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## SHANGRI-LA ASIA LIMITED

### 香格里拉(亞洲)有限公司

(Incorporated in Bermuda with limited liability)

website: [www.ir.shangri-la.com](http://www.ir.shangri-la.com)

(Stock code: 00069)

### 2017 FINAL RESULTS ANNOUNCEMENT

The board of directors (“**Board**”) of Shangri-La Asia Limited (“**Company**”) wishes to announce the audited results of the Company and its subsidiaries (“**Group**”), and associates for the year ended 31 December 2017. These results have been audited by the Company’s auditor, PricewaterhouseCoopers, in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants and reviewed by the audit committee of the Board.

The following table summarises the highlights of our financial results:

	Year ended 31 December		2017/16 % change
	2017	2016	
	US\$ Million	US\$ Million	
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><u>158.0</u></b>	<u>106.1</u>	<u>48.9%</u>
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.

The Board has recommended a final dividend of **HK11 cents** per share for 2017 (2016: HK8 cents per share) payable to the Company's shareholders whose names appear on the registers of members of the Company on Tuesday, 5 June 2018. With the interim dividend of HK6 cents per share (2016: HK5 cents per share) paid in October 2017, the total dividend for 2017 is HK17 cents per share (2016: HK13 cents per share).

Subject to shareholders' approval of the payment of the final dividend at the forthcoming annual general meeting of the Company, the proposed final dividend is expected to be paid on Thursday, 14 June 2018.

## 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	Hotels	Rooms	Hotels	Rooms	Hotels under Owned	Hotels under Management Contracts
	<i>in '000</i>		<i>in '000</i>		<i>in '000</i>		Hotels	Contracts
	71	30.9	15	4.7	86	35.6	4	7
	3	1.6	—	—	3	1.6	—	—
	8	3.0	2	0.6	10	3.6	—	1
	—	—	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)

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

		Group's equity interest	Total GFA of the operating investment properties as at 31 December 2017			
			Office spaces	Commercial spaces	Serviced apartments	
<i>(in square metres)</i>						
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%	<u>83,419</u>	<u>62,498</u>	<u>—</u>	
			<u>393,841</u>	<u>163,204</u>	<u>80,124</u>	
		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%	<u>12,425</u>	<u>100,617</u>	<u>—</u>	
			<u>853,803</u>	<u>523,160</u>	<u>317,181</u>	
Malaysia	UBN Apartments, Malaysia	52.78%	—	—	17,356	
	UBN Tower, Malaysia	52.78%	<u>45,175</u>	<u>8,530</u>	<u>—</u>	
			<u>45,175</u>	<u>8,530</u>	<u>17,356</u>	

<i>(in square metres)</i>		Group's equity interest	Total GFA of the operating investment properties as at 31 December 2017		
			Office spaces	Commercial spaces	Serviced apartments
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%	<u>3,291</u>	<u>1,666</u>	<u>—</u>
			<u>3,291</u>	<u>22,933</u>	<u>24,735</u>
Australia	The Pier Retail Complex, Cairns	100%	<u>515</u>	<u>11,370</u>	<u>—</u>
Mongolia	Central Tower, Ulaanbaatar	51%	23,114	4,510	—
	Shangri-La Centre, Ulaanbaatar	51%	<u>18,241</u>	<u>16,728</u>	<u>19,585</u>
			<u>41,355</u>	<u>21,238</u>	<u>19,585</u>
Myanmar	Shangri-La Residences, Yangon	55.86%	—	—	56,834
	Sule Square, Yangon	59.28%	<u>37,635</u>	<u>11,807</u>	<u>—</u>
			<u>37,635</u>	<u>11,807</u>	<u>56,834</u>
<b>TOTAL</b>			<u>981,774</u>	<u>599,038</u>	<u>435,691</u>

## RESULTS OF OPERATIONS

### Sales

Consolidated sales consisted of the following:

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

#### (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	2016	% change
	<i>US\$ Million</i>	<i>US\$ Million</i>	
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.

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

	Group’s equity interest	Available rooms
<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



	<b>Group's equity interest</b>	<b>Available rooms</b>
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
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>Group's equity interest</b>	<b>Available rooms</b>
<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
<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>		<u><u>35,155</u></u>
<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>		<u><u>901</u></u>
<b>Grand total</b>		<u><u>36,056</u></u>

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

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

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

Comments on performance by geography:

## **The People's Republic of China**

### ***Hong Kong***

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

## ***Mainland China***

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

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

- In Tier 1 cities, the occupancy for 2017 was 77%, an increase of 5.0 percentage points, compared to 72% for 2016. The RevPAR was US\$131.4 for 2017, an increase of US\$9.7 or 7.9% compared to 2016. If adjusted for the exchange rate impact, the RevPAR would have been US\$133.2, an increase of US\$11.4 or 9.4%.
- In Tier 2 cities, the occupancy for 2017 was 67%, an increase of 7.1 percentage points, compared to 60% for 2016. The RevPAR was US\$65.2 for 2017, an increase of US\$6.1 or 10.2% compared to 2016. If adjusted for the exchange rate impact, the RevPAR would have been US\$66.1, an increase of US\$6.9 or 11.7%.
- In Tier 3 and Tier 4 cities, the occupancy for 2017 was 54%, an increase of 1.8 percentage points, compared to 52% for 2016. The RevPAR was US\$47.7 for 2017, an increase of US\$2.9 or 6.4% compared to 2016. If adjusted for the exchange rate impact, the RevPAR would have been US\$48.4, an increase of US\$3.5 or 7.8%.

