MANDARIN ORIENTAL INTERNATIONAL LIMITED

Preliminary Financial Statements
for the year ended 31st December 2017

Mandarin Oriental International Limited
Consolidated Profit and Loss Account
for the year ended 31st December 2017

		2017			2016		
	Note	**Underlying business performance US$m**	**Non-trading items US$m**	**Total US$m**	Underlying business performance US$m	Non-trading items US$m	Total US$m
Revenue	*1*	**610.8**	**-**	**610.8**	597.4	-	597.4
Cost of sales		**(389.7)**	**-**	**(389.7)**	(383.4)	-	(383.4)
Gross profit		**221.1**	**-**	**221.1**	214.0	-	214.0
Selling and distribution costs		**(38.2)**	**-**	**(38.2)**	(39.7)	-	(39.7)
Administration expenses		**(113.9)**	**-**	**(113.9)**	(104.5)	(1.8)	(106.3)
Operating profit	*2*	**69.0**	**-**	**69.0**	69.8	(1.8)	68.0
Financing charges		**(12.3)**	**-**	**(12.3)**	(12.1)	-	(12.1)
Interest income		**1.3**	**-**	**1.3**	1.3	-	1.3
Net financing charges	*3*	**(11.0)**	**-**	**(11.0)**	(10.8)	-	(10.8)
Share of results of associates and joint ventures	*4*	**11.5**	**-**	**11.5**	11.2	(0.3)	10.9
Profit before tax		**69.5**	**-**	**69.5**	70.2	(2.1)	68.1
Tax	*5*	**(15.0)**	**-**	**(15.0)**	(13.7)	-	(13.7)
Profit after tax		**54.5**	**-**	**54.5**	56.5	(2.1)	54.4
Attributable to:							
Shareholders of the Company	*6 & 7*	**54.9**	**-**	**54.9**	57.3	(2.1)	55.2
Non-controlling interests		**(0.4)**	**-**	**(0.4)**	(0.8)	-	(0.8)
		54.5	**-**	**54.5**	56.5	(2.1)	54.4
		US¢		**US¢**	US¢		US¢
Earnings per share	*6*						
- basic		**4.37**		**4.37**	4.56		4.40
- diluted		**4.35**		**4.35**	4.54		4.38

Mandarin Oriental International Limited
Consolidated Statement of Comprehensive Income

for the year ended 31st December 2017

	Note	**2017 US$m**	2016 US$m
Profit for the year		**54.5**	54.4
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit plans	*12*	**7.7**	(3.1)
Tax on items that will not be reclassified	*5*	**(1.2)**	0.5
		6.5	(2.6)
Items that may be reclassified subsequently to profit or loss:			
Net exchange translation differences			
- net gains/(losses) arising during the year		**87.1**	(56.1)
Cash flow hedges			
- net gains arising during the year		**0.8**	2.5
Tax relating to items that may be reclassified	*5*	**(0.2)**	(0.4)
Share of other comprehensive income/(expense) of associates and joint ventures		**8.4**	(1.7)
		96.1	(55.7)
Other comprehensive income/(expense) for the year, net of tax		**102.6**	(58.3)
Total comprehensive income/(expense) for the year		**157.1**	(3.9)
Attributable to:			
Shareholders of the Company		**157.3**	(3.0)
Non-controlling interests		**(0.2)**	(0.9)
		157.1	(3.9)

Mandarin Oriental International Limited
Consolidated Balance Sheet
at 31st December 2017

	Note	**2017 US$m**	2016 US$m
Net assets			
Intangible assets	*8*	**47.7**	44.3
Tangible assets	*9*	**1,453.2**	1,352.1
Associates and joint ventures	*10*	**196.6**	163.8
Other investments		**11.0**	10.7
Deferred tax assets	*11*	**11.0**	2.6
Pension assets	*12*	**4.9**	-
Other non-current debtors	*24*	**0.5**	-
Non-current assets		**1,724.9**	1,573.5
Stocks		**6.4**	5.9
Debtors and prepayments	*13*	**100.2**	94.2
Current tax assets		**4.0**	5.2
Bank and cash balances	*14*	**183.9**	182.6
Current assets		**294.5**	287.9
Creditors and accruals	*15*	**(151.4)**	(140.1)
Current borrowings	*16*	**(2.6)**	(2.5)
Current tax liabilities		**(17.8)**	(8.7)
Current liabilities		**(171.8)**	(151.3)
Net current assets		**122.7**	136.6
Long-term borrowings	*16*	**(508.1)**	(477.4)
Deferred tax liabilities	*11*	**(58.6)**	(56.1)
Pension liabilities	*12*	**(0.6)**	(3.2)
Other non-current liabilities	*24*	**(0.2)**	-
		1,280.1	1,173.4
Total equity			
Share capital	*19*	**62.9**	62.8
Share premium	*20*	**493.9**	490.4
Revenue and other reserves		**717.2**	616.2
Shareholders' funds		**1,274.0**	1,169.4
Non-controlling interests		**6.1**	4.0
		1,280.1	1,173.4

Approved by the Board of Directors

Ben Keswick
James Riley
Directors
8th March 2018

Mandarin Oriental International Limited

Consolidated Statement of Changes in Equity

for the year ended 31st December 2017

	Note	Share capital US$m	Share premium US$m	Capital reserves US$m	Revenue reserves US$m	Hedging reserves US$m	Exchange reserves US$m	Attributable to shareholders of the Company US$m	Attributable to non-controlling interests US$m	Total equity US$m
2017										
At 1st January		**62.8**	**490.4**	**286.2**	**501.2**	**(0.6)**	**(170.6)**	**1,169.4**	**4.0**	**1,173.4**
Total comprehensive income		**-**	**-**	**-**	**61.3**	**0.7**	**95.3**	**157.3**	**(0.2)**	**157.1**
Dividends paid by the Company	*22*	**-**	**-**	**-**	**(50.3)**	**-**	**-**	**(50.3)**	**-**	**(50.3)**
Issue of shares		**0.1**	**0.6**	**-**	**-**	**-**	**-**	**0.7**	**-**	**0.7**
Share-based long-term incentive plans		**-**	**-**	**(0.8)**	**-**	**-**	**-**	**(0.8)**	**-**	**(0.8)**
Change in interest in a subsidiary		**-**	**-**	**-**	**(2.3)**	**-**	**-**	**(2.3)**	**2.3**	**-**
Transfer		**-**	**2.9**	**(19.5)**	**16.6**	**-**	**-**	**-**	**-**	**-**
At 31st December		**62.9**	**493.9**	**265.9**	**526.5**	**0.1**	**(75.3)**	**1,274.0**	**6.1**	**1,280.1**
2016										
At 1st January		62.8	490.3	284.5	504.7	(2.7)	(112.9)	1,226.7	5.0	1,231.7
Total comprehensive income		-	-	-	52.6	2.1	(57.7)	(3.0)	(0.9)	(3.9)
Dividends paid by the Company	*22*	-	-	-	(56.5)	-	-	(56.5)	-	(56.5)
Dividends paid to non-controlling interests		-	-	-	-	-	-	-	(0.1)	(0.1)
Share-based long-term incentive plans		-	-	2.2	-	-	-	2.2	-	2.2
Transfer		-	0.1	(0.5)	0.4	-	-	-	-	-
At 31st December		62.8	490.4	286.2	501.2	(0.6)	(170.6)	1,169.4	4.0	1,173.4

Total comprehensive income included in revenue reserves comprises profit attributable to shareholders of the Company of US$54.9 million (2016: US$55.2 million) and net actuarial gain on employee defined benefit plans of US$6.4 million (2016: net actuarial loss of US$2.6 million). There was no net fair value loss on other investments in 2017 (2016: nil).

Change in interest in a subsidiary includes the Group's increase in attributable interest in Portals Hotel Site LLC, the owner of Mandarin Oriental, Washington D.C., from 80% to 83.6% as a result of a non-controlling member of the subsidiary failing to fund an additional capital contribution during the year.

