                 | 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:

| <i>(US\$ million)</i>                   | Maturities of Borrowings Contracted as at 31 December 2017 |                    |  |               | Total          |
|---|--|--------------------|--|---------------|----------------|
|   | Within<br>1 year   | In the<br>2nd year | Repayment<br>In the 3rd<br>to 5th year | After 5 years |                |
| <b>Borrowings</b>                       |  |                    |  |               |                |
| 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        |
| <b>Total outstanding balance</b>        | <b>234.8</b>   | <b>1,014.8</b>     | <b>3,895.2</b>                         | <b>39.9</b>   | <b>5,184.7</b> |
| <b>Undrawn but committed facilities</b> |  |                    |  |               |                |
| Bank loans and overdrafts               | 63.3   | 10.8               | 1,072.5                                | 55.2          | 1,201.8        |

## DISCUSSION AND ANALYSIS

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

| (US\$ million)           | Borrowings | Cash and Bank<br>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.

## DISCUSSION AND ANALYSIS

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,<br>DTZ Debenham Tie Leung Limited and<br>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<br>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<br>Interest | Hotel Rooms | Long Stay<br>Apartments | Projected<br>Opening |
|--|----------------------------|-------------|-------------------------|----------------------|
| <b>Hotels in Mainland China</b>  |                            |             |                         |                      |
| 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<br>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<br>Equity<br>Interest | Total gross floor area upon completion<br>(excluding hotel component)<br><i>(approximate in square metres)</i> |         |            | Scheduled<br>Completion |
|--|-------------------------------|--|---------|------------|-------------------------|
|  |                               | Residential  | Office  | Commercial |                         |
| <b>In Mainland China</b>   |                               |  |         |            |                         |
| 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*           |
| <b>In other countries</b>  |                               |  |         |            |                         |
| Composite development project<br>in Colombo, Sri Lanka <sup>(note)</sup> | 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.

# DISCUSSION AND ANALYSIS

## 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







# 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 <sup>2</sup> ) | Approximate total gross floor area (m <sup>2</sup> ) | Number of projected rooms |       |
|---------------------------------|------------------|---|---|--|---------------------------|-------|
| <b>Hotels in Mainland China</b> |                  |   |   |  |                           |       |
| 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<br>(part of composite development) | 45%   | N/A  | 40,755                    | 346   |
| 5                               | Zhengzhou, China | Shangri-La Hotel<br>(part of composite development)                 | 45%   | N/A  | 36,478                    | 214   |
|                                 |                  | Total   |   |  |                           | 1,012 |

## PROPERTIES UNDER DEVELOPMENT

| 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<br>Shangri-La Hotel:<br>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 <sup>2</sup> ) | Approximate total gross floor area (m <sup>2</sup> ) |                               |
|---------------------------|-------------------------------------|--|---|--|-------------------------------|
| <b>In Mainland China</b>  |                                     |  |   |  |                               |
| 1                         | Shenyang, China<br>(Phase II & III) | Shenyang Kerry Centre<br>– Residential<br>– Office<br>– Commercial | 25%   | 113,118  | 439,816<br>165,485<br>216,858 |
| 2                         | Wuhan, China (Phase II)             | Composite development<br>– Office                                  | 92%   | 3,667  | 46,410                        |
| 3                         | Kunming, China                      | Composite development<br>– Residential<br>– Commercial             | 45%   | 15,446   | 21,169<br>830                 |
| 4                         | Fuzhou, China (Phase II)            | Composite development<br>– Office<br>– Commercial                  | 100%  | 17,315   | 38,800<br>28,200              |
| 5                         | Zhengzhou, China                    | Composite development<br>– Residential<br>– Office<br>– Commercial | 45%   | 44,573   | 93,765<br>58,954<br>3,857     |
| <b>In other countries</b> |                                     |  |   |  |                               |
| 1                         | Colombo, Sri Lanka                  | Composite Development<br>– Residential<br>– Office<br>– Commercial | 90%   | 27,066   | 111,100<br>59,984<br>68,585   |

## PROPERTIES UNDER DEVELOPMENT

| Stage of completion  | Projected opening                                   | Address  |
|--|---|--|
| Phase II Residential: mechanical and engineering, curtain wall installation and interior decoration work in progress<br>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   |

# PROPERTIES UNDER DEVELOPMENT

## (C) PROPERTIES UNDER CONCEPT PLANNING

| Location                       | Purpose               | Group's equity interest as at Year End | Approximate total site area (m <sup>2</sup> ) | Approximate total gross floor area (m <sup>2</sup> ) |
|--------------------------------|-----------------------|--|---|--|
| <b>In Mainland China</b>       |                       |  |   |  |
| 1 Nanchang, China (Phase II)   | Composite Development | 20%                                    | 6,568   | 48,177   |
| 2 Dalian Wolong Bay, China     | Hotel                 | 100%                                   | 47,615  | 151,094  |
| <b>In other countries</b>      |                       |  |   |  |
| 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   |

## PROPERTIES UNDER DEVELOPMENT

Address

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667 Cui Lin Road, Honggutan New District, Nanchang, Jiangxi Province, China

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Zhong Yang Chuang Zhi District, Xiao Yao Bay, Jin Zhou Xin District, Dalian, Liaoning Province, China

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Airport North on Spintex Road, City of Accra, The Republic of Ghana

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Roma via Vittorio Veneto 90, 92, 94, 96, 98, 98A, 100, 102 and Roma via Lombardia 4, 6, 8, Rome, Italy

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No. 150/150 (A), Kan Yeik Thar Road, Between Upper Pansodan Road and Thein Phyu Road, Mingalar Tuang Nyunt Township, Yangon, Myanmar

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# RESPONSIBLE BUSINESS







## RESPONSIBLE BUSINESS

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<br>– Diversity & Equal Opportunities | Community Development<br>– Embrace<br>– Embrace ++ |
| Climate Change & GHG Emissions        | Guest Safety & Security<br>– Fire and life safety<br>– Food safety                                       | Employee Wellbeing<br>Training & Development              | Volunteering<br>Disaster Relief & Rehabilitation   |
| Water                                 | – Indoor air quality   | Occupational Health & Safety                              |  |
| Biodiversity & Conservation Sanctuary | – Guest security<br>– Data privacy<br>Corporate Procurement<br>Sustainable Choices<br>– Rooted in Nature |   |  |

# RESPONSIBLE BUSINESS

## 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.

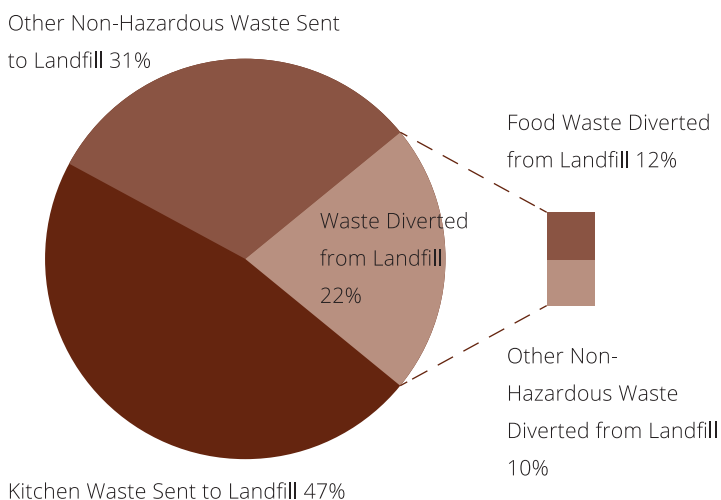
### Waste

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

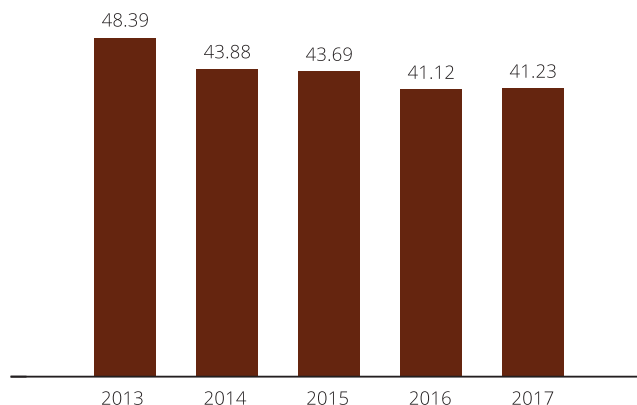
Climate change caused by anthropogenic greenhouse gas ("GHG") emissions poses both financial and physical risks to our business, particularly because a number of our hotels are located in areas that are vulnerable to the effects of extreme weather events such as flooding and typhoons. Fiscal initiatives 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<sup>1</sup>.

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<sub>2</sub>e) and 41.23 kilograms of CO<sub>2</sub>e per BU.

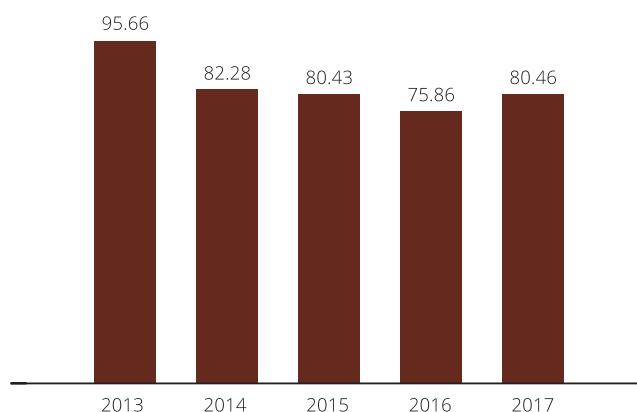
**Average Scope 1 & Scope 2 GHG Emissions Intensity (kilograms of CO<sub>2</sub>e per business unit)**



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

<sup>1</sup> 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.

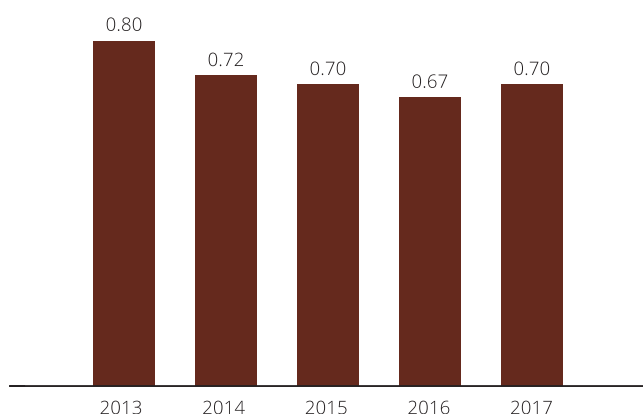
# RESPONSIBLE BUSINESS

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 metres 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 loris 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 Resort & 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

## RESPONSIBLE BUSINESS

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.

# RESPONSIBLE BUSINESS

## 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.

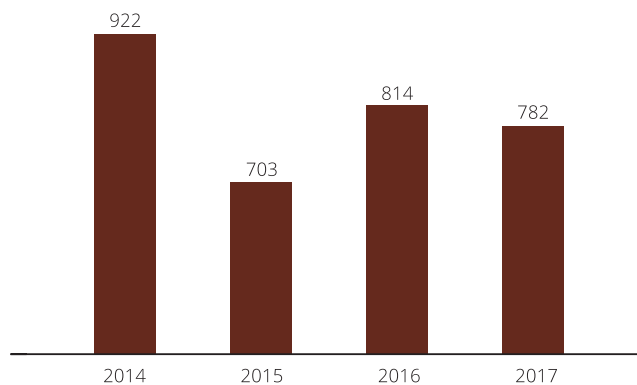
### Occupational Health & Safety

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**



# RESPONSIBLE BUSINESS

## 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.



# RESPONSIBLE BUSINESS

## 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<br>GENERAL DISCLOSURE on policies and regulatory compliance<br>KPIs: A1.1, A1.2, A1.3, A1.4, A1.5 and A1.6 | OUR ENVIRONMENT: Waste, Climate change & greenhouse gas emissions<br>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<br>GENERAL DISCLOSURE on policies<br>KPIs: A2.1, A2.2, A2.3, A2.4 and A2.5                                    | OUR ENVIRONMENT: Climate change & greenhouse gas emissions, Water<br>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.<br>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<br>GENERAL DISCLOSURE on policies<br>KPI: A3.1   | OUR ENVIRONMENT: Biodiversity & Conservation  |
| Aspect B1: Employment<br>GENERAL DISCLOSURE on policies and regulatory compliance   | OUR PEOPLE: Introduction, Employment Practices  |
| Aspect B2: Health and safety<br>GENERAL DISCLOSURE on policies and regulatory compliance  | OUR PEOPLE: Occupational Health & Safety  |
| Aspect B3: Development and training<br>GENERAL DISCLOSURE on policies   | OUR PEOPLE: Training & Development  |
| Aspect B4: Labour standards<br>GENERAL DISCLOSURE on policies and regulatory compliance   | OUR PEOPLE: Employment Practices  |
| Aspect B5: Supply chain management<br>GENERAL DISCLOSURE on policies  | OUR BUSINESS: Corporate Procurement   |
| Aspect B6: Product responsibility<br>GENERAL DISCLOSURE on policies and regulatory compliance   | OUR BUSINESS: Guest Safety & Security   |
| Aspect B7: Anti-corruption<br>GENERAL DISCLOSURE on policies and regulatory compliance  | OUR PEOPLE: Employment Practices  |
| Aspect B8: Community investment<br>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<br>KPIs: B1.1 and B1.2                   | OUR PEOPLE: Introduction   |
| Aspect B2 Health and safety<br>KPIs: B2.1 and B2.3            | OUR PEOPLE: Occupational Health & Safety   |
| Aspect B3 Development and training<br>KPIs: B3.1 and B3.2     | OUR PEOPLE: Training & Development   |
| Aspect B4 Labour standards<br>KPIs: B4.1 and B4.2             | OUR BUSINESS: Supply Chain Code of Conduct,<br>OUR PEOPLE: Employment Practices  |
| Aspect B5 Supply chain management<br>KPIs: B5.1 and B5.2      | OUR BUSINESS: Corporate Procurement, Sustainable Choices   |
| Aspect B6 Product responsibility<br>KPIs: B6.3, B6.4 and B6.5 | OUR BUSINESS: Guest Safety & Security, Corporate Procurement   |
| Aspect B7 Anti-corruption<br>KPIs: B7.1 and B7.2              | OUR PEOPLE: Employment Practices<br>There were no concluded legal cases regarding corrupt practices brought against SLIM or its employees during the reporting period. |
| Aspect B8 Community investment<br>KPIs: B8.1 and B8.2         | OUR COMMUNITIES: Embrace, Disaster Relief & Rehabilitation   |