## **Singapore**

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

## **Malaysia**

Major renovation of Shangri-La Hotel, Kuala Lumpur's banqueting facilities and all-day dining restaurant and the phased renovation of Hotel Jen Penang's guestrooms were completed by the end of February 2017 and the end of June 2017, respectively. Major renovation of Shangri-La's Tanjung Aru Resort & Spa's function rooms, grand ball room and Tanjung Wing's guestrooms/suites in Kota Kinabalu was also

completed by end of June 2017. The upgraded facilities largely improved the performance of the Malaysia hotel segment in the second half of the year. The overall weighted average RevPAR of the hotels and resorts in the country increased by 5% as compared to last year, mainly supported by a 27% increment in the weighted average RevPAR of the Hotel Jen Penang.

## **Thailand**

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

## **The Philippines**

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

## **Japan**

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

## **France**

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

## **Australia**

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

## **The United Kingdom**

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

## **Mongolia**

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

## **Sri Lanka**

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

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

## **Other Countries**

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

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

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

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

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

### Food and Beverage Sales

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

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

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

### (ii) Hotel management and related services

Gross revenue from the Group's hotel management and related services for the year ended 31 December 2017 were US\$159.7 million, an increase of 5.2%, compared to US\$151.8 million for the year ended 31 December 2016. The revenue of 2016 included a net credit of US\$13.4 million arising from the fair value changes of the points anticipated to expire and the actual points expired under the Group's guest loyalty programme on contracts executed directly with third-party strategic partners. Such credit reduced by US\$9.5 million to US\$3.9 million in 2017. Excluding such

credit, the management fee income earned from hotels in 2017 and 2016 was US\$155.8 million and US\$138.4 million, respectively, representing an actual increase of US\$17.4 million (or 12.5%) for the year. This was mainly driven by the increase in newly opened hotels and the better performance of hotels in general. Likewise, net profit of hotel management and related services marginally decreased by US\$0.5 million as compared to last year after the negative impact from the reduction of net credit arising from the above mentioned guest loyalty programme on contracts executed with third-party strategic partners.

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

- 79 Group-owned hotels (Portman is the only exception)
- 3 hotels under lease agreements
- 20 hotels owned by third parties

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

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

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



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

### **(iii) Property Rentals**

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

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

<i>(in square metres)</i>	<b>Total GFA* of operating investment properties as at 31 December 2017</b>		
	<b>Office spaces</b>	<b>Commercial spaces</b>	<b>Serviced apartments</b>
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	<u>38,150</u>	<u>23,177</u>	<u>56,834</u>
<b>Total</b>	<b><u>981,774</u></b>	<b><u>599,038</u></b>	<b><u>435,691</u></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 III B, the weighted average occupancy of the commercial spaces and office spaces increased to 74% and 92%, respectively. Yields of the serviced apartments at the Center decreased by 7% primarily due to the decline in occupancy by 9 percentage points, while Yields of the serviced apartments at the Century Towers, Beijing increased marginally by 1%. Major renovations to the Center’s original exhibition hall and its connecting area were ongoing at year end. These spaces are being converted into a shopping mall which will provide approximately 25,591 square metres leasable area in the second quarter of 2018. For Beijing Kerry Centre, Yields of the office spaces and serviced apartments increased by 5% and 10%, respectively, while the Yields of the commercial spaces decreased marginally by 2%.

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

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

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

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

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

## **Singapore**

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

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

## **Malaysia**

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

## **Mongolia**

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

## **Other countries**

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

## **(iv) Property Sales**

Property sales by wholly owned subsidiaries for the year ended 31 December 2017 were US\$33.5 million (nil for the year ended 31 December 2016) contributed from the sales of residential units of the Yangzhou Lakeview Residence and the newly completed residential tower of the Shangri-La Hotel, Dalian Phase II project (Yavis). Net profit of US\$2.0 million was recorded during the year from these subsidiaries. All the remaining 39 residential units of Yangzhou Lakeview Residence were sold

during the year and the last unit was handed over to the buyer in early 2018. 51 units out of the total 166 units of Yavis were sold during the year and 47 units have been handed over to the buyers with the remaining four units to be handed over in 2018.

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

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

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

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

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

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

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

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

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

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

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

## EBITDA AND AGGREGATE EFFECTIVE SHARE OF EBITDA

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

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

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

## Consolidated profit attributable to equity holders of the Company

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

		Year ended 31 December		2017/16
		2017	2016	% change
		US\$ Mil	US\$ Mil	
<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
<b>Hotel management</b>		32.7	33.2	-1.5%
<b>Sub-total hotel operations</b>		<b>101.2</b>	<b>79.0</b>	<b>28.1%</b>
<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>		<b>136.7</b>	<b>131.6</b>	<b>3.9%</b>
<b>Property sales &amp; other business</b>		30.9	53.4	-42.1%
<b>Net corporate finance costs (including foreign exchange gains and losses)</b>		(77.5)	(83.2)	6.9%
<b>Land cost amortisation &amp; pre-opening expenses for projects &amp; corporate expenses</b>		(50.6)	(43.2)	-17.1%
<b>Consolidated profit attributable to equity holders of the company before non-operating items</b>		<b>140.7</b>	<b>137.6</b>	<b>2.3%</b>
<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>		<b>158.0</b>	<b>106.1</b>	<b>48.9%</b>

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 III B
    - 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 3 to the consolidated financial statements included in this announcement.