Mandarin Oriental International Limited
Consolidated Cash Flow Statement
for the year ended 31st December 2017

	Note	**2017 US$m**	2016 US$m
Operating activities			
Operating profit	*2*	**69.0**	68.0
Depreciation	*9*	**56.7**	57.7
Amortization of intangible assets	*8*	**2.1**	2.1
Other non-cash items	*23a*	**0.2**	2.7
Movements in working capital	*23b*	**9.6**	(3.8)
Interest received		**1.3**	1.3
Interest and other financing charges paid		**(12.3)**	(10.4)
Tax paid		**(13.3)**	(19.0)
		113.3	98.6
Dividends and interest from associates and joint ventures		**6.6**	9.1
Cash flows from operating activities		**119.9**	107.7
Investing activities			
Purchase of tangible assets		**(82.6)**	(77.0)
Purchase of intangible assets		**(5.7)**	(2.7)
Payment on Munich expansion	*23c*	**(3.1)**	-
Acquisition of Mandarin Oriental, Boston	*23d*	**-**	(140.0)
Purchase of other investments		**(0.9)**	(1.3)
Advance to associates and joint ventures	*23e*	**(11.4)**	(2.8)
Repayment of loans to associates and joint ventures	*23f*	**1.3**	0.9
Sale of tangible assets		**-**	0.1
Sale of other investments		**0.4**	-
Cash flows from investing activities		**(102.0)**	(222.8)
Financing activities			
Issue of shares		**0.6**	-
Drawdown of borrowings	*16*	**30.8**	51.5
Repayment of borrowings	*16*	**(2.5)**	(1.6)
Dividends paid by the Company	*22*	**(50.3)**	(56.5)
Dividends paid to non-controlling interests		**-**	(0.1)
Cash flows from financing activities		**(21.4)**	(6.7)
Net decrease in cash and cash equivalents		**(3.5)**	(121.8)
Cash and cash equivalents at 1st January		**182.5**	308.6
Effect of exchange rate changes		**4.9**	(4.3)
Cash and cash equivalents at 31st December	*23g*	**183.9**	182.5

Mandarin Oriental International Limited
Notes to the Financial Statements

Principal Accounting Policies

A Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), including International Accounting Standards ('IAS') and Interpretations adopted by the International Accounting Standards Board. The financial statements have been prepared on a going concern basis and under the historical cost convention except as disclosed in the accounting policies below.

There are no new standards or amendments, which are effective in 2017 and relevant to the Group's operations, that have a material impact on the Group's accounting policies and disclosures.

New standards and amendments effective after 2017 which are relevant to the Group's operations and yet to be adopted:

A number of new standards and amendments, which are effective for accounting periods beginning after 2017, have been published and will be adopted by the Group from their effective dates. The Group's assessment of the impact of these standards and amendments is set out below.

IFRS 9 Financial Instruments (effective from 1st January 2018)
The standard replaces IAS 39 'Financial Instruments: Recognition and Measurement', addresses the classification, measurement and derecognition of financial assets and liabilities, and includes a new expected credit losses model for financial assets that replaces the incurred loss impairment model used today. A substantially-reformed approach to hedging accounting is introduced.

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets and financial liabilities. At 31st December 2017, the Group had investments in equity securities classified as available-for-sale with a fair value of US$9.3 million. Under IFRS 9, the gains and losses arising from changes in fair value of these investments will be recognized in profit and loss, instead of through other comprehensive income. Such fair value gains or losses on revaluation of these investments will be classified as non-trading items. The above change will not have any impact on the Group's underlying profit attributable to shareholders and shareholders' funds. Based on the assessments undertaken to date, the impact from the new loan impairment model to the Group's impairment provisions and earnings is expected to be insignificant.

The new hedge accounting rules will align the accounting for hedging instruments closely with the Group's risk management practices. The Group does not expect a significant impact on the accounting for its hedging relationships.

IFRS 15 Revenue from Contracts with Customers (effective from 1st January 2018)
The standard establishes a comprehensive framework for the recognition of revenue. It replaces IAS 11 'Construction Contracts' and IAS 18 'Revenue' which covers contracts for good and services. The core principle in the framework is that revenue is recognized when control of a good or service transfers to a customer. Based on the Group's assessment, the impact of IFRS 15 on the Group's businesses is expected to be insignificant.

Principal Accounting Policies *continued*

A Basis of preparation *continued*

IFRS 16 Leases (effective from 1st January 2019)
The standard replaces IAS 17 'Leases' and related interpretations. It will result in lessees bringing almost all their leases onto the balance sheet as the distinction between operating leases and finance leases is removed. The model requires a lessee to recognize a right-of-use asset and a lease liability, except for leases with a term of less than 12 months or with low-value. The accounting for lessors will not change significantly. IFRS 16 will affect primarily the accounting for the Group's operating leases. As at 31st December 2017, the Group had total commitments under operating leases of US$107.6 million (refer note 25).

The Group is currently finalizing the detailed assessment on its lease portfolio and at the date of this report, it is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognized on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Apart from the above, there are no other standards or amendments that are not yet effective and that would be expected to have a material impact to the Group.

The principal operating subsidiaries, associates and joint ventures have different functional currencies in line with the economic environments of the locations in which they operate. The functional currency of the Company is United States dollars. The consolidated financial statements are presented in United States dollars.

The Group's reportable segments are set out in note 1.

B Basis of consolidation

i) The consolidated financial statements include the financial statements of the Company, its subsidiaries, and the Group's interests in associates and joint ventures.

ii) A subsidiary is an entity over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition includes the fair value at the acquisition date of any contingent consideration. The Group recognizes the non-controlling interest's proportionate share of the recognized identifiable net assets of the acquired subsidiary. In a business combination achieved in stages, the Group remeasures its previously held interest in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss in profit and loss. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for as equity transactions. When control over a previous subsidiary is lost, any remaining interest in the entity is remeasured at fair value and the resulting gain or loss is recognized in profit and loss.

All material intercompany transactions, balances and unrealized surpluses and deficits on transactions between Group companies have been eliminated. The cost of and related income arising from shares held in the Company by subsidiaries are eliminated from shareholders' funds and non-controlling interests, and profit, respectively.

Principal Accounting Policies *continued*

B Basis of consolidation *continued*

iii) An associate is an entity, not being a subsidiary or joint venture, over which the Group exercises significant influence. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Associates and joint ventures are included on the equity basis of accounting.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates and joint ventures are recognized in the consolidated financial statements only to the extent of unrelated investor's interests in the associates and joint ventures.

iv) Non-controlling interests represent the proportion of the results and net assets of subsidiaries and their associates and joint ventures not attributable to the Group.

v) The results of subsidiaries, associates and joint ventures are included or excluded from their effective dates of acquisition or disposal, respectively. The results of entities other than subsidiaries, associates and joint ventures are included to the extent of dividends received when the right to receive such dividend is established.

C Foreign currencies

Transactions in foreign currencies are accounted for at the exchange rates ruling at the transaction dates.

Assets and liabilities of subsidiaries, associates and joint ventures, together with all other monetary assets and liabilities expressed in foreign currencies, are translated into United States dollars at the rates of exchange ruling at the year end. Results expressed in foreign currencies are translated into United States dollars at the average rates of exchange ruling during the year, which approximate the exchange rates at the dates of the transactions.

Exchange differences arising from the retranslation of the net investment in foreign subsidiaries, associates and joint ventures, and of financial instruments which are designated as hedges of such investments, are recognized in other comprehensive income and accumulated in equity under exchange reserves. On the disposal of these investments, such exchange differences are recognized in profit and loss. Exchange differences on available-for-sale investments are recognized in other comprehensive income as part of the gains and losses arising from changes in their fair value. Exchange differences relating to changes in the amortized cost of monetary securities classified as available-for-sale and all other exchange differences are recognized in profit and loss.

Goodwill and fair value adjustments arising on acquisition of a foreign entity after 1st January 2003 are treated as assets and liabilities of the foreign entity and translated into United States dollars at the rate of exchange ruling at the year end.

Principal Accounting Policies *continued*

D Impairment of non-financial assets

Assets that have indefinite useful lives are not subject to amortization and are tested for impairment annually and whenever there is an indication that the assets may be impaired. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows. Cash-generating units or groups of cash-generating units to which goodwill has been allocated are tested for impairment annually and whenever there is an indication that the units may be impaired. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment annually.

E Intangible assets

i) Goodwill represents the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the acquisition-date fair value of any previously held equity interest in the acquiree over the acquisition-date fair value of the Group's share of the net identifiable assets acquired. Non-controlling interests are measured at their proportionate share of the net identifiable assets at the acquisition date. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognized directly in profit and loss. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and joint ventures is included in investment in associates and joint ventures. Goodwill is allocated to cash-generating units or groups of cash-generating units for the purpose of impairment testing and is carried at cost less accumulated impairment loss.

   The profit or loss on disposal of subsidiaries, associates and joint ventures is stated after deducting the carrying amount of goodwill relating to the entity sold.

ii) Leasehold land represents payments to third parties to acquire short-term interests in property. These payments are stated at cost and are amortized over the useful life of the lease which includes the renewal period if the lease can be renewed by the Group without significant cost.

iii) Computer software represents acquired computer software licences which are capitalized on the basis of the costs incurred to acquire and bring to use the specific software and are stated at cost less accumulated amortization. Amortization is calculated on the straight line basis to allocate the cost over their estimated useful lives.

iv) Development costs directly attributable to hotel projects under development, including borrowing costs, which are capitalized to the extent that such expenditure is expected to generate future economic benefits and upon completion of the project are included in non-current assets. Capitalized development costs are amortized over the term of the management contracts.

Principal Accounting Policies *continued*

F Tangible fixed assets and depreciation

Freehold land and buildings, and the building component of owner-occupied leasehold properties are stated at cost less any accumulated depreciation and impairment. Long-term interests in leasehold land are classified as finance leases and grouped under tangible assets if substantially all risks and rewards relating to the land have been transferred to the Group, and are amortized over the useful life of the lease. Grants related to tangible assets are deducted in arriving at the carrying amount of the assets. Other tangible fixed assets are stated at cost less amounts provided for depreciation.