# DIRECTORS' REPORT







# 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.

# DIRECTORS' REPORT

## 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:

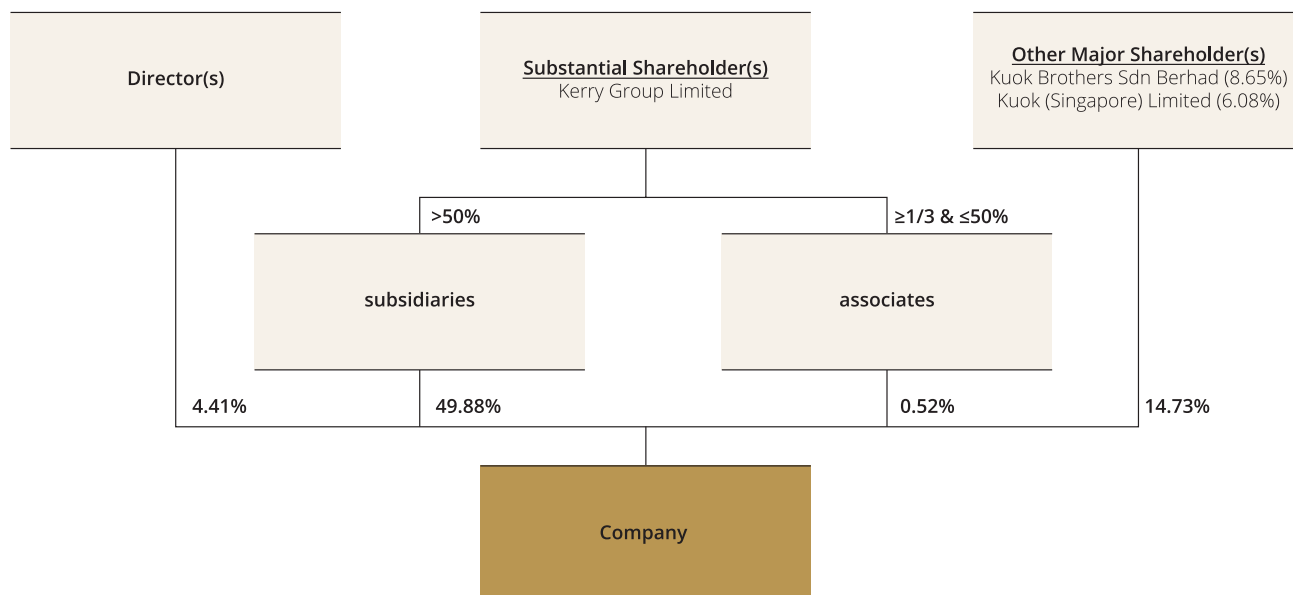
| Name   | Capacity                              | Number of Shares held | Approximate % of total issued Shares |
|--|---------------------------------------|-----------------------|--------------------------------------|
| <b>Substantial Shareholders</b>                              |                                       |                       |                                      |
| KGL ( <i>Note 1</i> )  | Interest of controlled corporation(s) | 1,806,196,396         | 50.40                                |
| KHL ( <i>Notes 1 and 2</i> )                                 | Beneficial owner                      | 87,237,052            | 2.43                                 |
|  | Interest of controlled corporation(s) | 1,546,203,039         | 43.14                                |
| Caninco Investments Limited<br>("Caninco") ( <i>Note 2</i> ) | Beneficial owner                      | 568,568,684           | 15.86                                |
|  | Interest of controlled corporation(s) | 157,280,233           | 4.39                                 |
| Paruni Limited ("Paruni") ( <i>Note 2</i> )                  | Beneficial owner                      | 382,904,547           | 10.68                                |
|  | Interest of controlled corporation(s) | 36,667,449            | 1.02                                 |
| <b>Other Major Shareholders</b>                              |                                       |                       |                                      |
| Darmex Holdings Limited ("Darmex") ( <i>Note 2</i> )         | 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") ( <i>Note 3</i> )           | Interest of controlled corporation(s) | 218,008,907           | 6.08                                 |
| Baylite Company Limited ("Baylite") ( <i>Note 3</i> )        | 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.

# DIRECTORS' REPORT

## 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  |                          |                            |                          | Total       | Approximate % of total issued shares in the relevant company |
|---|------------------|-----------------|------------------------|--------------------------|----------------------------|--------------------------|-------------|--|
|   |                  |                 | Personal interests     | Family interests         | Corporate interests        | Other interests          |             |  |
| <b>The Company</b>                      | KUOK Hui Kwong   | Ordinary        | <sup>(1)</sup> 102,833 | <sup>(2)</sup> 1,038,000 | <sup>(3)</sup> 2,000,000   | <sup>(4)</sup> 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              | —                        | <sup>(5)</sup> 145,887,718 | —                        | 146,978,834 | 4.101  |
| <b>Associated Corporation</b>           |                  |                 |                        |                          |                            |                          |             |  |
| 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/<br>Capacity | Date of dealing  | Number of Shares<br>bought/(sold) | Average dealing<br>price per Share<br>(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' REPORT

## 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.

# DIRECTORS' REPORT

## (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:

| Grantees                                 | Date of grant | Number of option shares  |                            |  |   |  |                              |                  | Held as at<br>31 Dec 2017 | Exercise price<br>per option share<br>(HK\$) | Exercise period |
|--|---------------|--------------------------|----------------------------|--|---|--|------------------------------|------------------|---------------------------|--|-----------------|
|  |               | Held as at<br>1 Jan 2017 | Granted during<br>the year | Transferred  |   | Exercised<br>during<br>the year <sup>(a)</sup> | Lapsed<br>during<br>the year |                  |                           |  |                 |
|  |               |                          |                            | Transferred<br>from other<br>category during<br>the year | Transferred to<br>other category<br>during the year |  |                              |                  |                           |  |                 |
| <b>1. Directors</b>                      |               |                          |                            |  |   |  |                              |                  |                           |  |                 |
| 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 <i>(Note 3)</i>   | 23 Aug 2013   | 350,000                  | —                          | —  | (350,000)   | —  | —                            | —                | 12.11                     | 23 Aug 2013 – 22 Aug 2023                    |                 |
| LIU Kung Wei Christopher <i>(Note 4)</i> | 23 Aug 2013   | 350,000                  | —                          | —  | (350,000)   | —  | —                            | —                | 12.11                     | 23 Aug 2013 – 22 Aug 2023                    |                 |
| KUOK Khoon Chen <i>(Note 5)</i>          | 23 Aug 2013   | 350,000                  | —                          | —  | (350,000)   | —  | —                            | —                | 12.11                     | 23 Aug 2013 – 22 Aug 2023                    |                 |
| Timothy David DATTELS <i>(Note 6)</i>    | 23 Aug 2013   | 100,000                  | —                          | —  | —   | —  | (100,000)                    | —                | 12.11                     | 23 Aug 2013 – 22 Aug 2023                    |                 |
| <b>2. Employees</b>                      | 23 Aug 2013   | 11,433,000               | —                          | —  | (560,000)   | (3,506,000)                                    | (654,000)                    | 6,713,000        | 12.11                     | 23 Aug 2013 – 22 Aug 2023                    |                 |
| <b>3. Other participants</b>             |               |                          |                            |  |   |  |                              |                  |                           |  |                 |
|  | 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                    |                 |
| <b>Total</b>                             |               | <b>14,603,000</b>        | <b>—</b>                   | <b>1,610,000</b>   | <b>(1,610,000)</b>                                  | <b>(4,036,000)</b>                             | <b>(754,000)</b>             | <b>9,813,000</b> |                           |  |                 |

Notes:

- No options were cancelled during the Financial Year.
- 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.
- Mr Madhu Rama Chandra RAO retired as an Executive Director on 31 December 2017 and his option has been re-categorised.
- Mr LIU Kung Wei Christopher ceased to act as an Executive Director on 31 March 2017 and his option has been re-categorised.
- Mr KUOK Khoon Chen retired as a Non-executive Director on 2 June 2017 and his option has been re-categorised.
- Mr Timothy David DATTELS resigned as an Independent Non-executive Director on 29 May 2017 and his option has lapsed.

# DIRECTORS' REPORT

## 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.

# DIRECTORS' REPORT

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<br>(as supplemented) | Management agreement                        | Cuscaden Co      | 2,227,000                                | 1,140,000 |
| (b) Kerry Hotel, Beijing        | 30 June 1998<br>(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.

# DIRECTORS' REPORT

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:

| <b>Financial year</b>            | <b>Annual cap (HK\$)</b> |
|----------------------------------|--------------------------|
| 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         |

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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.

## DIRECTORS' REPORT

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:

| <b>Financial year</b> | <b>Annual cap (US\$)</b> |
|-----------------------|--------------------------|
| 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





# CORPORATE GOVERNANCE REPORT

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.

# CORPORATE GOVERNANCE REPORT

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

# CORPORATE GOVERNANCE 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 |
| <b>Executive Director(s)</b>                                |                             |                                     |        |
| KUOK Hui Kwong  | √                           | √                                   | √      |
| LIM Beng Chee   | √                           | √                                   | √      |
| LUI Man Shing   | √                           | √                                   | √      |
| <b>Non-executive Director(s)</b>                            |                             |                                     |        |
| HO Kian Guan (alternate – HO Chung Tao)                     | √ (√)                       | √ (√)                               | √ (√)  |
| <b>Independent Non-executive Director(s)</b>                |                             |                                     |        |
| Alexander Reid HAMILTON                                     | √                           | √                                   | √      |
| LI Kwok Cheung Arthur                                       | √                           | √                                   | √      |
| LEE Kai-Fu  | —                           | √                                   | √      |
| YAP Chee Keong ( <i>was appointed on 11 December 2017</i> ) | —                           | √                                   | —      |

# CORPORATE GOVERNANCE REPORT

## 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:

| <b>Member</b>  | <b>Board capacity during committee membership</b> |
|--|---|
| KUOK Hui Kwong ( <i>chairman</i> )                                 | ED & Chairman                                     |
| LIM Beng Chee  | ED & CEO  |
| LUI Man Shing ( <i>as member with effect from 1 March 2018</i> )   | ED  |
| Madhu Rama Chandra RAO ( <i>as member until 31 December 2017</i> ) | 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 ( <i>chairman</i> ) | ED & Chairman                              |
| Alexander Reid HAMILTON            | INED                                       |
| LI Kwok Cheung Arthur              | INED                                       |

# CORPORATE GOVERNANCE REPORT

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;

# CORPORATE GOVERNANCE REPORT

- (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 ( <i>chairman</i> ) | INED                                       | 2/2                                   |
| KUOK Hui Kwong                              | ED & Chairman                              | ( <i>Note</i> ) 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.



# CORPORATE GOVERNANCE REPORT

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                      | <b>230,000</b> | 230,000 | per year of directorship   |
| As Nomination Committee member   | <b>50,000</b>  | 50,000  | per year of membership of committee  |
| As Remuneration Committee member | <b>50,000</b>  | 50,000  | per year of membership of committee  |
| As Audit & Risk Committee member | <b>130,000</b> | 130,000 | per year of membership of committee  |
|                                  | <b>100,000</b> | 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.

# CORPORATE GOVERNANCE REPORT

## 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.

# CORPORATE GOVERNANCE REPORT

## 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 ( <i>as member and chairman with effect from 21 March 2018</i> ) | INED                                       | N/A                                   |
| HO Kian Guan  | NED  | 4/4                                   |
| Alexander Reid HAMILTON ( <i>as chairman until 21 March 2018</i> )              | 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.