## **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:

<b>Maturities of Borrowings Contracted as at 31 December 2017</b>					
<i>(US\$ million)</i>	<b>Within 1 year</b>	<b>In the 2nd year</b>	<b>Repayment In the 3rd to 5th year</b>	<b>After 5 years</b>	<b>Total</b>
<b>Borrowings</b>					
Corporate borrowings					
- unsecured bank loans	—	237.9	3,039.6	—	3,277.5
Bank loans of subsidiaries					
- secured	8.7	105.2	29.6	31.0	174.5
- unsecured	<u>226.1</u>	<u>671.7</u>	<u>826.0</u>	<u>8.9</u>	<u>1,732.7</u>
Total outstanding balance	<u>234.8</u>	<u>1,014.8</u>	<u>3,895.2</u>	<u>39.9</u>	<u>5,184.7</u>
<b>Undrawn but committed facilities</b>					
Bank loans and overdrafts	<u>63.3</u>	<u>10.8</u>	<u>1,072.5</u>	<u>55.2</u>	<u>1,201.8</u>

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

<i>(US\$ million)</i>	<b>Borrowings</b>	<b>Cash and Bank Balances</b>
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

<i>(US\$ million)</i>	<b>Borrowings</b>	<b>Cash and Bank Balances</b>
In Maldivian rufiyaa	—	0.5
In other currencies	<u>—</u>	<u>0.5</u>
	<u>5,184.7</u>	<u>921.9</u>

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 15 to the consolidated financial statements included in this announcement.

## **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 loans arrangements from time to time in response to changes in currency exchange rates and bank loan interest rates.

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

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

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

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

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

## **(B) Minimising Currency Risks**

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

It is the Group's practice, wherever and to the extent possible, to quote tariffs in the stronger currency and maintain bank balances in that currency, if legally permitted. In general, the Group has not felt it appropriate to substantially hedge against currency risks through currency forward contracts upon consideration of the currency risks involved in normal operations and the cost of obtaining such cover.

## **INVESTMENT PROPERTIES VALUATIONS**

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

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

## 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

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

***TBD: To be determined***

## (B) Composite Developments and Investment Property Developments

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

\* Being developed in phases

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

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

### ***Hotel development***

- Wolong Bay in Dalian, Mainland China (wholly owned by the Group)
- Rome, Italy (wholly owned by the Group)
- Lakeside Shangri-La, Yangon, Myanmar (55.86% equity interest owned by the Group)

### ***Composite development***

- Nanchang city project — Phase II, Mainland China (20% equity interest owned by the Group)
- Accra, the Republic of Ghana (45% equity interest owned by the Group)

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

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

## **DISPOSALS**

### **(A) Disposal of interest in a subsidiary**

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

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

### **(B) Disposal of interest in an associate**

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

## MANAGEMENT CONTRACTS FOR HOTELS OWNED BY THIRD PARTIES

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

- In June 2017, the Group signed an agreement for the management of a 500-room Shangri-La hotel in Melbourne, Australia scheduled to open in 2022. The hotel will form part of the planned landmark luxury development in Melbourne's central business district.
- In June 2017, the Group signed the new agreement for the management of a Shangri-La resort with 299 rooms and 40 villas in Bali, Indonesia scheduled to open in 2018 when the Group disposed of its equity interest in the project company for this hotel development project.

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

As at the date of this announcement, 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.

## AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	<b>As at 31 December</b>	
		<b>2017</b>	2016
		<b>US\$'000</b>	<b>US\$'000</b>
<b>ASSETS</b>			
<i>Non-current assets</i>			
Property, plant and equipment		6,281,592	6,002,690
Investment properties		1,448,853	1,328,352
Leasehold land and land use rights		498,417	499,341
Intangible assets		89,947	90,367
Interest in associates		3,870,057	3,634,559
Deferred income tax assets		8,138	6,213
Available-for-sale financial assets		13,343	10,189
Derivative financial instruments		5,067	2
Other receivables		<u>14,254</u>	<u>13,929</u>
		<b><u>12,229,668</u></b>	<b><u>11,585,642</u></b>
<i>Current assets</i>			
Inventories		38,028	41,790
Properties for sale		46,208	18,581
Accounts receivable, prepayments and deposits	4	323,648	304,836
Amounts due from associates		90,450	66,971
Derivative financial instruments		1,738	2
Amounts due from non-controlling shareholders		37	69
Financial assets held for trading		23,534	14,963
Cash and bank balances		<u>921,862</u>	<u>944,218</u>
		<b><u>1,445,505</u></b>	<b><u>1,391,430</u></b>
Assets of disposal group classified as held for sale		<u>—</u>	<u>16,712</u>
		<b><u>1,445,505</u></b>	<b><u>1,408,142</u></b>
<b>Total assets</b>		<b><u>13,675,173</u></b>	<b><u>12,993,784</u></b>