Depreciation of tangible fixed assets is calculated on the straight line basis to allocate the cost or valuation of each asset to its residual value over its estimated useful life. The residual values and useful lives are reviewed at each balance sheet date. The estimated useful lives are as follows:

Freehold and long leasehold buildings	21 years to 150 years
Properties on leases with less than 20 years	over unexpired period of lease
Surfaces, finishes and services of hotel properties	20 years to 30 years
Leasehold improvements	10 years or period of the lease
Leasehold land	period of the lease
Plant and machinery	5 years to 15 years
Furniture, equipment and motor vehicles	3 years to 10 years

No depreciation is provided on freehold land as it is deemed to have an indefinite life.

Where the carrying amount of a tangible fixed asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The profit or loss on disposal of tangible fixed assets is recognized by reference to their carrying amount.

G Investments

i) Investments are classified by management as available for sale or held to maturity on initial recognition. Available-for-sale investments are shown at fair value. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in equity. On the disposal of an investment or when an investment is determined to be impaired, the cumulative gain or loss previously deferred in equity is recognized in profit and loss. Held-to-maturity investments are shown at amortized cost. Investments are classified under non-current assets unless they are expected to be realized within 12 months after the balance sheet date.

ii) At each balance sheet date, the Group assesses whether there is objective evidence that an investment is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired and are recognized in profit and loss.

iii) All purchases and sales of investments are recognized on the trade date, which is the date that the Group commits to purchase or sell the investment.

Principal Accounting Policies *continued*

H Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

i) Amount due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

ii) Payments made under operating leases (net of any incentives received from the lessor) are charged to profit and loss on a straight line basis over the period of the lease. When a lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the year in which termination takes place.

I Stocks

Stocks, which principally comprise beverages and consumables, are stated at the lower of cost and net realizable value. Cost is determined by the first-in, first-out method.

J Debtors

Debtors, excluding derivative financial instruments, are measured at amortized cost except where the effect of discounting would be immaterial. Provision for impairment is established when there is objective evidence that the outstanding amounts will not be collected. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the debtor is impaired. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in arriving at operating profit. When a debtor is uncollectible, it is written off against the allowance account. Subsequent recoveries of amount previously written off are credited to profit and loss.

Debtors with maturities greater than 12 months after the balance sheet date are classified under non-current assets.

K Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise deposits with banks and financial institutions and bank and cash balances, net of bank overdrafts. In the balance sheet, bank overdrafts are included in current borrowings.

L Provisions

Provisions are recognized when the Group has present legal or constructive obligations as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations, and a reliable estimate of the amount of the obligations can be made.

Principal Accounting Policies *continued*

M Borrowings and borrowing costs

Borrowings are initially recognized at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortized cost using the effective interest method.

Borrowing costs relating to major development projects are capitalized until the asset is substantially completed. Capitalized borrowing costs are included as part of the cost of the asset. All other borrowing costs are expensed as incurred.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

N Government grants

Grants from governments are recognized at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Grants relating to the development of hotel property are deducted in arriving at the carrying amount of the hotel property.

O Current and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognized in profit and loss, except to the extent that it relates to items recognized in other comprehensive income or direct in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Provision for deferred tax is made on the revaluation of certain non-current assets and, in relation to acquisitions, on the difference between the fair value of the net assets acquired and their tax base. Deferred tax is provided on temporary differences associated with investments in subsidiaries, associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets relating to the carry forward of unused tax losses are recognized to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized.

Principal Accounting Policies *continued*

P Employee benefits

i) Pension obligations

The Group operates a number of defined benefit and defined contribution plans, the assets of which are held in trustee administered funds.

Pension accounting costs for defined benefit plans are assessed using the projected unit credit method. Under this method, the costs of providing pensions are charged to profit and loss spreading the regular cost over the service lives of employees in accordance with the advice of qualified actuaries, who carry out a full valuation of major plans every year. The pension obligations are measured as the present value of the estimated future cash outflows by reference to market yields on high quality corporate bonds which have terms to maturity approximating the terms of the related liability. Plan assets are measured at fair value.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income in the year in which they occur.

Past service costs are recognized immediately in profit and loss.

The Group's total contributions relating to the defined contribution plans are charged to profit and loss in the year to which they relate.

ii) Share-based compensation

Share-based long-term incentive plans have been set up to provide incentives for selected executives. Awards can take the form of share options with an exercise price based on the then prevailing market prices or such other price set by the Directors or they can be share awards which will vest free of payment. Awards normally vest after the third anniversary of the date of grant and may be subject to the achievement of performance conditions.

The fair value of the employee services received in exchange for the grant of the share options or the share awards is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options or the share awards granted as determined on the grant date. At each balance sheet date, the Group revises its estimates of the number of share options that are expected to become exercisable and the number of share awards which will vest free of payment. The impact of the revision of original estimates, if any, is recognized in profit and loss.

Principal Accounting Policies *continued*

Q Derivative financial instruments

The Group only enters into derivative financial instruments in order to hedge underlying exposures. Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss is dependent on the nature of the item being hedged. The Group designates certain derivatives as a hedge of a forecasted transaction or of the foreign currency risk on a firm commitment ('cash flow hedge'), or a hedge of a net investment in a foreign entity.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective, are recognized in other comprehensive income and accumulated in equity under hedging reserves. Changes in the fair value relating to the ineffective portion is recognized immediately in profit and loss. Where the forecasted transaction or firm commitment results in the recognition of a non-financial asset or of a non-financial liability, the gains and losses previously deferred in hedging reserves are transferred from hedging reserves and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in hedging reserves are transferred to profit and loss in the same periods during which the hedged firm commitment or forecasted transaction affects profit and loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in hedging reserves at that time remains in the hedging reserves and is recognized when the committed or forecasted transaction ultimately is recognized in profit and loss. When a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in hedging reserves is immediately transferred to profit and loss.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognized immediately in profit and loss.

Hedges of net investments in foreign entities are accounted for on a similar basis to that used for cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated in exchange reserves; the gain or loss relating to the ineffective portion is recognized immediately in profit and loss.

The fair value of derivatives which are designated and qualify as effective hedges are classified as non-current assets or liabilities if the remaining maturities of the hedged assets or liabilities are greater than 12 months after the balance sheet date.

R Financial guarantee contracts

Financial guarantee contracts under which the Group accepts significant risk from a third party by agreeing to compensate that party on the occurrence of a specified uncertain future event are accounted for in a manner similar to insurance contracts. Provisions are recognized when it is probable that the Group has obligations under such guarantees and an outflow of resources embodying economic benefits will be required to settle the obligations.

S Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

Principal Accounting Policies *continued*

T Non-trading items

Non-trading items are separately identified to provide greater understanding of the Group's underlying business performance. Items classified as non-trading items include gains and losses arising from the sale of businesses, investments and properties; impairment of non-depreciable intangible assets and other investments; provisions for the closure of businesses; acquisition-related costs in business combinations; provisions against asset impairment and writebacks; and other credits and charges of a non-recurring nature that require inclusion in order to provide additional insight into underlying business performance.

U Earnings per share

Basic earnings per share are calculated on profit attributable to shareholders and on the weighted average number of shares in issue during the year. For the purpose of calculating diluted earnings per share, the weighted average number of shares is adjusted for the number of shares which are deemed to be issued for no consideration under the share-based long-term incentive plans based on the average share price during the year.

V Dividends

Dividends proposed or declared after the balance sheet date are not recognized as a liability at the balance sheet date.

W Revenue recognition

Revenue is measured at the fair value of the consideration received and receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

i) Revenue from hotel ownership comprises amounts earned in respect of services, facilities and goods supplied by the subsidiary hotels. Revenue from the rendering of services is recognized when services are performed, provided that the amount can be measured reliably. Revenue from the sale of goods is recognized on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

ii) Revenue from hotel management comprises gross fees earned from the management of all the hotels operated by the Group. Management fees are recognized when earned as determined by the management contract.

    Management fees charged to the subsidiary hotels are eliminated upon consolidation.

iii) Receipts under operating leases are accounted for on an accrual basis over the lease terms.

iv) Interest income is recognized on a time proportion basis taking into account the principal amounts outstanding and the interest rates applicable.

v) Dividend income is recognized when the right to receive payment is established.

X Pre-operating costs

Pre-operating costs are expensed as they are incurred.

Financial Risk Management

A Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Group's treasury function co-ordinates, under the directions of the board of Mandarin Oriental Hotel Group International Limited, financial risk management policies and their implementation on a group-wide basis. The Group's treasury policies are designed to manage the financial impact of fluctuations in interest rates and foreign exchange rates and to minimize the Group's financial risks. The Group uses derivative financial instruments, principally interest rate swaps and caps, and forward foreign exchange contracts as appropriate for hedging transactions and managing the Group's assets and liabilities in accordance with the Group's financial risk management policies. Financial derivative contracts are executed between third party banks and the Group entity that is directly exposed to the risk being hedged. Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognized immediately in the profit and loss account. It is the Group's policy not to enter into derivative transactions for speculative purposes. The notional amounts and fair values of derivative financial instruments at 31st December 2017 are disclosed in note 24.

i) Market risk

Foreign exchange risk

Entities within the Group are exposed to foreign exchange risk from future commercial transactions, net investments in foreign operations and net monetary assets and liabilities that are denominated in a currency that is not the entity's functional currency.