# CORPORATE GOVERNANCE REPORT

## RISK MANAGEMENT AND INTERNAL CONTROLS

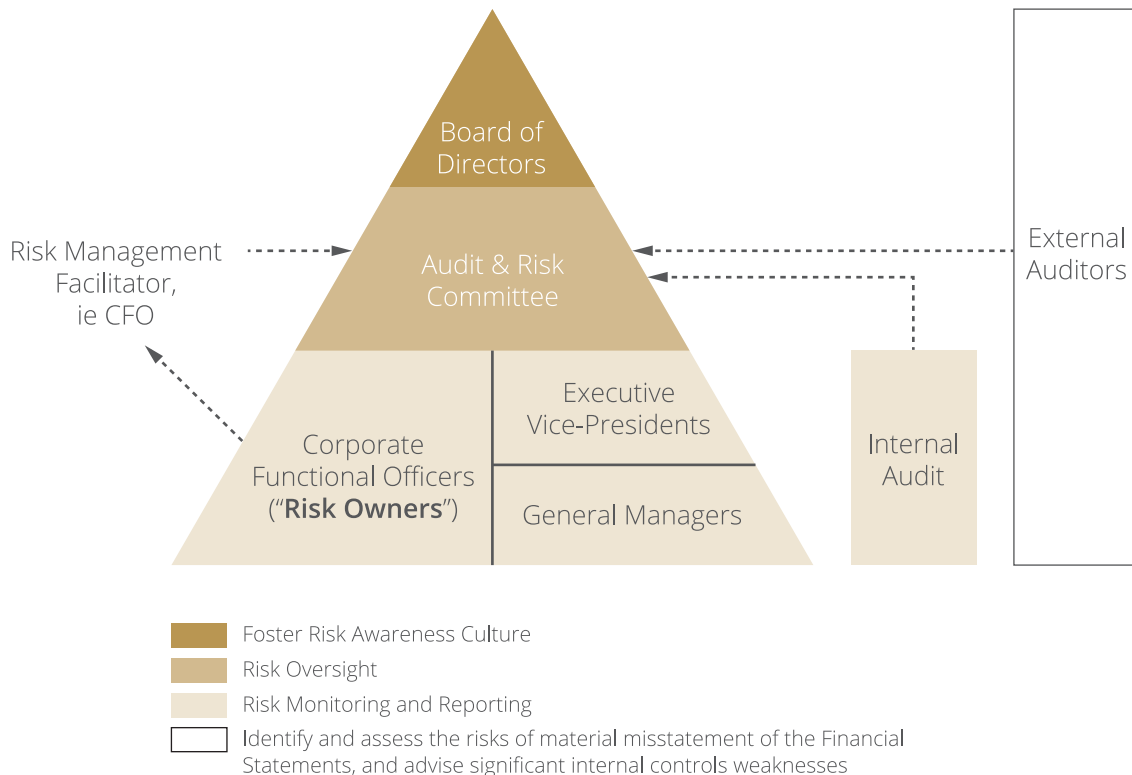
The Board has the overall responsibility for maintaining sound and effective risk management and internal control systems in the Group and reviews the effectiveness of these systems on an ongoing basis as required by the revised corporate governance code released by HKSE.

### 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



# CORPORATE GOVERNANCE REPORT

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.

# CORPORATE GOVERNANCE REPORT

## 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 confidentiality 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.

# CORPORATE GOVERNANCE REPORT

- 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.

# CORPORATE GOVERNANCE REPORT

## *(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



# CORPORATE GOVERNANCE REPORT

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.

| <b>Top Risk Areas</b>  | <b>Risk Owners</b>   |
|--|--|
| (1) Investment   | CFO  |
| (2) Competition, customer and pricing  | President  |
| (3) Human resources  | Chief Human Resources Officer                              |
| (4) Security – physical<br>– information technology                                | Director of Corporate Security<br>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:

| <b>Top Risk Areas</b>                               | <b>Risk Change</b>     |
|---|------------------------|
| (1) Investment                                      | No change              |
| (2) Competition, customer and pricing               | No change              |
| (3) Human resources                                 | No change              |
| (4) Security – physical<br>– information technology | No change<br>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.

# CORPORATE GOVERNANCE REPORT

## 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:

| <b>Services</b>                           | <b>Fees charged<br/>(US\$'000)</b> |
|---|------------------------------------|
| 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:

| Meeting date: 2 June 2017  | Attended in the capacity of a member of |                             |                      |                        |                        |
|--|---|-----------------------------|----------------------|------------------------|------------------------|
|  | 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 ( <i>retired on 31 December 2017</i> )    | √                                       | ED                          |                      |                        |                        |
| HO Kian Guan (alternate – HO Chung Tao)                          | √(√)                                    | NED                         |                      |                        | √                      |
| KUOK Khoon Chen ( <i>retired on 2 June 2017</i> )                | X                                       | NED                         |                      |                        |                        |
| Alexander Reid HAMILTON  | √                                       | INED                        | √                    | √                      | √                      |
| LI Kwok Cheung Arthur  | √                                       | INED                        | √                    | √                      | √                      |
| LEE Kai-Fu   | √                                       | INED                        |                      |                        |                        |
| YAP Chee Keong ( <i>was appointed INED on 11 December 2017</i> ) | N/A                                     | N/A                         |                      |                        |                        |
| Timothy David DATTELS ( <i>resigned as INED on 29 May 2017</i> ) | N/A                                     | N/A                         |                      |                        |                        |
| Total attendance   | 8/9                                     |                             | 3/3                  | 3/3                    | 3/3                    |

# CORPORATE GOVERNANCE REPORT

## 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.

# CORPORATE GOVERNANCE REPORT

- (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.



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

# INDEPENDENT AUDITOR'S REPORT

## 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.

## How our audit addressed the Key Audit Matter

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

### 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.

## How our audit addressed the Key Audit Matter

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.

# INDEPENDENT AUDITOR'S REPORT

## 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.

# INDEPENDENT AUDITOR'S REPORT

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.

# INDEPENDENT AUDITOR'S REPORT

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   |
| <b>ASSETS</b>   |      |                   |            |
| <i><b>Non-current assets</b></i>  |      |                   |            |
| 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 |
| <i><b>Current assets</b></i>  |      |                   |            |
| 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  |
| <b>Total assets</b>   |      | 13,675,173        | 12,993,784 |
| <b>EQUITY</b>   |      |                   |            |
| <i><b>Capital and reserves attributable to<br/>the Company's equity holders</b></i> |      |                   |            |
| 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  |
| <b>Non-controlling interests</b>  | 23   | 439,440           | 421,606    |
| <b>Total equity</b>   |      | 7,041,996         | 6,412,434  |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|   | Note | As at 31 December |                   |
|---|------|-------------------|-------------------|
|   |      | 2017<br>US\$'000  | 2016<br>US\$'000  |
| <b>LIABILITIES</b>  |      |                   |                   |
| <b><i>Non-current liabilities</i></b>                     |      |                   |                   |
| 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         |
| <b><i>Current liabilities</i></b>                         |      |                   |                   |
| 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         |
| <b>Total liabilities</b>                                  |      | <b>6,633,177</b>  | <b>6,581,350</b>  |
| <b>Total equity and liabilities</b>                       |      | <b>13,675,173</b> | <b>12,993,784</b> |

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

# CONSOLIDATED INCOME STATEMENT

|   | Note | Year ended 31 December |           |
|---|------|------------------------|-----------|
|   |      | 2017                   | 2016      |
|   |      | US\$'000               | US\$'000  |
| <b>Sales</b>  | 5    | 2,189,823              | 2,055,423 |
| Cost of sales   | 26   | (955,118)              | (879,390) |
| <b>Gross profit</b>   |      | 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) |
| <b>Operating profit/(loss)</b>  |      | 177,901                | (13,413)  |
| Finance costs – net   | 30   | (131,419)              | (130,569) |
| Share of profit of associates   | 31   | 203,684                | 293,543   |
| <b>Profit before income tax</b>   |      | 250,166                | 149,561   |
| Income tax expense  | 32   | (106,120)              | (87,529)  |
| <b>Profit for the year</b>  |      | 144,046                | 62,032    |
| <b><i>Profit/(Loss) attributable to:</i></b>  |      |                        |           |
| Equity holders of the Company   |      | 157,997                | 106,054   |
| Non-controlling interests   |      | (13,951)               | (44,022)  |
|   |      | 144,046                | 62,032    |
| <b><i>Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in US cents per share)</i></b> |      |                        |           |
| – basic   | 33   | 4.43                   | 2.97      |
| – diluted   | 33   | 4.42                   | 2.97      |
| <b>Dividends</b>  | 34   | 78,383                 | 59,876    |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

Attributable to equity holders of the Company

|   | Note | Share<br>capital<br>US\$'000 | Other<br>reserves<br>US\$'000 | Retained<br>earnings<br>US\$'000 | Total<br>US\$'000 | Non-<br>controlling<br>interests<br>US\$'000 | Total<br>equity<br>US\$'000 |
|---|------|------------------------------|-------------------------------|----------------------------------|-------------------|--|-----------------------------|
| <b>Balance at 1 January 2017</b>  |      | 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)                    |
| <b>Balance at 31 December 2017</b>  |      | 3,198,420                    | 1,117,763                     | 2,286,373                        | 6,602,556         | 439,440                                      | 7,041,996                   |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|   | Attributable to equity holders of the Company |                           |                            |                               | Non-controlling interests | Total equity |                   |
|---|---|---------------------------|----------------------------|-------------------------------|---------------------------|--------------|-------------------|
|   | Note  | Share capital<br>US\$'000 | Other reserves<br>US\$'000 | Retained earnings<br>US\$'000 |                           |              | Total<br>US\$'000 |
| <b>Balance at 1 January 2016</b>  |   | 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)          |
| <b>Balance at 31 December 2016</b>  |   | 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.

# CONSOLIDATED CASH FLOW STATEMENT

|   | Note  | Year ended 31 December |                  |
|---|-------|------------------------|------------------|
|   |       | 2017                   | 2016             |
|   |       | US\$'000               | US\$'000         |
| <b><i>Cash flows from operating activities</i></b>                                    |       |                        |                  |
| 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)         |
| <b>Net cash generated from operating activities</b>                                   |       | <b>473,660</b>         | <b>392,304</b>   |
| <b><i>Cash flows from investing activities</i></b>                                    |       |                        |                  |
| 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;<br>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<br>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<br>maturities over 3 months        |       | 42,057                 | 24,004           |
| <b>Net cash used in investing activities</b>  |       | <b>(203,913)</b>       | <b>(542,191)</b> |

## CONSOLIDATED CASH FLOW STATEMENT

|  | Note      | Year ended 31 December |                 |
|--|-----------|------------------------|-----------------|
|  |           | 2017                   | 2016            |
|  |           | US\$'000               | US\$'000        |
| <b><i>Cash flows from financing activities</i></b>   |           |                        |                 |
| 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<br>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       |
| <b>Net cash (used in)/generated from financing activities</b>                                |           | <b>(267,708)</b>       | <b>70,682</b>   |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                                  |           | <b>2,039</b>           | <b>(79,205)</b> |
| <b>Cash and cash equivalents at beginning of the year</b>                                    |           | <b>777,577</b>         | <b>893,424</b>  |
| Exchange gains/(losses) on cash and cash equivalents   |           | 17,662                 | (26,900)        |
| Cash and cash equivalents of a subsidiary reclassified<br>as assets held for sale            |           | –                      | (9,742)         |
| <b>Cash and cash equivalents at end of the year</b>  | <b>17</b> | <b>797,278</b>         | <b>777,577</b>  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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 $\frac{1}{3}$ %                       |
| 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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".

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>2017 | High/low<br>2017  | 31 December<br>2016 | High/low<br>2016  |
|--------------------------------|---------------------|-------------------|---------------------|-------------------|
| Hong Kong –<br>Hang Seng Index | 29,919              | 30,200/<br>21,884 | 22,001              | 24,364/<br>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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>3 months<br>US\$'000 | Between 3<br>months and<br>1 year<br>US\$'000 | Between 1<br>and 2 years<br>US\$'000 | Over 2 years<br>US\$'000 |
|---|-----------------------------------|---|--------------------------------------|--------------------------|
| <b>At 31 December 2017</b>  |                                   |   |                                      |                          |
| 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<br>bank loans granted to associates | 4,967                             | 15,986  | 48,255                               | 168,548                  |
| <b>At 31 December 2016</b>  |                                   |   |                                      |                          |
| 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<br>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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>US\$'000 | 2016<br>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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>US\$'000 | Level 2<br>US\$'000 | Total<br>US\$'000 |
|---|---------------------|---------------------|-------------------|
| <b>Assets</b>                                 |                     |                     |                   |
| 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             |
| <b>Total assets</b>                           | <b>32,732</b>       | <b>6,805</b>        | <b>39,537</b>     |
| <b>Liabilities</b>                            |                     |                     |                   |
| Derivative financial instruments (Note 22)    |                     |                     |                   |
| – Interest-rate swap contracts                | –                   | 488                 | 488               |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>US\$'000 | Level 2<br>US\$'000 | Total<br>US\$'000 |
|---|---------------------|---------------------|-------------------|
| <b>Assets</b>                                 |                     |                     |                   |
| 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                 |
| <b>Total assets</b>                           | <b>22,502</b>       | <b>4</b>            | <b>22,506</b>     |
| <b>Liabilities</b>                            |                     |                     |                   |
| 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>US\$'000 | 2016<br>US\$'000 |
|---|------------------|------------------|
| <b>Sales</b>                              |                  |                  |
| 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5 SALES AND SEGMENT INFORMATION (CONTINUED)