	<i>Note</i>	<b>As at 31 December</b>	
		<b>2017</b>	<b>2016</b>
		<b>US\$'000</b>	<b>US\$'000</b>
<b>EQUITY</b>			
<i>Capital and reserves attributable to the Company's equity holders</i>			
Share capital	5	<b>3,198,420</b>	3,191,801
Other reserves		<b>1,117,763</b>	606,320
Retained earnings		<b><u>2,286,373</u></b>	<u>2,192,707</u>
		<b>6,602,556</b>	5,990,828
<b>Non-controlling interests</b>		<b><u>439,440</u></b>	<u>421,606</u>
<b>Total equity</b>		<b><u>7,041,996</u></b>	<u>6,412,434</u>
<b>LIABILITIES</b>			
<i>Non-current liabilities</i>			
Bank loans		<b>4,949,844</b>	4,486,869
Derivative financial instruments		—	919
Amounts due to non-controlling shareholders		—	29,547
Deferred income tax liabilities		<b><u>329,257</u></b>	<u>310,144</u>
		<b><u>5,279,101</u></b>	<u>4,827,479</u>
<i>Current liabilities</i>			
Accounts payable and accruals	7	<b>876,384</b>	787,446
Deposits received on sales of properties		<b>199,313</b>	97,686
Amounts due to non-controlling shareholders		<b>27,942</b>	22,769
Current income tax liabilities		<b>15,118</b>	22,504
Bank loans		<b>234,831</b>	208,894
Fixed rate bonds	6	—	599,730
Derivative financial instruments		<b><u>488</u></b>	<u>1,497</u>
		<b><u>1,354,076</u></b>	<u>1,740,526</u>
Liabilities of disposal group classified as held for sale		—	13,345
		<b><u>1,354,076</u></b>	<u>1,753,871</u>
<b>Total liabilities</b>		<b><u>6,633,177</u></b>	<u>6,581,350</u>
<b>Total equity and liabilities</b>		<b><u>13,675,173</u></b>	<u>12,993,784</u>

## AUDITED CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
	Note	2017 <i>US\$'000</i>	2016 <i>US\$'000</i>
<b>Sales</b>	3	<b>2,189,823</b>	2,055,423
Cost of sales	8	<u>(955,118)</u>	<u>(879,390)</u>
<b>Gross profit</b>		<b>1,234,705</b>	1,176,033
Other losses — net	9	(16,164)	(193,092)
Marketing costs	8	(89,341)	(86,508)
Administrative expenses	8	(220,548)	(204,402)
Other operating expenses	8	<u>(730,751)</u>	<u>(705,444)</u>
<b>Operating profit/(loss)</b>		<b>177,901</b>	(13,413)
Finance costs — net	10	(131,419)	(130,569)
Share of profit of associates	11	<u>203,684</u>	<u>293,543</u>
<b>Profit before income tax</b>		<b>250,166</b>	149,561
Income tax expense	12	<u>(106,120)</u>	<u>(87,529)</u>
<b>Profit for the year</b>		<u><b>144,046</b></u>	<u>62,032</u>
<b>Profit/(Loss) attributable to:</b>			
Equity holders of the Company		157,997	106,054
Non-controlling interests		<u>(13,951)</u>	<u>(44,022)</u>
		<u><b>144,046</b></u>	<u>62,032</u>
<b>Earnings per share for profit attributable to the equity holders of the Company during the year</b> <i>(expressed in US cents per share)</i>			
- basic	13	<u><b>4.43</b></u>	<u>2.97</u>
- diluted	13	<u><b>4.42</b></u>	<u>2.97</u>
<b>Dividends</b>	14	<u><b>78,383</b></u>	<u>59,876</u>

## AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2017	2016
	<i>US\$'000</i>	<i>US\$'000</i>
<b>Profit for the year</b>	<b>144,046</b>	62,032
<b>Other comprehensive income/(loss):</b>		
<i>Item that will not be reclassified subsequently to profit or loss</i>		
Remeasurements of post employment benefit obligation	171	(538)
<b>Items that may be reclassified subsequently to profit or loss</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	<u>214,137</u>	<u>(225,063)</u>
<b>Other comprehensive income/(loss) for the year</b>	<u><b>541,644</b></u>	<u><b>(473,984)</b></u>
<b>Total comprehensive income/(loss) for the year</b>	<u><b>685,690</b></u>	<u><b>(411,952)</b></u>
<b>Total comprehensive income/(loss) attributable to:</b>		
Equity holders of the Company	669,916	(355,407)
Non-controlling interests	<u>15,774</u>	<u>(56,545)</u>
	<u><b>685,690</b></u>	<u><b>(411,952)</b></u>

## AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company				Non- controlling interests US\$'000	Total equity US\$'000
	Share capital US\$'000	Other reserves US\$'000	Retained earnings US\$'000	Total US\$'000		
<b>Balance at 1 January 2017</b>	<b>3,191,801</b>	<b>606,320</b>	<b>2,192,707</b>	<b>5,990,828</b>	<b>421,606</b>	<b>6,412,434</b>
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	6,306	—	—	6,306	—	6,306
Exercise of share options — transfer from share option reserve to share premium	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
	<u>6,619</u>	<u>(313)</u>	<u>(64,494)</u>	<u>(58,188)</u>	<u>2,060</u>	<u>(56,128)</u>
<b>Balance at 31 December 2017</b>	<b><u>3,198,420</u></b>	<b><u>1,117,763</u></b>	<b><u>2,286,373</u></b>	<b><u>6,602,556</u></b>	<b><u>439,440</u></b>	<b><u>7,041,996</u></b>