Group entities are required to manage their foreign exchange risk against their functional currency. To manage their foreign exchange risk arising from future commercial transactions, entities in the Group use forward foreign exchange contracts in a consistent manner to hedge firm and anticipated foreign exchange commitments. The Group does not usually hedge its net investments in foreign operations except in circumstances where there is a material exposure arising from a currency that is anticipated to be volatile and the hedging is cost effective.

Currency risks as defined by IFRS 7 arise on account of monetary assets and liabilities being denominated in a currency that is not the functional currency. In 2017 and 2016, the Group's principal foreign exchange exposure was with the Euro. At 31st December 2017, if the United States dollar had strengthened/weakened by 10% against Euro with all other variables unchanged, the Group's profit after tax would have been US$0.1 million (2016: US$0.1 million) lower/higher, arising from foreign exchange losses/gains taken on translation. The impact on amounts attributable to the shareholders of the Company would be US$0.1 million (2016: US$0.1 million) lower/higher. This sensitivity analysis ignores any offsetting foreign exchange factors and has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date. The stated change represents management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. There are no other significant monetary balances held by Group companies at 31st December 2017 that are denominated in a non-functional currency. Differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration.

Financial Risk Management *continued*

A Financial risk factors *continued*

i) Market risk *continued*

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed partly by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities, and partly through fixed rate borrowings and the use of derivative financial instruments such as interest rate swaps and caps. The Group monitors interest rate exposure on a monthly basis by currency and business unit, taking into consideration proposed financing and hedging arrangements. The Group's guideline is to maintain 40% to 60% of its gross borrowings, in fixed rate instruments. At 31st December 2017, the Group's interest rate hedge was 47% (2016: 49%), with an average tenor of 1.6 years (2016: 2.0 years). The interest rate profile of the Group's borrowings after taking into account hedging transactions are set out in note 16.

Cash flow interest rate risk is the risk that changes in market interest rates will impact cash flows arising from variable rate financial instruments. Borrowings at floating rates therefore expose the Group to cash flow interest rate risk. The Group manages this risk by using forward rate agreements to a maturity of one year, and by entering into interest rate swaps and caps for a maturity of up to seven years. Forward rate agreements and interest rate swaps have the economic effect of converting borrowings from floating rate to fixed rate, caps provide protection against a rise in floating rates above a pre-determined rate.

At 31st December 2017, if interest rates had been 100 basis points higher/lower with all other variables held constant, the Group's profit after tax would have been US$2.4 million (2016: US$1.9 million) lower/higher, and hedging reserves would have been US$2.8 million (2016: US$1.5 million) higher/lower, as a result of fair value changes to cash flow hedges. The sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. There is no significant sensitivity resulting from interest rate caps. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in those interest rates which have the most impact on the Group, specifically the United States, Hong Kong, United Kingdom and European rates, over the period until the next annual balance sheet date. Changes in market interest rates affect the interest income or expense of non-derivative variable-interest financial instruments, the interest payments of which are not designated as hedged items of cash flow hedges against interest rate risks. As a consequence, they are included in the calculation of profit after tax sensitivities. Changes in the market interest rate of financial instruments that were designated as hedging instruments in a cash flow hedge to hedge payment fluctuations resulting from interest rate movements affect the hedging reserves and are therefore taken into consideration in the equity-related sensitivity calculations.

Financial Risk Management *continued*

A Financial risk factors *continued*

ii) Credit risk

The Group's credit risk is primarily attributable to deposits with banks, credit exposures to customers and derivative financial instruments with a positive fair value. The Group has credit policies in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group manages its deposits with banks and financial institutions and transactions involving derivative financial instruments by monitoring credit ratings and capital adequacy ratios of counterparties, and limiting the aggregate risk to any individual counterparty. The utilization of credit limits is regularly monitored. At 31st December 2017, 85% (2016: 83%) of deposits and balances with banks and financial institutions were made to institutions with credit ratings of no less than A- (Fitch). Similarly transactions involving derivative financial instruments are with banks with sound credit ratings and capital adequacy ratios. In developing countries it may be necessary to deposit money with banks that have a lower credit rating, however the Group only enters into derivative transactions with counterparties which have credit rating of at least investment grade. Management does not expect any counterparty to fail to meet its obligations.

In respect of credit exposures to customers, the Group has policies in place to ensure that sales on credit without collateral are made principally to travel agents and corporate companies with an appropriate credit history. Sales to other customers are made in cash or by major credit cards.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance.

iii) Liquidity risk

Prudent liquidity risk management includes managing the profile of debt maturities and funding sources, maintaining sufficient cash and marketable securities, and ensuring the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The Group's ability to fund its existing and prospective debt requirements is managed by maintaining diversified funding sources with adequate committed funding lines from high quality lenders, and by monitoring rolling short-term forecasts of the Group's cash and gross debt on the basis of expected cash flows. In addition, long-term cash flows are projected to assist with the Group's long-term debt financing plans.

At 31st December 2017, total available borrowing facilities amounted to US$560 million (2016: US$556 million) of which US$511 million (2016: US$480 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities totalled US$49 million (2016: US$76 million), in addition to cash balances of US$184 million (2016: US$183 million).

Financial Risk Management *continued*

A Financial risk factors *continued*

iii) Liquidity risk *continued*

The table below analyzes the Group's non-derivative financial liabilities and net settled derivative financial liabilities at 31st December 2017 and 2016 into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within one year US$m	Between one and two years US$m	Between two and three years US$m	Between three and four years US$m	Between four and five years US$m	Beyond five years US$m	Total undiscounted cash flows US$m
2017							
Borrowings	**15.6**	**513.6**	**0.2**	**0.2**	**0.2**	**1.7**	**531.5**
Creditors	**146.3**	**-**	**-**	**-**	**-**	**-**	**146.3**
Net settled derivative financial instruments	**0.5**	**-**	**-**	**-**	**-**	**-**	**0.5**
2016							
Borrowings	14.0	11.3	479.7	0.2	0.3	4.0	509.5
Creditors	134.1	-	-	-	-	-	134.1
Net settled derivative financial instruments	0.8	-	-	-	-	-	0.8

B Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern whilst seeking to maximize benefits to shareholders and other stakeholders. Capital is equity as shown in the consolidated balance sheet plus net debt.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, purchase Group shares, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the Group's consolidated gearing ratio and consolidated interest cover. The gearing ratio is calculated as net debt divided by shareholders' funds on an IFRS basis, where the Group's freehold and leasehold interests are carried in the consolidated balance sheet at amortized cost, or alternatively on an adjusted shareholders' funds basis which takes into account the fair market value of the Group's freehold and leasehold interests. Net debt is calculated as total borrowings less bank and cash balances. Interest cover is calculated as underlying operating profit and the Group's share of underlying results of associates and joint ventures divided by net financing charges including capitalized interest. The Group does not have a defined gearing or interest cover benchmark or range.

The ratios at 31st December 2017 and 2016 are as follows:

	2017	2016
Gearing ratio		
- based on shareholders' funds	**26%**	25%
- based on adjusted shareholders' funds	**6%**	8%
Interest cover	**7.2 times**	7.5 times

Financial Risk Management *continued*

C Fair value estimation

i) Financial instruments that are measured at fair value

For financial instruments that are measured at fair value in the balance sheet, the corresponding fair value measurements are disclosed by level of the following fair value measurement hierarchy:

a) *Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly ('observable current market transactions')*
The fair values of derivative financial instruments are determined using rates quoted by the Group's bankers at the balance sheet date. The rates for interest rate swaps and caps and forward foreign exchange contracts are calculated by reference to market interest rates and foreign exchange rates.

The fair value of unlisted investments, which are classified as available-for-sale and mainly include club and school debentures, are determined using prices quoted by brokers at the balance sheet date.

b) *Inputs for assets or liabilities that are not based on observable market data ('unobservable inputs')*
The fair value of other unlisted securities, which are classified as available-for-sale, is determined using valuation techniques by reference to observable current market transactions (including price-to earnings and price-to book ratios of listed securities of entities engaged in similar industries) or the market prices of the underlying investments with certain degree of entity specific estimates.

There were no changes in valuation techniques during the year.

The table below analyzes financial instruments carried at fair value at 31st December 2017 and 2016, by the levels in the fair value measurement hierarchy.