### Segment income statement

For the year ended 31 December 2017 and 2016 (US\$ million)

|  | 2017               |   | 2016               |   |
|--|--------------------|---|--------------------|---|
|  | Sales<br>(Note ii) | Profit/ (Loss)<br>after tax<br>(Note i) | Sales<br>(Note ii) | Profit/ (Loss)<br>after tax<br>(Note i) |
| <b>Hotel ownership</b>   |                    |   |                    |   |
| 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                                    |
| <b>Hotel management services</b>   | 159.7              | 32.7                                    | 151.8              | 33.2                                    |
| <b>Property rentals</b>  |                    |   |                    |   |
| 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                                   |
| <b>Property sales</b>  | 33.5               | 31.1                                    | –                  | 54.7                                    |
| <b>Other business</b>  | –                  | (0.2)                                   | –                  | (1.3)                                   |
| <b>Total</b>   | 2,284.2            | 268.8                                   | 2,143.4            | 264.0                                   |
| Less: Hotel management<br>– Inter-segment sales                              | (94.4)             |   | (88.0)             |   |
| <b>Total external sales</b>  | 2,189.8            |   | 2,055.4            |   |
| Net corporate finance costs (including<br>foreign exchange gains and losses) |                    | (77.5)                                  |                    | (83.2)                                  |
| Land cost amortisation and pre-opening<br>expenses for projects              |                    | (26.6)                                  |                    | (24.9)                                  |
| Corporate expenses   |                    | (24.0)                                  |                    | (18.3)                                  |
| <b>Profit before non-operating items</b>                                     |                    | 140.7                                   |                    | 137.6                                   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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)<br>after tax<br>(Note i) | Profit/(Loss)<br>after tax<br>(Note i) |
| <b>Profit before non-operating items</b>  | 140.7                                  | 137.6                                  |
| <b>Non-operating items</b>  |  |  |
| 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)                                 |
| <b>Profit attributable to equity holders of the Company</b>   | 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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/<br>(loss) of associates | Share of profit/<br>(loss) of associates |
| <b>Hotel ownership</b>  |  |  |
| 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                                      |
| <b>Property rentals</b> |  |  |
| Mainland China          | 127.8                                    | 117.7                                    |
| Singapore               | 4.0                                      | 4.2                                      |
|                         | 131.8                                    | 121.9                                    |
| <b>Property sales</b>   | 33.5                                     | 56.6                                     |
| <b>Other business</b>   | (0.2)                                    | (1.3)                                    |
| <b>Total</b>            | 177.9                                    | 181.8                                    |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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 |
| <b>Hotel ownership</b>           |                               |                    |                               |                    |
| 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               |
| <b>Hotel management services</b> |                               |                    |                               |                    |
|                                  | 2.2                           | 13.2               | 3.1                           | 12.4               |
| <b>Property rentals</b>          |                               |                    |                               |                    |
| 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               |
| <b>Property sales</b>            |                               |                    |                               |                    |
|                                  | –                             | 1.8                | –                             | 1.9                |
| <b>Total</b>                     | <b>326.4</b>                  | <b>112.9</b>       | <b>322.2</b>                  | <b>98.3</b>        |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5 SALES AND SEGMENT INFORMATION (CONTINUED)

### Segment assets

As at 31 December 2017 and 2016 (US\$ million)

|  | As at 31 December |          |
|--|-------------------|----------|
|  | 2017              | 2016     |
| <b><i>Hotel ownership</i></b>                        |                   |          |
| 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  |
| <b><i>Hotel management services</i></b>              | 146.8             | 183.6    |
| Elimination  | (51.1)            | (76.6)   |
| <b><i>Property rentals</i></b>                       |                   |          |
| 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6 FINANCIAL INSTRUMENTS BY CATEGORY

|   | Loans and<br>receivables<br>US\$'000 | Assets at fair<br>value through<br>income<br>statement<br>US\$'000 | Derivatives<br>qualifying<br>for hedge<br>accounting<br>US\$'000 | Available-<br>for-<br>sale assets<br>US\$'000 | Total<br>US\$'000 |
|---|--------------------------------------|--|--|---|-------------------|
| <b>Assets as per consolidated statement of financial position</b> |                                      |  |  |   |                   |
| <b>31 December 2017</b>   |                                      |  |  |   |                   |
| 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<br>(Note 15)                  | 3,500                                | -  | -  | -   | 3,500             |
| Due from associates (Note 12)                                     | 205,994                              | -  | -  | -   | 205,994           |
| Due from non-controlling shareholders<br>(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           |
| <b>Total</b>  | <b>1,372,436</b>                     | <b>23,534</b>  | <b>6,805</b>   | <b>13,343</b>                                 | <b>1,416,118</b>  |
| <b>31 December 2016</b>   |                                      |  |  |   |                   |
| 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<br>(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           |
| <b>Total</b>  | <b>1,342,960</b>                     | <b>14,963</b>  | <b>4</b>   | <b>10,189</b>                                 | <b>1,368,116</b>  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

|  | Derivatives<br>qualifying<br>for hedge<br>accounting<br>US\$'000 | Other<br>financial<br>liabilities<br>US\$'000 | Total<br>US\$'000 |
|--|--|---|-------------------|
| <b>Liabilities as per consolidated<br/>statement of financial position</b> |  |   |                   |
| <b>31 December 2017</b>  |  |   |                   |
| 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           |
| <b>Total</b>   | <b>488</b>   | <b>6,089,001</b>                              | <b>6,089,489</b>  |
| <b>31 December 2016</b>  |  |   |                   |
| 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           |
| <b>Total</b>   | <b>2,416</b>   | <b>6,135,255</b>                              | <b>6,137,671</b>  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7 PROPERTY, PLANT AND EQUIPMENT

|  | Land and buildings<br>US\$'000 | Vehicles and machinery<br>US\$'000 | Furniture, fixtures and equipment<br>US\$'000 | Properties under development<br>US\$'000 | Total<br>US\$'000 |
|--|--------------------------------|------------------------------------|---|--|-------------------|
| <b>At 1 January 2016</b>                                   |                                |                                    |   |  |                   |
| 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         |
| <b>Year ended 31 December 2016</b>                         |                                |                                    |   |  |                   |
| 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)          |
| Reclassified 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         |
| <b>At 31 December 2016</b>                                 |                                |                                    |   |  |                   |
| 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         |
| <b>Year ended 31 December 2017</b>                         |                                |                                    |   |  |                   |
| 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         |
| <b>At 31 December 2017</b>                                 |                                |                                    |   |  |                   |
| 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         |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>US\$'000 | 2016<br>US\$'000 |
|---|------------------|------------------|
| <b>At 1 January</b>                                     | 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)        |
| <b>At 31 December</b>                                   | <b>1,448,853</b> | <b>1,328,352</b> |

- (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<br>US\$'000 | 2016<br>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          |
|                                   | <b>1,448,853</b> | <b>1,328,352</b> |

- (c) Details of investment properties of the Company's subsidiaries are summarised in Note 41(a).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>31 December 2017 using                                |   |   |
|---|---|---|---|
|   | Quoted prices<br>in active markets<br>for identical<br>assets (Level 1)<br>US\$'000 | Significant<br>other observable<br>inputs (Level 2)<br>US\$'000 | Significant<br>unobservable<br>inputs (Level 3)<br>US\$'000 |
| <b><i>Recurring fair value measurements</i></b>                           |   |   |   |
| Investment properties:  |   |   |   |
| - Office, serviced apartments and<br>commercial complex in Mainland China | -   | -   | 334,685   |
| - Serviced apartments in Singapore  | -   | -   | 412,024   |
| - Office, serviced apartments and<br>commercial complex in Mongolia       | -   | -   | 276,000   |
| - Office, serviced apartments and<br>commercial complex in other regions  | -   | -   | 426,144   |
|   | -   | -   | 1,448,853   |

|   | Fair value measurements at<br>31 December 2016 using                                |   |   |
|---|---|---|---|
|   | Quoted prices<br>in active markets<br>for identical<br>assets (Level 1)<br>US\$'000 | Significant<br>other observable<br>inputs (Level 2)<br>US\$'000 | Significant<br>unobservable<br>inputs (Level 3)<br>US\$'000 |
| <b><i>Recurring fair value measurements</i></b>                           |   |   |   |
| Investment properties:  |   |   |   |
| - Office, serviced apartments and commercial<br>complex in Mainland China | -   | -   | 309,500   |
| - Serviced apartments in Singapore  | -   | -   | 375,261   |
| - Office, serviced apartments and<br>commercial complex in Mongolia       | -   | -   | 308,898   |
| - Office, serviced apartments and<br>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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 8 INVESTMENT PROPERTIES (CONTINUED)

The following table shows a reconciliation of Level 3 fair values using significant unobservable inputs.

|   | Office,<br>serviced<br>apartments<br>and<br>commercial<br>complex in<br>Mainland<br>China<br>US\$'000 | Serviced<br>apartments<br>in Singapore<br>US\$'000 | Office,<br>serviced<br>apartments<br>and<br>commercial<br>complex in<br>Mongolia<br>US\$'000 | Office,<br>serviced<br>apartments<br>and<br>commercial<br>complex in<br>other regions<br>US\$'000 | Total<br>US\$'000 |
|---|---|--|--|---|-------------------|
| At 1 January 2017                                 | 309,500   | 375,261  | 308,898  | 334,693   | 1,328,352         |
| Transferred from property,<br>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,<br>serviced<br>apartments<br>and<br>commercial<br>complex in<br>Mainland<br>China<br>US\$'000 | Serviced<br>apartments<br>in Singapore<br>US\$'000 | Office,<br>serviced<br>apartments<br>and<br>commercial<br>complex in<br>Mongolia<br>US\$'000 | Office,<br>serviced<br>apartments<br>and<br>commercial<br>complex in<br>other regions<br>US\$'000 | Total<br>US\$'000 |
|---|---|--|--|---|-------------------|
| At 1 January 2016                                 | 351,731   | 383,250  | 100,900  | 284,398   | 1,120,279         |
| Transferred from property,<br>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         |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>31 December 2017<br>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% |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 8 INVESTMENT PROPERTIES (CONTINUED)

| Description  | Fair value at                | Valuation technique   | Unobservable inputs   |   |
|--|------------------------------|---|---|---|
|  | 31 December 2016<br>US\$'000 |   |   |   |
| 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 9 LEASEHOLD LAND AND LAND USE RIGHTS

|   | 2017<br>US\$'000 | 2016<br>US\$'000 |
|---|------------------|------------------|
| <b>At 1 January</b>                               |                  |                  |
| 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          |
| <b>At 31 December</b>                             |                  |                  |
| 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<br>US\$'000 | 2016<br>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          |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 10 INTANGIBLE ASSETS

|                                    | Goodwill<br>US\$'000 | Trademark<br>and licences<br>US\$'000 | Website and<br>system<br>development<br>US\$'000 | Total<br>US\$'000 |
|------------------------------------|----------------------|---------------------------------------|--|-------------------|
| <b>At 1 January 2016</b>           |                      |                                       |  |                   |
| 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            |
| <b>Year ended 31 December 2016</b> |                      |                                       |  |                   |
| 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            |
| <b>At 31 December 2016</b>         |                      |                                       |  |                   |
| 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            |
| <b>Year ended 31 December 2017</b> |                      |                                       |  |                   |
| 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            |
| <b>At 31 December 2017</b>         |                      |                                       |  |                   |
| 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>(Malaysia) Berhad |                  | Intense Power Limited |                  | Shangri-La<br>International Hotels<br>(Pacific Place) Limited |                  |
|---|--|------------------|-----------------------|------------------|---|------------------|
|   | 2017<br>US\$'000                       | 2016<br>US\$'000 | 2017<br>US\$'000      | 2016<br>US\$'000 | 2017<br>US\$'000  | 2016<br>US\$'000 |
| <b>Current</b>                            |  |                  |                       |                  |   |                  |
| 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<br>(liabilities)/assets | (13,090)                               | (20,639)         | (17,073)              | 3,284            | 9,698   | 10,779           |
| <b>Non-current</b>                        |  |                  |                       |                  |   |                  |
| 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<br>net assets           | 379,634                                | 344,271          | 84,202                | 118,382          | 11,815  | 14,874           |
| <b>Net assets</b>                         | <b>366,544</b>                         | <b>323,632</b>   | <b>67,129</b>         | <b>121,666</b>   | <b>21,513</b>   | <b>25,653</b>    |
| Attributable to:                          |  |                  |                       |                  |   |                  |
| Equity holders of<br>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           |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11 SUBSIDIARIES (CONTINUED)

### (b) Material non-controlling interests (continued)

#### Summarised statement of comprehensive income for the year ended 31 December

|  | Shangri-La Hotels<br>(Malaysia) Berhad |                  | Intense Power Limited |                  | Shangri-La<br>International Hotels<br>(Pacific Place) Limited |                  |
|--|--|------------------|-----------------------|------------------|---|------------------|
|  | 2017<br>US\$'000                       | 2016<br>US\$'000 | 2017<br>US\$'000      | 2016<br>US\$'000 | 2017<br>US\$'000  | 2016<br>US\$'000 |
| Revenue  | 127,157                                | 121,570          | 20,208                | 16,588           | 148,832   | 145,694          |
| Profit/(Loss) before<br>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<br>income/(loss)           | 32,941                                 | (14,281)         | -                     | 10,116           | -   | -                |
| Total comprehensive<br>income/(loss)           | 53,879                                 | 7,614            | (54,536)              | (103,740)        | 41,020  | 39,846           |
| Attributable to:                               |  |                  |                       |                  |   |                  |
| Equity holders of<br>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<br>non-controlling interests | 6,663                                  | 6,998            | -                     | -                | 9,032   | 14,194           |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11 SUBSIDIARIES (CONTINUED)