	Attributable to equity holders of the Company				Non- controlling interests US\$'000	Total equity US\$'000
	Share capital US\$'000	Other reserves US\$'000	Retained earnings US\$'000	Total US\$'000		
Balance at 1 January 2016	3,191,801	1,114,421	2,086,071	6,392,293	497,392	6,889,685
Remeasurements of post-employment benefit obligations	—	—	(515)	(515)	(23)	(538)
Fair value changes of interest-rate swap contracts — hedging	—	3,436	—	3,436	—	3,436
Fair value changes of available-for-sale financial assets	—	5,210	—	5,210	—	5,210
Currency translation differences	—	(469,592)	—	(469,592)	(12,500)	(482,092)
Other comprehensive loss for the year recognised directly in equity	—	(460,946)	(515)	(461,461)	(12,523)	(473,984)
Profit/(Loss) for the year	—	—	106,054	106,054	(44,022)	62,032
Total comprehensive income/(loss) for the year ended 31 December 2016	—	(460,946)	105,539	(355,407)	(56,545)	(411,952)
Transfer of share option reserve to retained earnings upon expiry of share options	—	(2,637)	2,637	—	—	—
Transfer of convertible bonds reserve to retained earnings upon maturity of convertible bonds	—	(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>	<b>3,191,801</b>	<b>606,320</b>	<b>2,192,707</b>	<b>5,990,828</b>	<b>421,606</b>	<b>6,412,434</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. General 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.

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

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

### 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### *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.

#### *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: changes in liabilities arising from financing activities
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	Clarification of the scope of the standard

#### *New standards, amendments and interpretation to standards not yet adopted by the Group*

The following new standards and amendments 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	

Additional information for the new accounting standards and amendments to standards which are effective for the year 2018 will be disclosed in the consolidated financial statements included in the Annual Report.

### 3. 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. Some of the associates engaged in property rentals and property sales 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 <i>US\$'000</i>	2016 <i>US\$'000</i>
<i>Sales</i>		
Hotel ownership		
Revenue from rooms	<b>1,042,504</b>	986,371
Food and beverage sales	<b>861,130</b>	824,536
Rendering of ancillary services	<b>114,378</b>	107,182
Hotel management and related service fees	<b>65,345</b>	63,786
Property rentals	<b>73,003</b>	73,548
Property sales	<b><u>33,463</u></b>	<u>—</u>
	<b><u>2,189,823</u></b>	<u>2,055,423</u>

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.

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 four 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***
  - ***Other countries (including Thailand, Australia, Myanmar and Mongolia)***
  
- 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.

**Segment income statement**

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

	2017		2016	
	Sales	Profit/ (Loss)	Sales	Profit/ (Loss)
	(Note b)	(Note a)	(Note b)	(Note a)
<b><i>Hotel ownership</i></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)
	<u>2,018.0</u>	<u>68.5</u>	<u>1,918.1</u>	<u>45.8</u>
<b><i>Hotel management services</i></b>	<b>159.7</b>	<b>32.7</b>	<b>151.8</b>	<b>33.2</b>
<b><i>Property rentals</i></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
	<u>73.0</u>	<u>136.7</u>	<u>73.5</u>	<u>131.6</u>
<b><i>Property sales</i></b>	<b>33.5</b>	<b>31.1</b>	<b>—</b>	<b>54.7</b>
<b><i>Other business</i></b>	<b>—</b>	<b>(0.2)</b>	<b>—</b>	<b>(1.3)</b>
<b>Total</b>	<u><b>2,284.2</b></u>	<u><b>268.8</b></u>	<u>2,143.4</u>	<u>264.0</u>
Less: Hotel management				
— Inter-segment sales	<u>(94.4)</u>		<u>(88.0)</u>	
<b>Total external sales</b>	<u><b>2,189.8</b></u>		<u><b>2,055.4</b></u>	

	<b>2017</b>	2016
	<b>Sales</b> <i>(Note b)</i>	<b>Profit/ (Loss)</b> after tax <i>(Note a)</i>
	<b>Sales</b> <i>(Note b)</i>	<b>Profit/ (Loss)</b> after tax <i>(Note a)</i>
Net corporate finance costs (including foreign exchange gains and losses)	<b>(77.5)</b>	(83.2)
Land cost amortisation and pre-opening expenses for projects	<b>(26.6)</b>	(24.9)
Corporate expenses	<b>(24.0)</b>	(18.3)
<b><i>Profit before non-operating items</i></b>	<b>140.7</b>	137.6
<b><i>Non-operating items</i></b>		
Share of net fair value gains on investment properties	<b>4.9</b>	48.3
Net unrealised gains/(losses) on financial assets held for trading	<b>8.6</b>	(0.6)
Fair value adjustments on loans from non-controlling shareholders and security deposit on leased premises	<b>(0.9)</b>	(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
Loss on major renovation of hotels	<b>(10.2)</b>	(7.2)
Gain on disposal of equity interests in a subsidiary and an associate	<b>14.9</b>	—
Total non-operating items	<b>17.3</b>	(31.5)
<b>Profit attributable to equity holders of the Company</b>	<b>158.0</b>	106.1