	Observable current market transactions **US$m**	Unobservable inputs **US$m**	Total **US$m**
2017			
Assets			
Available-for-sale financial assets			
- unlisted investments	**1.7**	**9.3**	**11.0**
Derivatives designated at fair value			
- through other comprehensive income	**0.5**	**-**	**0.5**
	2.2	**9.3**	**11.5**
Liabilities			
Derivatives designated at fair value			
- through other comprehensive income	**(0.2)**	**-**	**(0.2)**
2016			
Assets			
Available-for-sale financial assets			
- unlisted investments	2.1	8.6	10.7
Liabilities			
Derivatives designated at fair value			
- through other comprehensive income	(0.6)	-	(0.6)

There were no transfers among the two categories during the year ended 31st December 2017 and 2016.

Financial Risk Management *continued*

C Fair value estimation *continued*

i) Financial instruments that are measured at fair value *continued*

Movements of financial instruments which are valued based on unobservable inputs during the year ended 31st December are as follows:

	Available-for-sale financial assets	
	2017	2016
	US$m	US$m
At 1st January	**8.6**	8.1
Additions	**0.7**	0.5
At 31st December	**9.3**	8.6

ii) Financial instruments that are not measured at fair value

The fair values of current debtors, bank and cash balances, current creditors and current borrowings are assumed to approximate their carrying amounts due to the short-term maturities of these assets and liabilities.

The fair values of long-term borrowings are based on market prices or are estimated using the expected future payments discounted at market interest rates.

D Financial instruments by category

The fair values of financial assets and financial liabilities, together with carrying amounts at 31st December 2017 and 2016 are as follows:

	Loans and receivables **US$m**	Derivatives used for hedging **US$m**	Available-for-sale **US$m**	Other financial instruments at amortized cost **US$m**	Total carrying amount **US$m**	Fair value **US$m**
2017						
Assets						
Other investments	**-**	**-**	**11.0**	**-**	**11.0**	**11.0**
Other non-current assets	**-**	**0.5**	**-**	**-**	**0.5**	**0.5**
Debtors	**65.5**	**-**	**-**	**-**	**65.5**	**65.5**
Bank and cash balances	**183.9**	**-**	**-**	**-**	**183.9**	**183.9**
	249.4	**0.5**	**11.0**	**-**	**260.9**	**260.9**
Liabilities						
Other non-current liabilities	**-**	**(0.2)**	**-**	**-**	**(0.2)**	**(0.2)**
Borrowings	**-**	**-**	**-**	**(510.7)**	**(510.7)**	**(510.7)**
Trade and other payables excluding non-financial liabilities	**-**		**-**	**(146.3)**	**(146.3)**	**(146.3)**
	-	**(0.2)**	**-**	**(657.0)**	**(657.2)**	**(657.2)**
2016						
Assets						
Other investments	-	-	10.7	-	10.7	10.7
Debtors	65.8	-	-	-	65.8	65.8
Bank and cash balances	182.6	-	-	-	182.6	182.6
	248.4	-	10.7	-	259.1	259.1
Liabilities						
Borrowings	-	-	-	(479.9)	(479.9)	(479.9)
Trade and other payables excluding non-financial liabilities	-	(0.6)	-	(134.1)	(134.7)	(134.7)
	-	(0.6)	-	(614.0)	(614.6)	(614.6)

Critical Accounting Estimates and Judgements

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below.

A Acquisition of subsidiaries, associates and joint ventures

The initial accounting on the acquisition of subsidiaries, associates and joint ventures involves identifying and determining the fair values to be assigned to the identifiable assets, liabilities and contingent liabilities of the acquired entities. The fair values of leasehold land and tangible assets are determined by independent valuers by reference to market prices or present value of expected net cash flows from the assets. Any changes in the assumptions used and estimates made in determining the fair values, and management's ability to measure reliably the contingent liabilities of the acquired entity will impact the carrying amount of these assets and liabilities.

B Impairment of assets

The Group tests annually whether goodwill and other assets that have indefinite useful lives suffered any impairment. Other assets such as development costs are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash generating unit is determined based on the higher of its fair value less cost to sell and its value in use, calculated on the basis of management's assumptions and estimates. Changing the key assumptions, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the value-in-use calculations.

C Tangible fixed assets and depreciation

Management determines the estimated useful lives and related depreciation charges for the Group's tangible fixed assets. Management will revise the depreciation charge where useful lives are different to those previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned.

D Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Provision of deferred tax follows the way management expects to recover or settle the carrying amount of the related assets or liabilities, which the management may expect to recover through use, sale or combination of both. Accordingly, deferred tax will be calculated at income tax rate, capital gains tax rate or combination of both.

Recognition of deferred tax assets, which principally relate to tax losses, depends on the management's expectation of future taxable profit that will be available against which the tax losses can be utilized. The outcome of their actual utilization may be different.

Critical Accounting Estimates and Judgements *continued*

E Pension obligations

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/income for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions.

F Non-trading items

The Group uses underlying business performance in its internal financial reporting to distinguish between the underlying profits and non-trading items. The identification of non-trading items requires judgement by management, but follows the consistent methodology as set out in the Group's accounting policies.

1. Revenue

	2017 US$m	2016 US$m
Analysis by geographical area		
- Hong Kong	**235.8**	224.5
- Other Asia	**107.9**	106.4
- Europe	**163.8**	177.8
- The Americas	**103.3**	88.7
	610.8	597.4
Analysis by activity		
- Hotel ownership	**577.6**	565.4
- Hotel & Residences branding and management	**62.1**	60.7
- Less: intra-segment revenue	**(28.9)**	(28.7)
	610.8	597.4

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the executive Directors of the Company for the purpose of resource allocation and performance assessment. The Group is operated on a worldwide basis in four regions: Hong Kong, Other Asia, Europe and The Americas which form the basis of its reportable segments. No operating segments have been aggregated to form the reportable segments.

In addition, the Group has two distinct business activities: Hotel ownership and Hotel & Residences branding and management. The Group's segmental information for non-current assets is set out in note 18.

2. EBITDA (Earnings before Interest, Tax, Depreciation and Amortization) and Operating Profit from Subsidiaries

	2017 US$m	2016 US$m
Analysis by geographical area		
- Hong Kong	**74.0**	69.3
- Other Asia	**29.6**	29.2
- Europe	**17.0**	25.2
- The Americas	**7.2**	5.9
Underlying EBITDA from subsidiaries	**127.8**	129.6
Non-trading items		
- acquisition-related costs *(refer note 7)*	**-**	(1.8)
EBITDA from subsidiaries	**127.8**	127.8
Less: depreciation and amortization	**(58.8)**	(59.8)
Operating profit	**69.0**	68.0
Analysis by activity		
- Hotel ownership	**105.2**	105.4
- Hotel & Residences branding and management	**22.6**	22.4
EBITDA from subsidiaries	**127.8**	127.8
- Hotel ownership	**49.2**	48.5
- Hotel & Residences branding and management	**19.8**	19.5
Operating profit	**69.0**	68.0

2. EBITDA (Earnings before Interest, Tax, Depreciation and Amortization) and Operating Profit from Subsidiaries *continued*

	2017 **US$m**	2016 US$m
The following items have been credited/(charged) in arriving at operating profit:		
Rental income *(refer note 9)*	**22.1**	22.5
Amortization of intangible assets *(refer note 8)*	**(2.1)**	(2.1)
Depreciation of tangible assets *(refer note 9)*	**(56.7)**	(57.7)
Employee benefit expense		
- salaries and benefits in kind	**(248.9)**	(239.5)
- share options and share awards granted	**(2.3)**	(2.2)
- defined benefit pension plans *(refer note 12)*	**(4.7)**	(4.9)
- defined contribution pension plans	**(1.4)**	(1.2)
	(257.3)	(247.8)
Net foreign exchange gains	**0.6**	0.5
Operating leases		
- minimum lease payments	**(8.7)**	(9.0)
- contingent rents	**(6.0)**	(5.6)
- subleases	**0.2**	0.3
	(14.5)	(14.3)
Auditors' remuneration		
- audit	**(1.6)**	(1.5)
- non-audit services	**(1.1)**	(1.0)
	(2.7)	(2.5)

3. Net Financing Charges

	2017 **US$m**	2016 US$m
Interest expense		
- bank loans	**(10.4)**	(10.0)
Commitment and other fees	**(1.9)**	(2.1)
Financing charges	**(12.3)**	(12.1)
Interest income	**1.3**	1.3
Net financing charges	**(11.0)**	(10.8)