### (b) Material non-controlling interests (continued)

#### Summarised cash flow for the year ended 31 December

|   | Shangri-La Hotels<br>(Malaysia) Berhad |                  | Intense Power Limited |                  | Shangri-La<br>International Hotels<br>(Pacific Place) Limited |                  |
|---|--|------------------|-----------------------|------------------|---|------------------|
|   | 2017<br>US\$'000                       | 2016<br>US\$'000 | 2017<br>US\$'000      | 2016<br>US\$'000 | 2017<br>US\$'000  | 2016<br>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)/<br>generated from<br>financing activities | (14,354)                               | (15,011)         | (7,222)               | 79,329           | (45,162)  | (70,968)         |
| Net increase/ (decrease)<br>in cash and cash<br>equivalents   | 8,002                                  | (210)            | (7,681)               | 43,238           | 1,070   | (27,883)         |
| Cash and cash<br>equivalents at<br>beginning of the year      | 21,530                                 | 22,710           | 58,169                | 14,893           | 14,036  | 41,919           |
| Exchange gains/(losses)<br>on cash and cash<br>equivalents    | 2,770                                  | (970)            | –                     | 38               | –   | –                |
| Cash and cash equivalent<br>at end of the year                | 32,302                                 | 21,530           | 50,488                | 58,169           | 15,106  | 14,036           |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 12 INTEREST IN ASSOCIATES AND AMOUNTS DUE FROM ASSOCIATES

|  | 2017<br>US\$'000 | 2016<br>US\$'000 |
|--|------------------|------------------|
| <b>Interest in associates</b>                |                  |                  |
| 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<br>US\$'000 | 2016<br>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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>US\$'000 | 2016<br>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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>Trade Center Limited |                  | Shanghai Ji Xiang<br>Properties Co, Limited |                  |
|---------------------------|-------------------------------------|------------------|---|------------------|
|                           | As at 31 December                   |                  | As at 31 December                           |                  |
|                           | 2017                                | 2016             | 2017  | 2016             |
|                           | US\$'000                            | US\$'000         | US\$'000                                    | US\$'000         |
| <b><i>Current</i></b>     |                                     |                  |   |                  |
| 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)         |
| <b><i>Non-current</i></b> |                                     |                  |   |                  |
| 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        |
| <b>Net assets</b>         | <b>3,288,242</b>                    | <b>2,988,794</b> | <b>1,303,147</b>                            | <b>1,162,788</b> |

### Summarised statement of comprehensive income

|  | China World<br>Trade Center Limited |           | Shanghai Ji Xiang<br>Properties Co, Limited |          |
|--|-------------------------------------|-----------|---|----------|
|  | 2017                                | 2016      | 2017  | 2016     |
|  | US\$'000                            | US\$'000  | US\$'000                                    | US\$'000 |
| Revenue  | 517,700                             | 478,580   | 217,332                                     | 214,326  |
| Profit before tax (including fair value<br>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<br>(net of tax)                         | 22,019                              | -         | 7,819                                       | -        |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>Trade Center Limited |                  | Shanghai Ji Xiang<br>Properties Co, Limited |                  |
|----------------------------|-------------------------------------|------------------|---|------------------|
|                            | 2017<br>US\$'000                    | 2016<br>US\$'000 | 2017<br>US\$'000                            | 2016<br>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<br>US\$'000 | 2016<br>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<br>US\$'000 | 2016<br>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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 14 OTHER RECEIVABLES

|                                     | 2017<br>US\$'000 | 2016<br>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<br>US\$'000 | 2016<br>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<br>US\$'000 | 2016<br>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           |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>US\$'000 | 2016<br>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<br>US\$'000 | 2016<br>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          |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 15 ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS (CONTINUED)

(b) (continued)

Movements on the Group's provision for impairment of trade receivables are as follows:

|  | 2017<br>US\$'000 | 2016<br>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)          |
| Reclassified 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<br>US\$'000 | 2016<br>US\$'000 |
|------------------------------------|------------------|------------------|
| Equity securities, at market value |                  |                  |
| Shares listed in Hong Kong         | 23,534           | 14,963           |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17 CASH AND BANK BALANCES

|  | 2017<br>US\$'000 | 2016<br>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<br>US\$'000 | 2016<br>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          |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 18 SHARE CAPITAL

|  | No. of shares<br>(‘000) | Amount                         |                              | Total<br>US\$‘000 |
|--|-------------------------|--------------------------------|------------------------------|-------------------|
|  |                         | Ordinary<br>shares<br>US\$‘000 | Share<br>premium<br>US\$‘000 |                   |
| <b>Authorised – Ordinary shares of HK\$1 each</b>            |                         |                                |                              |                   |
| At 31 December 2016 and<br>31 December 2017                  | 5,000,000               | 646,496                        | –                            | 646,496           |
| <b>Issued and fully paid – Ordinary shares of HK\$1 each</b> |                         |                                |                              |                   |
| 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                         | –                       | –                              | –                            | –                 |
| <b>At 31 December 2016 and 1 January 2017</b>                | <b>3,580,024</b>        | <b>462,195</b>                 | <b>2,729,606</b>             | <b>3,191,801</b>  |
| Exercise of share options                                    |                         |                                |                              |                   |
| – allotment of shares  | 4,036                   | 520                            | 5,786                        | 6,306             |
| – transfer from share option reserve                         | –                       | –                              | 313                          | 313               |
| <b>At 31 December 2017</b>                                   | <b>3,584,060</b>        | <b>462,715</b>                 | <b>2,735,705</b>             | <b>3,198,420</b>  |

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>shares issued at<br>HK\$12.11 per<br>option share | Total<br>consideration<br>US\$'000 |
|--|---|------------------------------------|
| <b>In year 2017</b>                        |   |                                    |
| 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                                |
| <b>For the year ended 31 December 2017</b> | <b>4,036,000</b>  | <b>6,306</b>                       |
| <b>For the year ended 31 December 2016</b> | <b>–</b>  | <b>–</b>                           |

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>31 December 2017                               |   | For the year ended<br>31 December 2016                               |   |
|-----------------------|--|---|--|---|
|                       | Weighted<br>average<br>exercise price<br>in HK\$ per<br>option share | Number of<br>outstanding<br>option shares | Weighted<br>average<br>exercise price<br>in HK\$ per<br>option share | Number of<br>outstanding<br>option shares |
| <b>At 1 January</b>   | 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)                               |
| <b>At 31 December</b> | 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:

| Last exercisable date | Exercise price in<br>HK\$ per<br>option share | Number of outstanding<br>option shares as at |                  |
|-----------------------|---|--|------------------|
|                       |   | 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19 OTHER RESERVES

|   | Share<br>option<br>reserve<br>US\$'000 | Hedging<br>reserve<br>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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| Convertible<br>bonds<br>reserve<br>US\$'000 | Capital<br>redemption<br>reserve<br>US\$'000 | Exchange<br>fluctuation<br>reserve<br>US\$'000 | Capital<br>reserve<br>US\$'000 | Available-<br>for-sale<br>financial<br>assets<br>reserve<br>US\$'000 | Other<br>reserve<br>US\$'000<br>(Note (a)) | Contributed<br>surplus<br>US\$'000<br>(Note (b)) | Total<br>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         |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20 BANK LOANS

|                                   | 2017<br>US\$'000 | 2016<br>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<br>US\$'000 | 2016<br>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% |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20 BANK LOANS (CONTINUED)

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

|                       | 2017<br>US\$'000 | 2016<br>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<br>US\$'000 | 2016<br>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        |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>US\$'000 | 2016<br>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<br>US\$'000 | 2016<br>US\$'000 |
|--|------------------|------------------|
| <b><i>Non-current liabilities</i></b>  |                  |                  |
| Interest-rate swap contracts – hedging | –                | 919              |
| <b><i>Current liabilities</i></b>      |                  |                  |
| Interest-rate swap contracts – hedging | 488              | 1,497            |
| Total                                  | 488              | 2,416            |
| <b><i>Non-current assets</i></b>       |                  |                  |
| Interest-rate swap contracts – hedging | 5,067            | 2                |
| <b><i>Current assets</i></b>           |                  |                  |
| 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).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 23 NON-CONTROLLING INTERESTS AND BALANCES WITH NON-CONTROLLING SHAREHOLDERS

|                                  | 2017<br>US\$'000 | 2016<br>US\$'000 |
|----------------------------------|------------------|------------------|
| <b>Non-controlling interests</b> |                  |                  |
| 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<br>US\$'000 | 2016<br>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<br>US\$'000 | 2016<br>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<br>US\$'000 | 2016<br>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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>US\$'000 | 2016<br>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<br>US\$'000 | 2016<br>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<br>US\$'000 | 2016<br>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          |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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                         | 2016     | 2017                         | 2016     | 2017                     | 2016     | 2017     | 2016     | 2017     | 2016     |
|   | US\$'000                     | US\$'000 | US\$'000                     | US\$'000 | US\$'000                 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | 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                | 2016     | 2017       | 2016     | 2017     | 2016     | 2017     | 2016     |
|  | US\$'000            | US\$'000 | US\$'000   | US\$'000 | US\$'000 | US\$'000 | US\$'000 | 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<br>US\$'000 | 2016<br>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<br>US\$'000 | 2016<br>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          |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 26 EXPENSES BY NATURE

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

|   | 2017<br>US\$'000 | 2016<br>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              |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 27 OTHER LOSSES – NET

|   | 2017<br>US\$'000 | 2016<br>US\$'000 |
|---|------------------|------------------|
| Fair value losses on investment properties (Note 8)   | (57,880)         | (143,945)        |
| Net unrealised gains/(losses) on financial assets held<br>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<br>(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<br>US\$'000 | 2016<br>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).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>US\$'000            | 2016<br>US\$'000 | 2017<br>US\$'000          | 2016<br>US\$'000 | 2017<br>US\$'000              | 2016<br>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)            |
| <b><i>Included in income statement</i></b>                    |                             |                  |                           |                  |                               |                  |
| 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            |
| <b><i>Included in other comprehensive income</i></b>          |                             |                  |                           |                  |                               |                  |
| 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              |
| <b><i>Other</i></b>   |                             |                  |                           |                  |                               |                  |
| 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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:

| For hotels in                | 2017     |                 | 2016     |                 |
|------------------------------|----------|-----------------|----------|-----------------|
|                              | 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/<br>(decrease)<br>in percentage<br>points | Increase/(decrease) in the Group's<br>net defined benefit obligation |                  |
|---------------------------|--|--|------------------|
|                           |  | 2017<br>US\$'000   | 2016<br>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)          |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>US\$'000 | Salary<br>US\$'000 | Discretionary<br>bonuses<br>US\$'000 | Inducement<br>fees<br>US\$'000 | Allowances<br>and benefits<br>in kind <sup>(12)</sup><br>US\$'000 | Employer's<br>contribution<br>to retirement<br>benefit<br>schemes<br>US\$'000 | Remunerations<br>paid or<br>receivable<br>in respect<br>of accepting<br>office<br>as director |          |          | Total<br>US\$'000 |
|--|------------------|--------------------|--------------------------------------|--------------------------------|---|---|---|----------|----------|-------------------|
|  |                  |                    |                                      |                                |   |   | US\$'000  | US\$'000 | US\$'000 |                   |
| KUOK Hui Kwong <sup>(1)</sup>            | -                | 542                | 1,935 <sup>(10)</sup>                | -                              | 26  | 15  | -   | -        | -        | 2,518             |
| LIM Beng Chee <sup>(2)</sup>             | -                | 774                | 2,323 <sup>(11)</sup>                | -                              | 164   | 16  | -   | -        | -        | 3,277             |
| LUI Man Shing                            | 5                | 418                | 774                                  | -                              | 18  | 15  | -   | -        | -        | 1,230             |
| KUOK Khoon Chen <sup>(4)</sup>           | 12               | -                  | -                                    | -                              | 2   | -   | -   | -        | -        | 14                |
| LIU Kung Wei, Christopher <sup>(5)</sup> | -                | 153                | -                                    | -                              | 23  | 4   | -   | -        | -        | 180               |
| Madhu Rama Chandra RAO <sup>(6)</sup>    | -                | 542                | 1,290                                | -                              | 290   | 54  | -   | -        | -        | 2,176             |
| HO Kian Guan                             | 59               | -                  | -                                    | -                              | -   | -   | -   | -        | -        | 59                |
| Alexander Reid HAMILTON                  | 72               | -                  | -                                    | -                              | -   | -   | -   | -        | -        | 72                |
| Timothy David DATTELS <sup>(7)</sup>     | 12               | -                  | -                                    | -                              | -   | -   | -   | -        | -        | 12                |
| LI Kwok Cheung Arthur                    | 72               | -                  | -                                    | -                              | -   | -   | -   | -        | -        | 72                |
| LEE Kai Fu                               | 30               | -                  | -                                    | -                              | -   | -   | -   | -        | -        | 30                |
| YAP Chee Keong <sup>(8)</sup>            | 2                | -                  | -                                    | -                              | -   | -   | -   | -        | -        | 2                 |
| HO Chung Tao <sup>(9)</sup>              | -                | -                  | -                                    | -                              | -   | -   | -   | -        | -        | -                 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>US\$'000 | Salary<br>US\$'000 | Discretionary<br>bonuses<br>US\$'000 | Inducement<br>fees<br>US\$'000 | Allowances<br>and benefits<br>in kind <sup>(12)</sup><br>US\$'000 | Employer's<br>contribution<br>to retirement<br>benefit<br>schemes<br>US\$'000 | Remunerations  |  | Emoluments<br>paid or<br>receivable<br>in respect<br>of director<br>other service<br>in connection<br>with the<br>management<br>of the<br>Company or<br>its subsidiary<br>undertaking<br>US\$'000 | Total<br>US\$'000 |
|--|------------------|--------------------|--------------------------------------|--------------------------------|---|---|--|--|---|-------------------|
|  |                  |                    |                                      |                                |   |   | paid or<br>receivable in<br>respect of<br>accepting<br>office<br>as director<br>US\$'000 | Compensation<br>paid or<br>receivable in<br>respect of<br>loss office<br>as director<br>US\$'000 |   |                   |
| KUOK Hui Kwong <sup>(1)</sup>            | 14               | 218                | 516                                  | -                              | 2   | 8   | -  | -  | -   | 758               |
| LIM Beng Chee <sup>(2)</sup>             | 8                | -                  | -                                    | -                              | -   | -   | -  | -  | -   | 8                 |
| LUI Man Shing                            | 5                | 418                | 774                                  | -                              | 17  | 15  | -  | -  | -   | 1,229             |
| KUOK Khoon Chen <sup>(4)</sup>           | -                | 743                | 1,548                                | -                              | 14  | 13  | -  | -  | -   | 2,318             |
| LIU Kung Wei, Christopher <sup>(5)</sup> | -                | 458                | 812                                  | -                              | 10  | 11  | -  | -  | -   | 1,291             |
| Madhu Rama Chandra RAO <sup>(6)</sup>    | -                | 472                | 1,226                                | -                              | 242   | 47  | -  | -  | -   | 1,987             |
| Gregory Allan DOGAN <sup>(3)</sup>       | -                | 209                | 272                                  | -                              | 97  | 21  | -  | 860  | -   | 1,459             |
| HO Kian Guan                             | 59               | -                  | -                                    | -                              | -   | -   | -  | -  | -   | 59                |
| Alexander Reid HAMILTON                  | 72               | -                  | -                                    | -                              | -   | -   | -  | -  | -   | 72                |
| Timothy David DATTELS <sup>(7)</sup>     | 30               | -                  | -                                    | -                              | -   | -   | -  | -  | -   | 30                |
| LI Kwok Cheung Arthur                    | 72               | -                  | -                                    | -                              | -   | -   | -  | -  | -   | 72                |
| LEE Kai Fu                               | 30               | -                  | -                                    | -                              | -   | -   | -  | -  | -   | 30                |
| Ho Kian Hock <sup>(8)</sup>              | -                | -                  | -                                    | -                              | -   | -   | -  | -  | -   | -                 |
| HO Chung Tao <sup>(9)</sup>              | -                | -                  | -                                    | -                              | -   | -   | -  | -  | -   | -                 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>per share<br>on the<br>business day<br>immediately<br>before date<br>of grant<br>HK\$ | No. of<br>option<br>shares<br>held as at<br>1 January<br>2017 | No. of<br>option<br>shares<br>granted<br>during<br>the year | Transfer<br>from other<br>category<br>during<br>the year |
|-----------------------------|---------------|---------|--|---|---|--|
| KUOK Khoon Chen             | 23 Aug 2013   | -       | 11.92  | 350,000   | -   | -  |
| LUI Man Shing               | 23 Aug 2013   | -       | 11.92  | 350,000   | -   | -  |
| Madhu Rama<br>Chandra RAO   | 23 Aug 2013   | -       | 11.92  | 350,000   | -   | -  |
| HO Kian Guan                | 23 Aug 2013   | -       | 11.92  | 100,000   | -   | -  |
| Alexander Reid<br>HAMILTON  | 23 Aug 2013   | -       | 11.92  | 100,000   | -   | -  |
| Timothy David<br>DATTELS    | 23 Aug 2013   | -       | 11.92  | 100,000   | -   | -  |
| LI Kwok Cheung<br>Arthur    | 23 Aug 2013   | -       | 11.92  | 100,000   | -   | -  |
| LIU Kung Wei<br>Christopher | 23 Aug 2013   | -       | 11.92  | 350,000   | -   | -  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| 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 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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                                      |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| 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 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>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:

| Emolument bands (in HK dollar)  | Number of individuals |      |
|---------------------------------|-----------------------|------|
|                                 | 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                     | –    |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 30 FINANCE COSTS - NET

|                                     | 2017<br>US\$'000 | 2016<br>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<br>US\$'000 | 2016<br>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<br>US\$'000 | 2016<br>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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>US\$'000 | 2016<br>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      |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>US\$'000 | 2016<br>US\$'000 | 2017<br>US\$'000 | 2016<br>US\$'000 |
| Interim dividend paid of HK6 cents<br>(2016: HK5 cents) per ordinary share    | 27,647           | 23,029           | 27,727           | 23,097           |
| Proposed final dividend of HK11 cents<br>(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).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 35 NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Cash generated from operations

|   | 2017<br>US\$'000 | 2016<br>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          |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 35 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

### (d) Reconciliation of liabilities arising from financing activities

|  | Bank loans<br>US\$'000 | Fixed<br>rate bonds<br>US\$'000 | Amounts<br>due to non-<br>controlling<br>shareholders<br>US\$'000 | Total<br>US\$'000 |
|--|------------------------|---------------------------------|---|-------------------|
| <b>Balance as at 31 December 2016</b>              | 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             |
| Reclassified to non-controlling interests          | –                      | –                               | (25,771)  | (25,771)          |
| Dividends declared to non-controlling shareholders | –                      | –                               | 21,393  | 21,393            |
| <b>Balance as at 31 December 2017</b>              | 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>US\$'000 | 2016<br>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<br>US\$'000 | 2016<br>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<br>US\$'000 | 2016<br>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           |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>US\$'000 | 2016<br>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              |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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/<br>operation | Paid up/<br>issued capital | Percentage holding in<br>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<br>and operation   | 1     |
| Shangri-La International Hotels<br>(Pacific Place) Limited | Hong Kong                            | HK\$10,005,000             | -  | 80       | Hotel ownership<br>and operation   | 1     |
| Shenzhen Shangri-La Hotel Limited                          | The People's<br>Republic of China    | US\$32,000,000             | -  | 72       | Hotel ownership<br>and operation   | 2,6,8 |
| Beihai Shangri-La Hotel Limited                            | The People's<br>Republic of China    | US\$16,000,000             | -  | 100      | Hotel ownership<br>and operation   | 7,8   |
| Shanghai Pudong New Area<br>Shangri-La Hotel Co, Limited   | The People's<br>Republic of China    | US\$47,000,000             | -  | 100      | Hotel ownership<br>and operation   | 2,5,8 |
| Shenyang Hotel Jen Limited                                 | The People's<br>Republic of China    | US\$39,040,470             | -  | 100      | Hotel ownership<br>and operation   | 7,8   |
| Changchun Shangri-La Hotel<br>Co, Limited                  | The People's<br>Republic of China    | RMB167,000,000             | -  | 100      | Hotel ownership and<br>operation and<br>real estate operation                    | 7,8   |
| Jilin Province Kerry Real Estate<br>Development Limited    | The People's<br>Republic of China    | RMB25,000,000              | -  | 100      | Real estate development<br>and operation   | 7,8   |
| Qingdao Shangri-La Hotel<br>Co, Limited                    | The People's<br>Republic of China    | US\$79,000,000             | -  | 100      | Hotel ownership and<br>operation and real<br>estate development<br>and operation | 7,8   |
| Dalian Shangri-La Hotel Co, Limited                        | The People's<br>Republic of China    | US\$149,000,000            | -  | 100      | Hotel ownership and<br>operation and real<br>estate development<br>and operation | 7,8   |
| Harbin Shangri-La Hotel Co, Limited                        | The People's<br>Republic of China    | US\$20,767,000             | -  | 100      | Hotel ownership<br>and operation   | 7,8   |
| Wuhan Shangri-La Hotel Co, Limited                         | The People's<br>Republic of China    | US\$38,767,000             | -  | 92       | Hotel ownership<br>and operation   | 6,8   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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/<br>operation | Paid up/<br>issued capital | Percentage holding in<br>the voting shares |          | Nature of business  | Notes |
|---|--------------------------------------|----------------------------|--|----------|---|-------|
|   |                                      |                            | Direct                                     | Indirect |   |       |
| 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   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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/<br>operation | Paid up/<br>issued capital  | Percentage holding in<br>the voting shares |          | Nature of business   | Notes |
|---|--------------------------------------|---|--|----------|--|-------|
|   |                                      |   | Direct                                     | Indirect |  |       |
| Shangri-La Hotel (Diqing) Co, Limited             | The People's<br>Republic of China    | RMB610,000,000  | -  | 100      | Hotel ownership<br>and operation   | 7,8   |
| Shangri-La Hotel (Xiamen) Co, Limited             | The People's<br>Republic of China    | RMB640,000,000  | -  | 100      | Hotel ownership<br>and operation   | 2,7,8 |
| Dalian Wolong Bay Shangri-La<br>Hotel Co, Limited | The People's<br>Republic of China    | RMB430,000,000  | -  | 100      | Hotel ownership and<br>operation and real<br>estate development<br>and operation                                 | 3,7,8 |
| Kerry Real Estate (Yangzhou)<br>Co, Limited       | The People's<br>Republic of China    | US\$102,600,000   | -  | 100      | Hotel ownership and<br>operation and real<br>estate development  | 7,8   |
| Harbin Songbei Shangri-La Hotel<br>Co, Limited    | The People's<br>Republic of China    | RMB658,000,000  | -  | 100      | Hotel ownership<br>and operation   | 7,8   |
| Shangri-La Ulaanbaatar LLC                        | Mongolia                             | US\$5,000,000   | -  | 51       | Office ownership<br>and operation  |       |
| Shangri-La Ulaanbaatar Hotel LLC                  | Mongolia                             | US\$20,000,000  | -  | 51       | Hotel, serviced apartments<br>and office ownership<br>and operation  |       |
| Makati Shangri-La Hotel & Resort, Inc             | The Philippines                      | Peso1,100,000,000   | -  | 100      | Hotel ownership<br>and operation   |       |
| Edsa Shangri-La Hotel & Resort, Inc               | The Philippines                      | Peso 792,128,700  | -  | 100      | Hotel ownership<br>and operation   |       |
| Mactan Shangri-La Hotel & Resort, Inc             | The Philippines                      | Common<br>Peso 272,630,000<br>Preferred<br>Peso 170,741,500<br>Redeemable<br>Common<br>Peso 285,513,000 | -  | 93.95    | Hotel ownership<br>and operation   |       |
| Addu Investments Private Limited                  | Republic of Maldives                 | Rufiyaa 640,000,000   | -  | 70       | Hotel ownership<br>and operation   |       |
| Traders Hotel Malé Private Limited                | Republic of Maldives                 | Rufiyaa 64,000,000  | -  | 100      | Hotel ownership<br>and operation   |       |
| Yanuca Island Pte Limited                         | Fiji                                 | F\$1,262,196  | -  | 71.64    | Hotel ownership<br>and operation   | 2     |
| Shangri-La Hotel Limited                          | Singapore                            | S\$165,433,560  | -  | 100      | Investment holding,<br>hotel ownership and<br>operation and leasing<br>of residential and<br>serviced apartments | 2     |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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/<br>operation | Paid up/<br>issued capital | Percentage holding in<br>the voting shares |          | Nature of business  | Notes |
|--|--------------------------------------|----------------------------|--|----------|---|-------|
|  |                                      |                            | Direct                                     | Indirect |   |       |
| Sentosa Beach Resort Pte Limited           | Singapore                            | S\$30,000,000              | -  | 100      | Hotel ownership<br>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<br>and hotel ownership<br>and operation          |       |
| Shangri-La Hotel (KL) Sdn Berhad           | Malaysia                             | RM150,000,000              | -  | 52.78    | Hotel ownership<br>and operation                                    |       |
| Golden Sands Beach Resort<br>Sdn Berhad    | Malaysia                             | RM6,000,000                | -  | 52.78    | Hotel ownership<br>and operation                                    |       |
| Pantai Dalit Beach Resort<br>Sdn Berhad    | Malaysia                             | RM135,000,000              | -  | 64.59    | Hotel and golf club<br>ownership and operation                      |       |
| Komtar Hotel Sdn Berhad                    | Malaysia                             | RM6,000,000                | -  | 31.67    | Hotel ownership<br>and operation                                    |       |
| UBN Tower Sdn Berhad                       | Malaysia                             | RM500,000                  | -  | 52.78    | Property investment and<br>office management                        |       |
| UBN Holdings Sdn Berhad                    | Malaysia                             | RM45,186,400               | -  | 52.78    | Investment holding and<br>property investment                       |       |
| Traders Yangon Company Limited             | Myanmar                              | Kyat 21,600,000            | -  | 59.16    | Hotel ownership<br>and operation                                    |       |
| Shangri-La Yangon Company Limited          | Myanmar                              | Kyat 11,880,000            | -  | 55.86    | Serviced apartments<br>and hotel ownership<br>and operation         |       |
| Traders Square Company Limited             | Myanmar                              | Kyat 522,000               | -  | 59.28    | Real estate development<br>and operation                            |       |
| Shangri-La Hotel Public<br>Company Limited | Thailand                             | Baht1,300,000,000          | -  | 73.61    | Hotel, serviced apartments<br>and office ownership<br>and operation |       |
| Shangri-La Hotels (Paris)                  | France                               | EUR13,772,210              | -  | 100      | Hotel ownership<br>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<br>and hotel operation                           | 9     |
| Abelian Pty Limited                        | Australia                            | AUD1                       | -  | 100      | Investment holding<br>and hotel operation                           | 9     |
| Roma Hotel Pty Limited                     | Australia                            | AUD34,000,000              | -  | 100      | Hotel ownership<br>and operation                                    | 9     |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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/<br>operation | Paid up/<br>issued capital | Percentage holding in<br>the voting shares |          | Nature of business   | Notes |
|---|--------------------------------------|----------------------------|--|----------|--|-------|
|   |                                      |                            | Direct                                     | Indirect |  |       |
| Lilyvale Hotel Pty Limited                            | Australia                            | AUD140,000,004             | -  | 100      | Hotel ownership<br>and operation   | 2,9   |
| Shangri-La Hotels Lanka<br>(Private) Limited          | Sri Lanka                            | LKR2,219,000,000           | -  | 90       | Hotel ownership and<br>operation and real<br>estate development<br>and operation | 4     |
| Shangri-La Investments Lanka<br>(Private) Limited     | Sri Lanka                            | LKR1,214,245,300           | -  | 90       | Hotel ownership<br>and operation   |       |
| Turati Properties Srl                                 | Italy                                | EUR10,000                  | -  | 100      | Hotel ownership<br>and operation   | 3     |
| SLIM International Limited                            | Cook Islands                         | US\$1,000                  | 100  | -        | Investment holding   | 1     |
| Shangri-La International Hotel<br>Management Limited  | Hong Kong                            | HK\$10,000,000             | -  | 100      | Hotel management,<br>marketing, consultancy<br>and reservation services          | 1     |
| Shangri-La Hotel Management<br>(Shanghai) Co, Limited | The People's<br>Republic of China    | US\$7,340,000              | -  | 100      | Hotel management,<br>marketing and<br>consultancy services                       | 7,8   |
| Shangri-La International Hotel<br>Management BV       | The Netherlands                      | EUR18,151                  | -  | 100      | Sub-licensing use of<br>intellectual property<br>rights                          |       |