*Notes:*

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

The Group's share of profit of associates (excluding projects under development) by operating segments included in profit before non-operating items in the Segment Income Statement is analysed as follows:

<i>(US\$ million)</i>	<b>2017</b> <b>Share of</b> <b>profit/(loss)</b> <b>of associates</b>	2016 Share of profit/(loss) of associates
<b><i>Hotel ownership</i></b>		
Hong Kong	<b>(0.1)</b>	(0.5)
Mainland China	<b>11.4</b>	5.9
Singapore	—	(1.3)
Malaysia	<b>4.2</b>	3.8
The Philippines	<b>(1.6)</b>	(2.9)
Other countries	<u><b>(1.1)</b></u>	<u>(0.4)</u>
	<u><b>12.8</b></u>	<u>4.6</u>
<b><i>Property rentals</i></b>		
Mainland China	<b>127.8</b>	117.7
Singapore	<u><b>4.0</b></u>	<u>4.2</u>
	<u><b>131.8</b></u>	<u>121.9</u>
<b><i>Property sales</i></b>	<b>33.5</b>	56.6
<b><i>Other business</i></b>	<u><b>(0.2)</b></u>	<u>(1.3)</u>
<b>Total</b>	<u><u><b>177.9</b></u></u>	<u><u>181.8</u></u>

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:

<i>(US\$ million)</i>	<u>2017</u>		<u>2016</u>	
	<b>Depreciation and amortisation</b>	<b>Income tax expense</b>	Depreciation and amortisation	Income tax expense
<b><i>Hotel ownership</i></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
	<u>324.2</u>	<u>78.2</u>	<u>319.1</u>	<u>69.9</u>
<b><i>Property rentals</i></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
	<u>—</u>	<u>19.7</u>	<u>—</u>	<u>14.1</u>
<b><i>Hotel management services</i></b>	2.2	13.2	3.1	12.4
<b><i>Property sales</i></b>	<u>—</u>	<u>1.8</u>	<u>—</u>	<u>1.9</u>
<b>Total</b>	<u><u>326.4</u></u>	<u><u>112.9</u></u>	<u><u>322.2</u></u>	<u><u>98.3</u></u>

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

	<b>As at 31 December</b>	
	<b>2017</b>	<b>2016</b>
<b><i>Hotel ownership</i></b>		
Hong Kong	<b>881.1</b>	180.2
Mainland China	<b>3,417.8</b>	3,089.0
Singapore	<b>563.2</b>	492.4
Malaysia	<b>328.9</b>	277.3
The Philippines	<b>379.3</b>	415.0
Japan	<b>11.2</b>	10.2
Thailand	<b>281.4</b>	242.0
Australia	<b>310.6</b>	307.8
France	<b>316.7</b>	290.2
United Kingdom	<b>134.0</b>	134.0
Mongolia	<b>217.1</b>	209.5
Sri Lanka	<b>382.3</b>	145.6
Other countries	<b>271.0</b>	286.1
	<b><u>7,494.6</u></b>	<b><u>6,079.3</u></b>
<b><i>Property rentals</i></b>		
Mainland China	<b>403.1</b>	345.7
Singapore	<b>428.6</b>	392.7
Malaysia	<b>71.5</b>	72.9
Mongolia	<b>332.9</b>	400.9
Other countries	<b>300.1</b>	305.4
	<b><u>1,536.2</u></b>	<b><u>1,517.6</u></b>
<b><i>Hotel management services</i></b>	<b>146.8</b>	183.6
Elimination	<b><u>(51.1)</u></b>	<b><u>(76.6)</u></b>
<b>Total segment assets</b>	<b>9,126.5</b>	7,703.9
<b>Assets allocated to projects</b>	<b>448.7</b>	1,496.6
<b>Unallocated assets</b>	<b>140.0</b>	121.3
<b>Intangible assets</b>	<b>89.9</b>	90.4
<b>Assets of disposal group classified as held for sale</b>	<b><u>—</u></b>	<b><u>16.7</u></b>
<b>Total assets of the Company and its subsidiaries</b>	<b>9,805.1</b>	9,428.9
<b>Interest in associates</b>	<b><u>3,870.1</u></b>	<b><u>3,564.9</u></b>
<b>Total assets</b>	<b><u><u>13,675.2</u></u></b>	<b><u><u>12,993.8</u></u></b>

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

#### 4. Accounts receivable, prepayments and deposits

	2017 <i>US\$'000</i>	2016 <i>US\$'000</i>
Trade receivables	118,442	94,960
Less: Provision for impairment of receivables	<u>(1,763)</u>	<u>(1,975)</u>
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))	<u>3,500</u>	<u>—</u>
	<u><b>323,648</b></u>	<u><b>304,836</b></u>

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 <i>US\$'000</i>	2016 <i>US\$'000</i>
0 — 3 months	92,998	79,959
4 — 6 months	15,998	4,156
Over 6 months	<u>7,683</u>	<u>8,870</u>
	<u><b>116,679</b></u>	<u><b>92,985</b></u>

- (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 DISPOSAL to this announcement. The maximum exposure to credit risk at the reporting date is the fair value of the advance.