4. Share of Results of Associates and Joint Ventures

	EBITDA US$m	Depreciation and amortization US$m	Operating profit US$m	Net financing charges US$m	Tax US$m	Net profit/ (loss) US$m
2017						
Analysis by geographical area						
- Other Asia	**23.5**	**(8.3)**	**15.2**	**(1.4)**	**(2.3)**	**11.5**
- Europe	**2.7**	**(0.8)**	**1.9**	**-**	**(0.1)**	**1.8**
- The Americas	**3.9**	**(3.0)**	**0.9**	**(2.4)**	**(0.3)**	**(1.8)**
	30.1	**(12.1)**	**18.0**	**(3.8)**	**(2.7)**	**11.5**
Analysis by activity						
- Hotel ownership	**28.9**	**(11.6)**	**17.3**	**(3.6)**	**(2.6)**	**11.1**
- Other	**1.2**	**(0.5)**	**0.7**	**(0.2)**	**(0.1)**	**0.4**
	30.1	**(12.1)**	**18.0**	**(3.8)**	**(2.7)**	**11.5**
2016						
Analysis by geographical area						
- Other Asia	20.9	(7.8)	13.1	(1.5)	(2.3)	9.3
- Europe	1.8	(0.7)	1.1	-	-	1.1
- The Americas	5.9	(3.0)	2.9	(2.2)	0.1	0.8
	28.6	(11.5)	17.1	(3.7)	(2.2)	11.2
Non-trading items						
- provision for litigation *(refer note 7)*	(0.3)	-	(0.3)	-	-	(0.3)
	28.3	(11.5)	16.8	(3.7)	(2.2)	10.9
Analysis by activity						
- Hotel ownership	27.4	(11.0)	16.4	(3.6)	(2.1)	10.7
- Other	0.9	(0.5)	0.4	(0.1)	(0.1)	0.2
	28.3	(11.5)	16.8	(3.7)	(2.2)	10.9

5. Tax

	2017	2016
	US$m	US$m
Tax (charged)/credited to profit and loss is analyzed as follows:		
- current tax	**(23.6)**	(14.9)
- deferred tax *(refer note 11)*	**8.6**	1.2
	(15.0)	(13.7)
Analysis by geographical area		
- Hong Kong	**(10.3)**	(8.8)
- Other Asia	**3.9**	(3.5)
- Europe	**(7.2)**	(0.9)
- The Americas	**(1.4)**	(0.5)
	(15.0)	(13.7)
Analysis by activity		
- Hotel ownership	**(9.1)**	(8.1)
- Hotel & Residences branding and management	**(5.9)**	(5.6)
	(15.0)	(13.7)
Reconciliation between tax expense and tax at the applicable tax rate*:		
Tax at applicable tax rate	**(4.3)**	(3.6)
Income not subject to tax	**0.8**	0.6
Expenses not deductible for tax purposes	**(3.6)**	(3.8)
Tax losses and temporary differences not recognized	**(6.8)**	(9.7)
Utilization of previously unrecognized tax losses and temporary differences	**3.9**	3.9
Recognition of previously unrecognized tax losses	**3.8**	-
Withholding tax	**(8.3)**	(1.8)
(Under)/over provision in prior years	**(0.5)**	0.7
	(15.0)	(13.7)
Tax relating to components of other comprehensive income is analyzed as follows:		
Remeasurements of defined benefit plans	**(1.2)**	0.5
Cash flow hedges	**(0.2)**	(0.4)
	(1.4)	0.1

Share of tax charge of associates and joint ventures of US$2.7 million (2016: US$2.2 million) is included in share of results of associates and joint ventures *(refer note 4).*

* The applicable tax rate for the year was 7% (2016: 6%) and represents the weighted average of the rates of taxation prevailing in the territories in which the Group operates. The increase in applicable tax rate was mainly caused by a change in the geographic mix of the Group's profits.

6. Earnings per Share

Basic earnings per share are calculated on profit attributable to shareholders of US$54.9 million (2016: US$55.2 million) and on the weighted average number of 1,257.7 million (2016: 1,255.9 million) shares in issue during the year.

Diluted earnings per share are calculated on profit attributable to shareholders of US$54.9 million (2016: US$55.2 million) and on the weighted average number of 1,262.0 million (2016: 1,261.5 million) shares in issue after adjusting for the numbers of shares which are deemed to be issued for no consideration under the share-based long-term incentive plans based on average share price during the year.

The weighted average number of shares is arrived at as follows:

	Ordinary shares in millions	
	2017	2016
Weighted average number of shares for basic earnings per share calculation	**1,257.7**	1,255.9
Adjustment for shares deemed to be issued for no consideration under the share-based long-term incentive plans	**4.3**	5.6
Weighted average number of shares for diluted earnings per share calculation	**1,262.0**	1,261.5

Additional basic and diluted earnings per share are also calculated based on underlying profit attributable to shareholders. A reconciliation of earnings is set out below:

		2017			2016	
	US$m	Basic earnings per share **US¢**	Diluted earnings per share **US¢**	US$m	Basic earnings per share US¢	Diluted earnings per share US¢
Profit attributable to shareholders	**54.9**	**4.37**	**4.35**	55.2	4.40	4.38
Non-trading items *(refer note 7)*	**-**			2.1		
Underlying profit attributable to shareholders	**54.9**	**4.37**	**4.35**	57.3	4.56	4.54

7. Non-Trading Items

An analysis of non-trading items after interest, tax and non-controlling interests is set out below:

	2017	2016
	US$m	US$m
Acquisition-related costs		
- administration expenses	**-**	1.8
Provision for litigation		
- share of results of associates and joint ventures	**-**	0.3
	-	2.1

8. Intangible Assets

	Goodwill US$m	Leasehold land US$m	Computer software US$m	Development costs US$m	Total US$m
2017					
Cost	**23.9**	**6.3**	**17.8**	**16.3**	**64.3**
Amortization and impairment	**-**	**(2.2)**	**(15.1)**	**(2.7)**	**(20.0)**
Net book value at 1st January	**23.9**	**4.1**	**2.7**	**13.6**	**44.3**
Exchange differences	**-**	**-**	**-**	**0.4**	**0.4**
Additions	**-**	**-**	**3.4**	**2.5**	**5.9**
Transfer to tangible assets	**-**	**-**	**(0.2)**	**-**	**(0.2)**
Amortization charge	**-**	**(0.2)**	**(1.5)**	**(0.4)**	**(2.1)**
Impairment charge	**-**	**-**	**-**	**(0.6)**	**(0.6)**
Net book value at 31st December	**23.9**	**3.9**	**4.4**	**15.5**	**47.7**
Cost	**23.9**	**6.4**	**23.5**	**18.6**	**72.4**
Amortization and impairment	**-**	**(2.5)**	**(19.1)**	**(3.1)**	**(24.7)**
	23.9	**3.9**	**4.4**	**15.5**	**47.7**
2016					
Cost	23.9	6.3	20.5	16.1	66.8
Amortization and impairment	-	(2.1)	(18.2)	(2.4)	(22.7)
Net book value at 1st January	23.9	4.2	2.3	13.7	44.1
Exchange differences	-	-	-	(0.1)	(0.1)
Additions	-	-	2.0	0.7	2.7
Amortization charge	-	(0.1)	(1.6)	(0.4)	(2.1)
Impairment charge	-	-	-	(0.3)	(0.3)
Net book value at 31st December	23.9	4.1	2.7	13.6	44.3
Cost	23.9	6.3	17.8	16.3	64.3
Amortization and impairment	-	(2.2)	(15.1)	(2.7)	(20.0)
	23.9	4.1	2.7	13.6	44.3

Management has performed an impairment review of the carrying amount of goodwill at 31st December 2017. For the purpose of impairment review, goodwill acquired has been allocated to the respective hotels and is reviewed for impairment based on individual hotel forecast operating performance and cash flows. Cash flow projections for the impairment reviews are based on updated individual hotel forecasts (including the following year's individual hotel budgets) with assumptions updated for the prevailing market conditions, and are discounted appropriately. Key assumptions used for value-in-use calculations include average growth rates of between 3% to 9% to project cash flows over a five-year period after which the growth rate is assumed up to 5% in perpetuity, which may vary across the Group's geographical locations, and are based on management expectations for the market development; and pre-tax discount rates of around 8% to 13% applied to the cash flow projections. The discount rates used reflect business specific risks relating to the business life-cycle and geographical location. On the basis of these reviews, management concluded that no impairment exists.

The amortization charges are all recognized in arriving at operating profit and are included in cost of sales, selling and distribution costs and administration expenses.