Notes:

- Subsidiaries audited by PricewaterhouseCoopers, Hong Kong.
- Subsidiaries audited by other member firms of PricewaterhouseCoopers.
- 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.
- 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.
- Co-operative Joint Venture.
- Equity Joint Venture.
- Wholly Foreign Owned Enterprise.
- 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.
- 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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     |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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 Swadharna 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>64 Mody Road, Tsimshatsui East,<br>Kowloon,<br>Hong Kong  | Hotel operation   | Medium lease |
| Island Shangri-La, Hong Kong<br>Pacific Place, Supreme Court Road,<br>Central,<br>Hong Kong  | Hotel operation   | Medium lease |
| Kerry Hotel, Hong Kong<br>38 Hung Luen Road, Hung Hom Bay,<br>Kowloon,<br>Hong Kong  | Hotel operation   | Medium lease |
| Shangri-La Hotel, Shenzhen<br>East Side, Railway Station,<br>1002 Jianshe Road, Shenzhen 518001,<br>The People's Republic of China | Hotel operation   | Medium lease |
| Shangri-La Hotel, Beihai<br>33 Chating Road, Beihai, Guangxi 536007,<br>The People's Republic of China                             | Hotel operation   | Medium lease |
| Pudong Shangri-La, East Shanghai<br>33 Fu Cheng Lu,<br>Pudong New Area,<br>Shanghai 200120,<br>The People's Republic of China      | Hotel operation   | Medium lease |
| Hotel Jen, Shenyang<br>68 Zhong Hua Road, He Ping District,<br>Shenyang 110001,<br>The People's Republic of China                  | Hotel operation   | Medium lease |
| Shangri-La Hotel, Changchun<br>569 Xian Road, Changchun 130061,<br>The People's Republic of China                                  | Hotel operation and<br>commercial and<br>residential rental | Medium lease |
| Shangri-La Hotel, Qingdao<br>9 Xiang Gang Zhong Lu, Qingdao 266071,<br>The People's Republic of China                              | Hotel operation   | Medium lease |
| Shangri-La Hotel, Dalian<br>66 Renmin Road, Dalian 116001,<br>The People's Republic of China                                       | Hotel operation   | Medium lease |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>555 You Yi Road, Dao Li District,<br>Harbin 150018,<br>The People's Republic of China                                   | Hotel operation | Medium lease |
| Shangri-La Hotel, Wuhan<br>No. 700, Jianshe Avenue, Hankou,<br>Wuhan 430015,<br>The People's Republic of China                                      | Hotel operation | Medium lease |
| Shangri-La Hotel, Fuzhou<br>No. 9 Xin Quan Nan Road,<br>Fuzhou 350005,<br>The People's Republic of China  | Hotel operation | Long lease   |
| Shangri-La Hotel, Guangzhou<br>1 Hui Zhan Dong Road,<br>Hai Zhu District,<br>Guangzhou 510308,<br>The People's Republic of China                    | Hotel operation | Medium lease |
| Shangri-La Hotel, Chengdu<br>9 Binjiang Dong Road,<br>Chengdu, Sichuan 610021,<br>The People's Republic of China                                    | Hotel operation | Medium lease |
| Shangri-La Hotel, Xian<br>38B Keji Road,<br>Xian 710075,<br>The People's Republic of China  | Hotel operation | Medium lease |
| Shangri-La Hotel, Baotou<br>66 Min Zu East Road,<br>Qing Shan District,<br>Baotou 014030, Inner Mongolia,<br>The People's Republic of China         | Hotel operation | Medium lease |
| Shangri-La Hotel, Yangzhou<br>472 Wen Chang Xi Lu,<br>New Western District, Yangzhou<br>Jiangsu Province, 225009,<br>The People's Republic of China | Hotel operation | Medium lease |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>5 Xi Lin Guo Le South Road,<br>Huhhot 010020, Inner Mongolia,<br>The People's Republic of China      | Hotel operation | Medium lease |
| Futian Shangri-La, Shenzhen<br>4088 Yi Tian Road<br>Futian District<br>Shenzhen 518048<br>The People's Republic of China         | Hotel operation | Medium lease |
| Shangri-La Hotel, Wenzhou<br>1 Xiangyuan Road,<br>Wenzhou 325000, Zhejiang Province,<br>The People's Republic of China           | Hotel operation | Medium lease |
| Shangri-La Hotel, Ningbo<br>88 Yuyuan Road, Jiangdong District,<br>Ningbo 315040, Zhejiang,<br>The People's Republic of China    | Hotel operation | Medium lease |
| Shangri-La Hotel, Guilin<br>111 Huan Cheng Bei Er Lu,<br>Guilin 541004, Guangxi,<br>The People's Republic of China               | Hotel operation | Medium lease |
| Shangri-La Hotel, Manzhouli<br>99 Liudao Street, Manzhouli<br>Inner Mongolia, 021400,<br>The People's Republic of China          | Hotel operation | Medium lease |
| Shangri-La Hotel, Qufu<br>3 Chunqiu Road, Qufu,<br>Shandong, 273100,<br>The People's Republic of China                           | Hotel operation | Medium lease |
| Shangri-La's Sanya Resort & Spa, Hainan<br>No.88 North Hai Tang Road, Sanya<br>Hainan, 572000,<br>The People's Republic of China | Hotel operation | Medium lease |
| Shangri-La Hotel, Lhasa<br>19 Norbulingka Road, Lhasa,<br>Tibet Autonomous Region, 850000,<br>The People's Republic of China     | Hotel operation | Medium lease |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>329 Zhongyang Road, Gulou District,<br>Nanjing, Jiangsu Province, 210037,<br>The People's Republic of China  | Hotel operation | Medium lease |
| Shangri-La Hotel, Qinhuangdao<br>123 Hebin Road, Haigang District,<br>Qinhuangdao, Hebei, 066000,<br>The People's Republic of China   | Hotel operation | Medium lease |
| Shangri-La Hotel, Hefei<br>No.256 Suixi Road, Luyang District,<br>Hefei, Anhui Province, 230041<br>The People's Republic of China   | Hotel operation | Medium lease |
| Shangri-La Resort, Shangri-La<br>No.1, Chicika Street, Jiantang Town,<br>Shangri-La City, Diqing Tibetan<br>Autonomous Prefecture, Yunnan Province,<br>The People's Republic of China | Hotel operation | Medium lease |
| Songbei Shangri-La, Harbin<br>No. 1 Songbei Avenue, Songbei District,<br>Harbin 150028,<br>The People's Republic of China   | Hotel operation | Medium lease |
| Shangri-La Hotel, Xiamen<br>Guanyinshan International Business<br>Centre, No. 168 Taidong Road,<br>Siming District, Fujian,<br>The People's Republic of China                         | Hotel operation | Medium lease |
| Makati Shangri-La, Manila<br>Ayala Avenue, corner Makati Avenue,<br>Makati City, Metro Manila 1200,<br>The Philippines  | Hotel operation | Medium lease |
| Edsa Shangri-La, Manila<br>1 Garden Way, Ortigas Center,<br>Mandaluyong City 1650,<br>Metro Manila,<br>The Philippines  | Hotel operation | Medium lease |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>Punta Engano Road,<br>Lapu Lapu City, Cebu 6015,<br>The Philippines | Hotel operation | Medium lease              |
| Shangri-La's Boracay Resort & Spa<br>Barangay Yapak<br>Boracay Island<br>Malay, Aklan 5608, The Philippines   | Hotel operation | Medium lease              |
| Shangri-La's Fijian Resort & Spa, Yanuca<br>Yanuca Island Cuvu, Sigatoka,<br>Fiji                             | Hotel operation | Long lease                |
| Shangri-La Hotel, Singapore<br>22 Orange Grove Road,<br>Singapore 258350                                      | Hotel operation | Freehold                  |
| Shangri-La's Rasa Sentosa Resort & Spa,<br>Singapore<br>101 Siloso Road, Sentosa,<br>Singapore 098970         | Hotel operation | Long lease                |
| Hotel Jen Orchardgateway Singapore<br>277 Orchard Road,<br>Singapore 238858                                   | Hotel operation | Medium lease for building |
| Shangri-La Hotel, Kuala Lumpur<br>11 Jalan Sultan Ismail,<br>50250 Kuala Lumpur,<br>Malaysia                  | Hotel operation | Freehold                  |
| Shangri-La's Rasa Sayang Resort & Spa,<br>Penang<br>Batu Ferringgi Beach,<br>11100 Penang,<br>Malaysia        | Hotel operation | Freehold                  |
| Hotel Jen Penang<br>Magazine Road, George Town,<br>10300 Penang,<br>Malaysia                                  | Hotel operation | Long lease                |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>Batu Feringgi Beach,<br>11100 Penang,<br>Malaysia                                     | Hotel operation                                      | Freehold                  |
| Shangri-La's Rasa Ria Resort & Spa, Kota Kinabalu<br>Pantai Dalit Beach,<br>Tuaran, Sabah 89208,<br>Malaysia         | Hotel and golf club<br>operation                     | Long lease                |
| Sule Shangri-La, Yangon<br>223 Sule Pagoda Road,<br>Yangon,<br>Myanmar   | Hotel operation                                      | Medium lease              |
| Shangri-La Hotel, Bangkok<br>89 Soi Wat Suan Plu,<br>New Road, Bangrak, Bangkok 10500,<br>Thailand                   | Hotel operation,<br>residential and office<br>rental | Freehold                  |
| Shangri-La Hotel, Chiang Mai<br>89/8 Chang Klan Road,<br>Muang, Chiang Mai 50100,<br>Thailand                        | Hotel operation                                      | Freehold                  |
| Shangri-La's Villingili Resort & Spa, Maldives<br>Villingili Island, Addu Atoll,<br>Republic of Maldives             | Hotel operation                                      | Medium lease              |
| Hotel Jen Malé Maldives<br>Ameer Ahmed Magu, Malé 20096,<br>Republic of Maldives                                     | Hotel operation                                      | Medium lease              |
| Shangri-La Hotel, Tokyo<br>Marunouchi Trust Tower Main,<br>1-8-3 Marunouchi, Chiyoda-ku,<br>Tokyo 100-8283,<br>Japan | Hotel operation                                      | Medium lease for building |
| Shangri-La Hotel, At The Shard, London<br>31 St Thomas Street,<br>SE1 9QU, London<br>United Kingdom                  | Hotel operation                                      | Medium lease for building |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>10 Avenue d'Iena,<br>75116 Paris,<br>France   | Hotel operation | Freehold     |
| Shangri-La Hotel, The Marina, Cairns<br>Pierpoint Road, Marlin Marina, Cairns,<br>Queensland 4870,<br>Australia      | Hotel operation | Medium lease |
| Shangri-La Hotel, Sydney<br>176 Cumberland Street,<br>The Rocks,<br>Sydney NSW 2000,<br>Australia                    | Hotel operation | Long lease   |
| Hotel Jen Brisbane<br>159, Roma Street,<br>Brisbane,<br>Queensland 4000,<br>Australia                                | Hotel operation | Freehold     |
| Shangri-La Hotel, Ulaanbaatar<br>19 Olympic Street, Sukhbaatar District-1,<br>Ulaanbaatar, 14241,<br>Mongolia        | Hotel operation | Long lease   |
| Shangri-La's Hambantota Golf Resort<br>& Spa, Sri Lanka<br>Sittrakala Estate, Chithragala,<br>Ambalantota, Sri Lanka | Hotel operation | Medium lease |
| Shangri-La Hotel, Colombo<br>1 Galle Face, Colombo 2,<br>Sri Lanka   | Hotel operation | Freehold     |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>1 Jian Guo Men Wai Avenue,<br>Beijing 100004,<br>The People's Republic of China   | Hotel operation | Medium lease |
| Hotel Jen, Beijing<br>1 Jian Guo Men Wai Avenue,<br>Beijing 100004,<br>The People's Republic of China   | Hotel operation | Medium lease |
| China World Summit Wing, Beijing<br>1 Jian Guo Men Wai Avenue,<br>Beijing 100004,<br>The People's Republic of China   | Hotel operation | Medium lease |
| Kerry Hotel, Beijing<br>1 Guanghua Road,<br>Chaoyang District,<br>Beijing 100020,<br>The People's Republic of China   | Hotel operation | Medium lease |
| Shangri-La Hotel, Beijing<br>29 Zizhuyuan Road,<br>Beijing 100089,<br>The People's Republic of China  | Hotel operation | Medium lease |
| Shangri-La Hotel, Hangzhou<br>78 Beishan Road,<br>Hangzhou 310007,<br>The People's Republic of China  | Hotel operation | Medium lease |
| Kerry Hotel Pudong, Shanghai<br>No. 1388 Hua Mu Road, Pudong,<br>Shanghai 201204,<br>The People's Republic of China   | Hotel operation | Medium lease |
| Jing An Shangri-La, West Shanghai<br>1218 Middle Yan'an Road,<br>Jing An Kerry Centre, West Nanjing Road,<br>Shanghai 200040,<br>The People's Republic of China | Hotel operation | Medium lease |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>115 Qingnian Avenue<br>Shenhe District, Shenyang<br>Liaoning, 110016,<br>The People's Republic of China                    | Hotel operation | Medium lease |
| Shangri-La Hotel, Tianjin<br>No. 328 Haihe East Road,<br>Hedong District, Tianjin, 300019<br>The People's Republic of China                              | Hotel operation | Medium lease |
| Shangri-La Hotel, Jinan<br>No. 106 Luoyuan Street,<br>Lixia District, Jinan,<br>Shandong Province, 250011,<br>The People's Republic of China             | Hotel operation | Medium lease |
| The Portman Ritz-Carlton, Shanghai<br>1376 Nanjing Road West,<br>Shanghai 200040,<br>The People's Republic of China                                      | Hotel operation | Medium lease |
| Shangri-La Hotel, Nanchang<br>No. 669, Cui Lin Road,<br>Honggutan New District, Nanchang,<br>Jiangxi Province, 330038,<br>The People's Republic of China | Hotel operation | Medium lease |
| Shangri-La Hotel, Tangshan<br>889, Changhong West Road,<br>Lubei District, Tangshan, Hebei, 063000,<br>The People's Republic of China                    | Hotel operation | Medium lease |
| Midtown Shangri-La, Hangzhou<br>6 Changshou Road, Kerry Central,<br>Yan'an Roan, Hangzhou, 310006,<br>China  | Hotel operation | Medium lease |
| Hotel Jen Tanglin Singapore<br>1A Cuscaden Road,<br>Singapore 249716   | Hotel operation | Long lease   |
| Shangri-La's Tanjung Aru Resort & Spa,<br>Kota Kinabalu<br>20 Jalan Aru, Kota Kinabalu,<br>Sabah 88100, Malaysia   | Hotel operation | Long lease   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>Kota BNI, Jalan Jend. Sudirman Kav. 1,<br>Jakarta 10220,<br>Indonesia                                 | Hotel operation | Medium lease        |
| Hotel Jen Hong Kong<br>No. 508 Queen's Road West,<br>Western District,<br>Hong Kong  | Hotel operation | Long lease          |
| Shangri-La Bosphorus, Istanbul<br>Sinanpasa Mah, Hayrettin,<br>Iskelesi Sok, No.1, Besiktas,<br>Istanbul, 34353<br>Turkey          | Hotel operation | Freehold            |
| Shangri-La's Le Touessrok Resort & Spa,<br>Mauritius<br>Coastal Road, Trou d'Eau Douce,<br>42212, Mauritius                        | Hotel operation | Freehold/Long lease |
| Shangri-La at the Fort, Manila<br>30 <sup>th</sup> street corner 5th Avenue,<br>Bonifacio Global City, Taguig City,<br>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<br>66 Renmin Road, Dalian 116001,<br>The People's Republic of China                | Residential rental              | Medium lease |
| Shangri-La Centre, Chengdu<br>9 Binjiang Dong Road<br>Chengdu, Sichuan 610021,<br>The People's Republic of China | Office and commercial<br>rental | Medium lease |
| Shangri-La Centre, Qingdao<br>9 Xiang Gang Zhong Lu, Qingdao 266071,<br>The People's Republic of China           | Office and commercial<br>rental | Medium lease |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>2 Sukhbaatar Square, SBD -8,<br>Ulaanbaatar 210620a,<br>Mongolia                      | Office rental                                | Medium lease |
| Shangri-La Centre, Ulaanbaatar<br>19A-C Olympic Street,<br>Sukhbaatar District 1,<br>Ulaanbaatar 14241,<br>Mongolia | Office, commercial<br>and residential rental | Long lease   |
| Shangri-La Apartments, Singapore<br>1 Anderson Road,<br>Singapore 259983  | Residential rental                           | Freehold     |
| Shangri-La Residences, Singapore<br>No. 1A Lady Hill Road,<br>Singapore 258685                                      | Residential rental                           | Freehold     |
| UBN Tower, Kuala Lumpur<br>UBN Complex, 10 Jalan P. Ramlee,<br>50250 Kuala Lumpur,<br>Malaysia                      | Office and<br>commercial rental              | Freehold     |
| UBN Apartments, Kuala Lumpur<br>UBN Complex, 10 Jalan P. Ramlee,<br>50250 Kuala Lumpur,<br>Malaysia                 | Residential rental                           | Freehold     |
| Sule Square<br>221, Sule Pagoda Road,<br>Yangon,<br>Myanmar   | Office and commercial<br>rental              | Medium lease |
| Shangri-La Residences, Yangon<br>Kan Yeik Tha Street,<br>Yangon,<br>Myanmar   | Residential rental                           | Medium lease |
| The Pier Retail Complex, Cairns<br>Pierpoint Road, Marlin Marina,<br>Cairns, Queensland 4870,<br>Australia          | Office and<br>commercial rental              | Medium lease |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>1 Jian Guo Men Wai Avenue,<br>Beijing 100004,<br>The People's Republic of China   | Office, commercial<br>and residential rental                              | Medium lease |
| Century Towers, Beijing<br>18 Guang Qu Men Wai Avenue,<br>Beijing 100022,<br>The People's Republic of China   | Residential rental  | Long lease   |
| Shanghai Centre<br>1376 Nanjing Road West,<br>Shanghai 200040,<br>The People's Republic of China  | Office, commercial,<br>residential and<br>exhibition hall space<br>rental | Medium lease |
| Beijing Kerry Centre<br>1 Guanghua Road,<br>Chaoyang District,<br>Beijing 100020,<br>The People's Republic of China   | Office, commercial<br>and residential rental                              | Medium lease |
| Jing An Kerry Centre<br>1218, 1228 and 1238 Yanan Zhong Road,<br>1515, 1539, 1551 and 1563<br>Nanjing Road West,<br>Jing An District,<br>Shanghai 200040,<br>The People's Republic of China | Office, commercial<br>and residential rental                              | Medium lease |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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<br>No. 1378 Hua Mu Road, Pudong,<br>Shanghai 201204,<br>The People's Republic of China | Office, commercial<br>and residential rental | Medium lease |
| Tianjin Kerry Centre<br>Liuwei Road, Hedong District,<br>Tianjin 300171,<br>The People's Republic of China            | Office, commercial<br>and residential rental | Medium lease |
| Hangzhou Kerry Centre<br>385 Yan'an Road, Xiacheng District,<br>Hangzhou,<br>The People's Republic of China           | Office and commercial<br>rental              | Medium lease |
| Tanglin Mall, Singapore<br>163 Tanglin Road,<br>Singapore 247933  | Commercial rental                            | Long lease   |
| Tanglin Place, Singapore<br>91 Tanglin Road,<br>Singapore 247918  | Office and commercial<br>rental              | Freehold     |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 42 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