## 5. Share capital

	No. of shares ( '000)	Amount		Total US\$'000
		Ordinary shares US\$'000	Share premium US\$'000	
<b>Authorised - Ordinary shares of HK\$1 each</b>				
At 31 December 2016 and 31 December 2017	<u>5,000,000</u>	<u>646,496</u>	<u>—</u>	<u>646,496</u>
<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	—	—	—	—
At 31 December 2016 and 1 January 2017	<u>3,580,024</u>	<u>462,195</u>	<u>2,729,606</u>	<u>3,191,801</u>
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>	<u><b>3,584,060</b></u>	<u><b>462,715</b></u>	<u><b>2,735,705</b></u>	<u><b>3,198,420</b></u>

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.

### Share options

The shareholders of the Company approved the adoption of a share option scheme on 28 May 2012 (“**2012 Option Scheme**”). The options granted on 23 August 2013 under the 2012 Option Scheme are immediately exercisable on the grant date and have a contractual option term of ten years with 22 August 2023 being the last exercisable date. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

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

	Number of option shares issued at HK\$12.11 per option share	Total consideration US\$'000
<b>For the year ended 31 December 2017</b>	<u><b>4,036,000</b></u>	<u><b>6,306</b></u>
For the year ended 31 December 2016	<u>—</u>	<u>—</u>

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.

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

	<b>For the year ended 31 December 2017</b>		<b>For the year ended 31 December 2016</b>	
	<b>Weighted average exercise price in HK\$ per option share</b>	<b>Number of outstanding option shares</b>	<b>Weighted average exercise price in HK\$ per option share</b>	<b>Number of outstanding option shares</b>
<b>At 1 January</b>	<b>12.11</b>	<b>14,603,000</b>	12.50	18,726,000
Granted	—	—	—	—
Exercised	<b>12.11</b>	<b>(4,036,000)</b>	—	—
Lapsed	<b>12.11</b>	<b>(754,000)</b>	13.87	<b>(4,123,000)</b>
<b>At 31 December</b>	<b>12.11</b>	<b><u>9,813,000</u></b>	12.11	<b><u>14,603,000</u></b>

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:

	<b>Exercise price in HK\$ per option share</b>	<b>Number of outstanding option shares as at</b>	
		<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Last exercisable date</b>			
23 February 2018	12.11	<b>200,000</b>	—
31 December 2018	12.11	<b>80,000</b>	—
31 December 2019	12.11	<b>350,000</b>	—
22 August 2023	12.11	<b><u>9,183,000</u></b>	<b><u>14,603,000</u></b>
		<b><u>9,813,000</u></b>	<b><u>14,603,000</u></b>

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.

## 6. 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 statement of financial position is calculated as follows:

	2017 <i>US\$'000</i>	2016 <i>US\$'000</i>
Face value of fixed rate bonds issued on 10 April 2012	<b>600,000</b>	600,000
Issuing expenses	<u>(4,859)</u>	<u>(4,859)</u>
Net bonds proceeds received	<b>595,141</b>	595,141
Accumulated amortisation of issuing expenses	<b>4,859</b>	4,589
Final redemption at maturity	<u>(600,000)</u>	<u>—</u>
Carrying amount of fixed rate bonds at 31 December	<u>—</u>	<u>599,730</u>

## 7. Accounts payable and accruals

	2017 <i>US\$'000</i>	2016 <i>US\$'000</i>
Trade payables	<b>119,984</b>	118,741
Construction cost payable, other payables and accrued expenses	<u>756,400</u>	<u>668,705</u>
	<u><b>876,384</b></u>	<u>787,446</u>

The ageing analysis of the trade payables based on invoice date is as follows:

	2017 <i>US\$'000</i>	2016 <i>US\$'000</i>
0 — 3 months	<b>98,405</b>	105,892
4 — 6 months	<b>9,804</b>	6,086
Over 6 months	<u>11,775</u>	<u>6,763</u>
	<u><b>119,984</b></u>	<u>118,741</u>

## 8. Expenses by nature

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

	2017 <i>US\$'000</i>	2016 <i>US\$'000</i>
Depreciation of property, plant and equipment (net of amount capitalised of US\$53,000 (2016: US\$53,000))	<b>312,852</b>	309,462
Amortisation of leasehold land and land use rights (net of amount capitalised (2017: Nil; 2016: US\$382,000))	<b>14,477</b>	14,724
Amortisation of trademark; and website and system development	<b>1,394</b>	1,147
Employee benefit expenses excluding directors' emoluments (net of amount capitalised and amount grouped under pre-opening expenses)	<b>717,800</b>	669,683
Cost of sales of properties	<b>33,073</b>	—
Cost of inventories sold or consumed in operation	<b>284,336</b>	263,329
Loss on disposal of property, plant and equipment; and partial replacement of investment properties	<b>1,430</b>	5,721
Discarding of property, plant and equipment due to renovation of hotels and resorts	<b>10,208</b>	9,722
Operating lease expenses	<b>69,138</b>	68,946
Pre-opening expenses	<b>17,356</b>	16,359
Auditors' remuneration		
- audit services	<b>1,828</b>	1,803
- non-audit services	<b>637</b>	632