The amortization periods for intangible assets are as follows:

Leasehold land	20 to 40 years
Computer software	3 to 5 years
Development costs	15 to 40 years

9. Tangible Assets

	Freehold properties US$m	Leasehold properties & improvements US$m	Plant & machinery US$m	Furniture equipment & motor vehicles US$m	Total US$m
2017					
Cost	**733.3**	**743.3**	**139.4**	**260.2**	**1,876.2**
Depreciation	**(85.4)**	**(182.6)**	**(75.1)**	**(181.0)**	**(524.1)**
Net book value at 1st January	**647.9**	**560.7**	**64.3**	**79.2**	**1,352.1**
Exchange differences	**57.0**	**10.5**	**5.4**	**2.3**	**75.2**
Additions	**34.8**	**25.2**	**2.7**	**19.8**	**82.5**
Disposals	**-**	**-**	**-**	**(0.1)**	**(0.1)**
Transfer from intangible assets	**-**	**-**	**-**	**0.2**	**0.2**
Reclassification	**22.1**	**(34.0)**	**3.1**	**8.8**	**-**
Depreciation charge	**(10.7)**	**(18.2)**	**(7.1)**	**(20.7)**	**(56.7)**
Net book value at 31st December	**751.1**	**544.2**	**68.4**	**89.5**	**1,453.2**
Cost	**841.4**	**744.0**	**155.0**	**291.6**	**2,032.0**
Depreciation	**(90.3)**	**(199.8)**	**(86.6)**	**(202.1)**	**(578.8)**
	751.1	**544.2**	**68.4**	**89.5**	**1,453.2**
2016					
Cost	650.0	720.8	140.2	257.6	1,768.6
Depreciation	(80.5)	(171.1)	(74.6)	(187.4)	(513.6)
Net book value at 1st January	569.5	549.7	65.6	70.2	1,255.0
Exchange differences	(38.7)	(19.3)	(2.3)	(1.2)	(61.5)
Additions	125.6	50.3	8.5	32.5	216.9
Disposals	-	-	-	(0.6)	(0.6)
Depreciation charge	(8.5)	(20.0)	(7.5)	(21.7)	(57.7)
Net book value at 31st December	647.9	560.7	64.3	79.2	1,352.1
Cost	733.3	743.3	139.4	260.2	1,876.2
Depreciation	(85.4)	(182.6)	(75.1)	(181.0)	(524.1)
	647.9	560.7	64.3	79.2	1,352.1

Freehold properties include a property of US$108.5 million (2016: US$111.6 million), which is stated net of tax increment financing of US$21.3 million (2016: US$22.2 million) *(refer note 17)* .

Net book value of leasehold properties acquired under finance leases amounted to US$181.2 million (2016: US$183.0 million).

Rental income from properties and other tangible assets amounted to US$22.1 million (2016: US$22.5 million) *(refer to note 2).*

Future minimum rental payments receivable under non-cancellable leases are as follows:

	2017	2016
	US$m	US$m
Within one year	**18.6**	19.1
Between one and two years	**16.8**	14.9
Between two and five years	**38.0**	28.9
Beyond five years	**1.2**	4.4
	74.6	67.3

Certain of the hotel properties are pledged as security for bank borrowings as shown in note 16.

10. Associates and Joint Ventures

	2017 US$m	2016 US$m
Associates		
Listed associate - OHTL	**20.1**	17.0
Unlisted associates	**89.4**	71.0
Share of attributable net assets	**109.5**	88.0
Notional goodwill	**5.5**	5.5
	115.0	93.5
Joint ventures		
Share of attributable net assets of unlisted joint ventures	**75.0**	64.5
Goodwill on acquisition	**6.6**	5.8
	81.6	70.3
	196.6	163.8

	Associates		Joint ventures	
	2017 US$m	2016 US$m	**2017 US$m**	2016 US$m
Movements of associates and joint ventures during the year:				
At 1st January	**93.5**	93.6	**70.3**	70.8
Exchange differences	**-**	-	**9.4**	(2.6)
Share of results after tax and non-controlling interests	**9.7**	9.8	**1.8**	1.1
Share of other comprehensive income/(expense) after tax and non-controlling interests	**8.4**	(1.7)	**-**	-
Dividends received	**(5.2)**	(7.3)	**-**	-
Interest received	**-**	-	**(1.4)**	(1.8)
Advance to associates and joint ventures *(refer note 23e)*	**9.1**	-	**2.3**	2.8
Repayment of loans to associates and joint ventures *(refer note 23f)*	**(0.5)**	(0.9)	**(0.8)**	-
At 31st December	**115.0**	93.5	**81.6**	70.3
Fair value of listed associate	**207.3**	193.2	**N/A**	N/A

a) Investment in associates

The material associates of the Group are listed below. These associates have share capital consisting solely of ordinary shares, which are held directly by the Group.

Nature of investments in material associates in 2017 and 2016:

Name of entity	Nature of business	Country of incorporation and principal place of business/ place of listing	% of ownership interest **2017**	2016
OHTL PCL ("OHTL")	Owner of Mandarin Oriental, Bangkok	Thailand/Thailand	**47.6%**	47.6%
Marina Bay Hotel Private Ltd. ("Marina Bay Hotel")	Owner of Mandarin Oriental, Singapore	Singapore/Unlisted	**50.0%**	50.0%

At 31st December 2017, the fair value of the Group's interest in OHTL, which is listed on the Thailand Stock Exchange, was US$207.3 million (2016: US$193.2 million) and the carrying amount of the Group's interest was US$25.6 million (2016: US$22.6 million).

10. Associates and Joint Ventures *continued*

a) Investment in associates *continued*

Summarized financial information for material associates

Summarized balance sheet at 31st December

	OHTL		Marina Bay Hotel		Total	
	2017	2016	**2017**	2016	**2017**	2016
	US$m	US$m	**US$m**	US$m	**US$m**	US$m
Non-current assets	**69.1**	65.8	**127.9**	118.7	**197.0**	184.5
Current assets						
Cash and cash equivalents	**2.5**	5.1	**4.8**	6.2	**7.3**	11.3
Other current assets	**5.5**	4.3	**4.0**	2.8	**9.5**	7.1
Total current assets	**8.0**	9.4	**8.8**	9.0	**16.8**	18.4
Non-current liabilities						
Financial liabilities*	**(10.7)**	(11.7)	**(6.7)**	(20.1)	**(17.4)**	(31.8)
Other non-current liabilities*	**(4.2)**	(3.5)	**(3.3)**	(2.7)	**(7.5)**	(6.2)
Total non-current liabilities	**(14.9)**	(15.2)	**(10.0)**	(22.8)	**(24.9)**	(38.0)
Current liabilities						
Financial liabilities*	**(16.4)**	(21.0)	**(11.1)**	(8.7)	**(27.5)**	(29.7)
Other current liabilities*	**(3.6)**	(3.1)	**(5.8)**	(5.5)	**(9.4)**	(8.6)
Total current liabilities	**(20.0)**	(24.1)	**(16.9)**	(14.2)	**(36.9)**	(38.3)
Net assets	**42.2**	35.9	**109.8**	90.7	**152.0**	126.6

* Financial liabilities excluding trade and other payables and provisions, which are presented under other current and non-current liabilities.

Summarized statement of comprehensive income for the year ended 31st December

	OHTL		Marina Bay Hotel		Total	
	2017	2016	**2017**	2016	**2017**	2016
	US$m	US$m	**US$m**	US$m	**US$m**	US$m
Revenue	**63.0**	58.0	**77.6**	73.3	**140.6**	131.3
Depreciation and amortization	**(6.6)**	(6.2)	**(6.3)**	(5.8)	**(12.9)**	(12.0)
Interest expense	**(0.4)**	(0.5)	**(0.3)**	(0.6)	**(0.7)**	(1.1)
Profit from underlying business performance	**9.5**	7.1	**17.5**	16.2	**27.0**	23.3
Income tax expense	**(1.4)**	(1.4)	**(3.0)**	(3.0)	**(4.4)**	(4.4)
Profit after tax from underlying business performance	**8.1**	5.7	**14.5**	13.2	**22.6**	18.9
Non-trading items	**-**	(0.6)	**-**	-	**-**	(0.6)
Profit after tax	**8.1**	5.1	**14.5**	13.2	**22.6**	18.3
Other comprehensive income/(expense)	**3.5**	0.4	**9.4**	(2.6)	**12.9**	(2.2)
Total comprehensive income	**11.6**	5.5	**23.9**	10.6	**35.5**	16.1
Dividends received from associates	**5.3**	5.6	**4.8**	9.1	**10.1**	14.7

The information contained in the summarized balance sheet and statement of comprehensive income reflects the amounts presented in the financial statements of the associates adjusted for differences in accounting policies between the Group and the associates, and fair value of the associates at the time of acquisition.

10. Associates and Joint Ventures *continued*

a) Investment in associates *continued*

Reconciliation of the summarized financial information

Reconciliation of the summarized financial information presented to the carrying amount of the Group's interests in its material associates for the year ended 31st December:

	OHTL		Marina Bay Hotel		Total	
	2017	2016	**2017**	2016	**2017**	2016
	US$m	US$m	**US$m**	US$m	**US$m**	US$m
Net assets at 1st January	**35.9**	36.0	**90.7**	89.2	**126.6**	125.2
Profit for the year	**8.1**	5.1	**14.5**	13.2	**22.6**	18.3
Other comprehensive income/(expense)	**3.5**	0.4	**9.4**	(2.6)	**12.9**	(2.2)
Dividends paid	**(5.3)**	(5.6)	**(4.8)**	(9.1)	**(10.1)**	(14.7)
Net assets at 31st December	**42.2**	35.9	**109.8**	90.7	**152.0**	126.6
Effective interest in associates (%)*	**47.6**	47.6	**50.0**	50.0		
Group's share of net assets in associates	**20.1**	17.0	**54.9**	45.4	**75.0**	62.4
Notional goodwill*	**5.5**	5.5	**-**	-	**5.5**	5.5
Carrying value	**25.6**	22.5	**54.9**	45.4	**80.5**	67.9
Fair value	**207.3**	193.2	**N/A**	N/A	**207.3**	193.2

The Group has interests in a number of individually immaterial associates. The following table analyzes, in aggregate, the share of profit and other comprehensive expense and carrying amount of these associates.