|  | As at 31 December |                  |
|--|-------------------|------------------|
|  | 2017              | 2016             |
|  | US\$'000          | US\$'000         |
| <b>ASSETS</b>  |                   |                  |
| <i>Non-current assets</i>  |                   |                  |
| 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        |
| <i>Current assets</i>  |                   |                  |
| 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          |
| <b>Total assets</b>  | <b>5,307,372</b>  | <b>5,192,134</b> |
| <b>EQUITY</b>  |                   |                  |
| <i>Capital and reserves attributable to the Company's equity holders</i> |                   |                  |
| Share capital  | 3,198,420         | 3,191,801        |
| Other reserves   | 1,543,157         | 1,543,197        |
| Retained earnings  | 103,643           | 47,899           |
| <b>Total equity</b>  | <b>4,845,220</b>  | <b>4,782,897</b> |
| <b>LIABILITIES</b>   |                   |                  |
| <i>Current liabilities</i>   |                   |                  |
| Accounts payable and accruals  | 9,253             | 8,255            |
| Amounts due to subsidiaries  | 452,899           | 400,982          |
|  | 462,152           | 409,237          |
| <b>Total liabilities</b>   | <b>462,152</b>    | <b>409,237</b>   |
| <b>Total equity and liabilities</b>                                      | <b>5,307,372</b>  | <b>5,192,134</b> |
| <b>Net current assets</b>  | <b>304,005</b>    | <b>267,272</b>   |
| <b>Total assets less current liabilities</b>                             | <b>4,845,220</b>  | <b>4,782,897</b> |

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**  
Director

**LIM Beng Chee**  
Director

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 42 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

### Movement of other reserves of the Company:

|  | Share<br>option<br>reserve<br>US\$'000 | Capital<br>redemption<br>reserve<br>US\$'000 | Available-for-<br>sale financial<br>assets<br>reserve<br>US\$'000 | Contributed<br>surplus<br>US\$'000<br>(Note) | Total<br>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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 42 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

### Movement of retained earnings of the Company:

|   | 2017<br>US\$'000 | 2016<br>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)         |
| <b>Balance at 31 December</b>                                   | <b>103,643</b>   | <b>47,899</b>    |
| Representing:   |                  |                  |
| 2017/2016 final dividend proposed (Note 34)                     | 50,885           | 36,955           |
| Others  | 52,758           | 10,944           |
| <b>Balance at 31 December</b>                                   | <b>103,643</b>   | <b>47,899</b>    |

## 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<br>US\$'000       | 2016<br>US\$'000 | 2015<br>US\$'000 | 2014<br>US\$'000 | 2013<br>US\$'000 |
| <b>Results</b>                 |                        |                  |                  |                  |                  |
| 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<br>US\$'000       | 2016<br>US\$'000 | 2015<br>US\$'000 | 2014<br>US\$'000 | 2013<br>US\$'000 |
| <b>Assets and liabilities</b>  |                        |                  |                  |                  |                  |
| 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   |

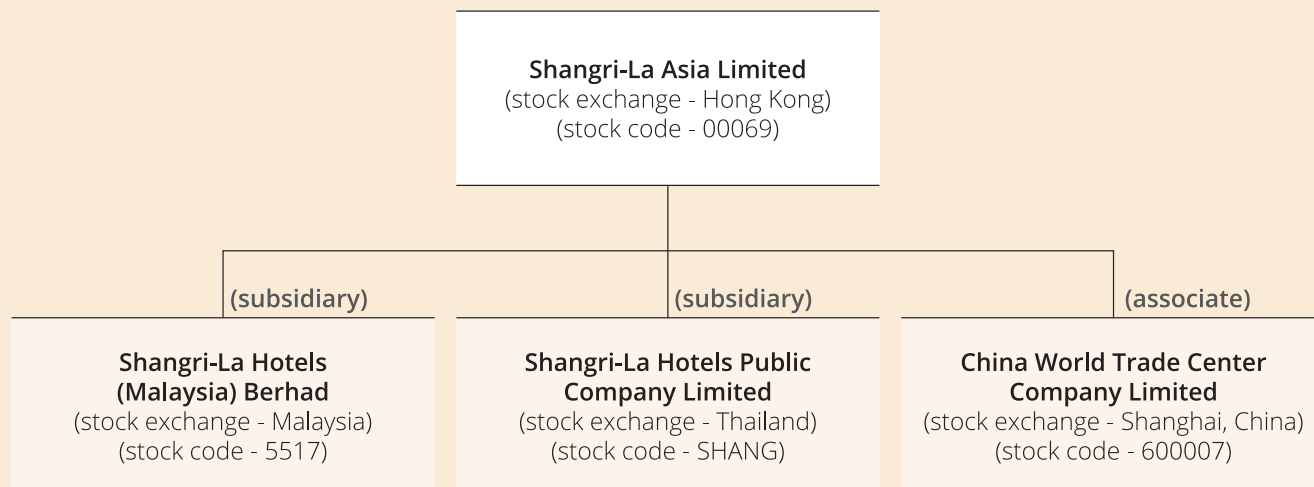
## ABBREVIATIONS

|  |  |
|--|--|
| “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  |

## ABBREVIATIONS

|                              |  |
|------------------------------|--|
| “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

香格里拉(亞洲)有限公司