## 9. Other losses — net

	2017 <i>US\$'000</i>	2016 <i>US\$'000</i>
Fair value losses on investment properties	<b>(57,880)</b>	(143,945)
Net unrealised gains/(losses) on financial assets held for trading — equity securities	<b>8,571</b>	(570)
Provision for impairment losses on hotel properties	—	(70,485)
Reversal of impairment loss on a hotel property	—	3,794
Reversal of impairment loss on a self-used property	—	1,657
Gain on disposal of equity interests in a subsidiary and an associate	<b>14,886</b>	—
Others	<b>801</b>	—
Non-operating items	<b>(33,622)</b>	(209,549)
Interest income	<b>15,969</b>	15,156
Dividend income	<b>1,489</b>	1,301
	<b><u>(16,164)</u></b>	<b><u>(193,092)</u></b>

## 10. Finance costs — net

	2017 <i>US\$'000</i>	2016 <i>US\$'000</i>
Interest expense		
- bank loans	137,310	112,345
- convertible bonds	—	8,742
- fixed rate bonds	8,189	29,476
- other loans	<u>4,179</u>	<u>3,805</u>
	149,678	154,368
Less: amount capitalised	<u>(16,796)</u>	<u>(36,976)</u>
	132,882	117,392
Net foreign exchange losses	<u>(1,463)</u>	<u>13,177</u>
	<u><u>131,419</u></u>	<u><u>130,569</u></u>

The effective capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 2.8% per annum (2016: 3.4%).

## 11. Share of profit of associates

	2017 <i>US\$'000</i>	2016 <i>US\$'000</i>
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	<u>40,120</u>	<u>160,541</u>
Share of profit before tax of associates	<u><u>279,707</u></u>	<u><u>387,411</u></u>
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	<u>(9,221)</u>	<u>(37,163)</u>
Share of associates' taxation	<u><u>(76,023)</u></u>	<u><u>(93,868)</u></u>
Share of profit of associates	<u><u>203,684</u></u>	<u><u>293,543</u></u>

## 12. Income tax expense

	2017 <i>US\$'000</i>	2016 <i>US\$'000</i>
Current income tax		
- Hong Kong profits tax	2,243	14,690
- overseas taxation	94,881	73,997
Deferred income tax	<u>8,996</u>	<u>(1,158)</u>
	<u><b>106,120</b></u>	<u><b>87,529</b></u>

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.

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.

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.

## 13. Earnings per share

### *Basic*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the 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 ( <i>US\$'000</i> )	<u><b>157,997</b></u>	<u><b>106,054</b></u>
Weighted average number of ordinary shares in issue ( <i>thousands</i> )	<u><b>3,570,417</b></u>	<u><b>3,569,523</b></u>
Basic earnings per share ( <i>US cents per share</i> )	<u><b>4.43</b></u>	<u><b>2.97</b></u>

### *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 ( <i>US\$'000</i> )	<u>157,997</u>	<u>106,054</u>
Weighted average number of ordinary shares in issue ( <i>thousands</i> )	3,570,417	3,569,523
Adjustments ( <i>thousands</i> )	<u>579</u>	<u>—</u>
Weighted average number of ordinary shares for diluted earnings per share ( <i>thousands</i> )	<u>3,570,996</u>	<u>3,569,523</u>
Diluted earnings per share ( <i>US cents per share</i> )	<u>4.42</u>	<u>2.97</u>

#### 14. Dividends

	2017	2016
	<i>US\$'000</i>	<i>US\$'000</i>
Interim dividend paid of HK6 cents (2016: HK5 cents) per ordinary share	27,647	23,029
Proposed final dividend of HK11 cents (2016: HK8 cents) per ordinary share	<u>50,736</u>	<u>36,847</u>
	<u>78,383</u>	<u>59,876</u>

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 5).

#### 15. Financial guarantees, contingencies and charges over assets

##### (a) *Financial guarantees*

The Group executed proportionate guarantees in favour of banks for securing banking facilities granted to certain associates. The utilised amount of such facilities covered by the Group's guarantees for these associates amounts 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.

(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).

## 16. Commitments

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

	2017 <i>US\$'000</i>	2016 <i>US\$'000</i>
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	<u>368,225</u>	<u>250,134</u>
	<u>662,562</u>	<u>815,683</u>

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

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

## CORPORATE GOVERNANCE

The Company 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.

The Board has adopted a composite handbook ("**Directors Handbook**") comprising (among other principles) a set of corporate governance principles of the Company ("**CG Principles**"), terms of which align with or are stricter than the requirements set out in the code provisions under the Corporate Governance Code and Corporate Governance Report ("**CG Model Code**") as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited save for the provision in the Directors Handbook that the positions of the chairman and the chief executive officer of the Company may be served by the same person. The Directors Handbook serves as a comprehensive guidebook for all directors of the Company.



The Company has complied with the CG Principles and the CG Model Code throughout the year ended 31 December 2017.

## **QUALIFICATION FOR PROPOSED FINAL DIVIDEND**

The proposed final dividend of HK11 cents per share in the Company for 2017 (subject to shareholders' approval at the forthcoming annual general meeting of the Company) will be payable on 14 June 2018 to shareholders whose names appear on the registers of members of the Company on 5 June 2018.

To qualify for the proposed final dividend, all share transfers accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Abacus Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 pm on 5 June 2018.

On behalf of the board of  
**Shangri-La Asia Limited**  
**KUOK Hui Kwong**  
*Chairman*

Hong Kong, 21 March 2018

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

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*