	2017	2016
	US$m	US$m
Share of (loss)/profit	**(1.3)**	0.8
Share of other comprehensive income/(expense)	**2.1**	(0.6)
Share of total comprehensive income	**0.8**	0.2
Carrying amount of interests in these associates	**34.5**	25.6

* OHTL repurchased some of its own shares in 2013 which were subsequently cancelled in 2016. The number of OHTL shares held by the Group remained unchanged. As a result of the share repurchase, notional goodwill of US$5.5 million was recognized and the Group's effective interest increased to 47.6%.

Contingent liabilities relating to the Group's interest in associates

	2017	2016
	US$m	US$m
Financial guarantee in respect of facilities made available to an associate	**20.4**	20.8

The guarantee in respect of facilities made available to an associate is stated at its contracted amount. The Directors are of the opinion that it is not probable that this guarantee will be called upon.

10. Associates and Joint Ventures *continued*

b) Investment in joint ventures

The material joint venture of the Group is listed below. This joint venture has share capital consisting solely of ordinary shares, which are held directly by the Group.

Nature of investment in material joint venture in 2017 and 2016:

		Country of incorporation and	% of ownership interest	
Name of entity	Nature of business	principal place of business	**2017**	2016
Ritz Madrid, S.A. ("Ritz Madrid")	Owner of Hotel Ritz, Madrid	Spain	**50.0%**	50.0%

Summarized financial information for material joint venture

Summarized balance sheet at 31st December

	Ritz Madrid	
	2017	2016
	US$m	US$m
Non-current assets	**186.3**	162.4
Current assets		
Cash and cash equivalents	**7.8**	4.6
Other current assets	**2.4**	2.0
Total current assets	**10.2**	6.6
Non-current liabilities		
Financial liabilities*+	**(154.6)**	(133.8)
Other non-current liabilities*	**(38.5)**	(34.2)
Total non-current liabilities	**(193.1)**	(168.0)
Current liabilities		
Other current liabilities*	**(8.1)**	(5.8)
Total current liabilities	**(8.1)**	(5.8)
Net liabilities	**(4.7)**	(4.8)

* Financial liabilities excluding trade and other payables and provisions, which are presented under other current and non-current liabilities.

+ Including shareholders' loans from joint venture partners of US$154.6 million (2016: US$133.8 million).

10. Associates and Joint Ventures *continued*

b) Investment in joint ventures *continued*

Summarized statement of comprehensive income for the year ended 31st December 2017

	Ritz Madrid	
	2017	2016
	US$m	US$m
Revenue	**30.3**	27.0
Depreciation and amortization	**(1.6)**	(1.3)
Profit after tax	**3.5**	2.2
Other comprehensive (expense)/income	**(0.6)**	0.1
Total comprehensive income	**2.9**	2.3
Interest received from joint venture	**2.8**	3.6

The information contained in the summarized balance sheet and statement of comprehensive income reflects the amounts presented in the financial statements of the joint ventures adjusted for differences in accounting policies between the Group and the joint ventures, fair value of the joint ventures at the time of acquisition, and elimination of interest on shareholders' loan.

Reconciliation of the summarized financial information

Reconciliation of the summarized financial information presented to the carrying amount of the Group's interests in its material joint venture for the year ended 31st December 2017:

	Ritz Madrid	
	2017	2016
	US$m	US$m
Net liabilities at 1st January	**(4.8)**	(3.5)
Profit for the year	**3.5**	2.2
Other comprehensive (expense)/income	**(0.6)**	0.1
Interest paid	**(2.8)**	(3.6)
Net liabilities at 31st December	**(4.7)**	(4.8)
Effective interest in joint venture (%)	**50.0**	50.0
Group's share of net liabilities in joint venture	**(2.3)**	(2.4)
Goodwill on acquisition	**6.6**	5.8
Shareholders' loans	**77.3**	66.9
Carrying value	**81.6**	70.3

The Group has no other joint venture other than Ritz Madrid.

Commitments and contingent liabilities in respect of joint ventures

The Group has the following commitments relating to its joint ventures as at 31st December:

	2017	2016
	US$m	US$m
Commitment to provide funding if called	**55.1**	36.6

There were no contingent liabilities relating to the Group's interest in its joint ventures at 31st December 2017 and 2016.

11. Deferred Tax Assets/(Liabilities)

	Accelerated tax depreciation US$m	Fair value gains/ losses US$m	Losses US$m	Employee benefits US$m	Unremitted earnings in associates/ joint ventures US$m	Provisions and other temporary differences US$m	Total US$m
2017							
At 1st January	**(52.6)**	**0.1**	**1.1**	**0.5**	**(1.4)**	**(1.2)**	**(53.5)**
Exchange differences	**(1.2)**	**-**	**0.1**	**-**	**(0.1)**	**(0.1)**	**(1.3)**
(Charged)/credited to profit and loss	**(0.4)**	**-**	**6.6**	**-**	**-**	**2.4**	**8.6**
Charged to other comprehensive income	**-**	**(0.2)**	**-**	**(1.2)**	**-**	**-**	**(1.4)**
At 31st December	**(54.2)**	**(0.1)**	**7.8**	**(0.7)**	**(1.5)**	**1.1**	**(47.6)**
Deferred tax assets	**0.3**	**-**	**7.8**	**0.4**	**-**	**2.5**	**11.0**
Deferred tax liabilities	**(54.5)**	**(0.1)**	**-**	**(1.1)**	**(1.5)**	**(1.4)**	**(58.6)**
	(54.2)	**(0.1)**	**7.8**	**(0.7)**	**(1.5)**	**1.1**	**(47.6)**
2016							
At 1st January	(56.4)	0.5	1.1	-	(1.4)	(0.8)	(57.0)
Exchange differences	2.2	-	-	-	-	-	2.2
Credited/(charged) to profit and loss	1.6	-	-	-	-	(0.4)	1.2
(Charged)/credited to other comprehensive income	-	(0.4)	-	0.5	-	-	0.1
At 31st December	(52.6)	0.1	1.1	0.5	(1.4)	(1.2)	(53.5)
Deferred tax assets	0.1	0.1	1.1	1.2	-	0.1	2.6
Deferred tax liabilities	(52.7)	-	-	(0.7)	(1.4)	(1.3)	(56.1)
	(52.6)	0.1	1.1	0.5	(1.4)	(1.2)	(53.5)

Deferred tax balances predominantly comprise non-current items. Deferred tax assets and liabilities are netted when the taxes relate to the same taxation authority and where offsetting is allowed.

Deferred tax assets of US$48.8 million (2016: US$48.7 million) arising from unused tax losses of US$198.2 million (2016: US$186.7 million) have not been recognized in the financial statements. Included in the unused tax losses, US$165.5 million have no expiry date and the balance will expire at various dates up to and including 2037.

Deferred tax assets of US$1.1 million (2016: US$3.4 million) have not been recognized in relation to temporary differences in subsidiaries.

The Group has no unrecognized deferred tax liabilities arising on temporary differences associated with investments in subsidiaries at 31st December 2017 and 2016.

12. Pension Plans

The Group operates defined benefit pension plans in the main territories in which it operates, with the majority of the plans in Hong Kong. Most of the pension plans are final salary defined benefit plans calculated based on a members' length of service and their salaries in the final years leading up to retirement. In Hong Kong, the pension benefits are paid in one lump sum. With the exception of certain plans in Hong Kong, all the defined benefit plans are closed to new members. In addition, although all plans are impacted by the discount rate, liabilities are driven by salary growth.

The Group's defined benefit plans are either funded or unfunded, with the assets of the funded plans held independently of the Group's assets in separate trustee administered funds. Plan assets held in trusts are governed by local regulations and practice in each country. Responsibility for governance of the plans, including investment decisions and contribution schedules, lies jointly with the Company and the boards of trustees. The Group's major plans are valued by independent actuaries annually using the projected unit credit method.

The amounts recognized in the consolidated balance sheet are as follows:

	2017	2016
	US$m	US$m
Fair value of plan assets	**73.1**	65.6
Present value of funded obligations	**(68.2)**	(68.8)
	4.9	(3.2)
Present value of unfunded obligations	**(0.6)**	-
Net pension assets/(liabilities)	**4.3**	(3.2)
Analysis of net pension assets/(liabilities)		
Pension assets	**4.9**	-
Pension liabilities	**(0.6)**	(3.2)
	4.3	(3.2)

12. Pension Plans *continued*

The movement in the net pension assets/(liabilities) is as follows:

	Fair value of plan assets US$m	Present value of obligation US$m	Total US$m
2017			
At 1st January	**65.6**	**(68.8)**	**(3.2)**
Current service cost	**-**	**(4.5)**	**(4.5)**
Past service cost-plan amendments	**-**	**-**	**-**
Interest income/(expense)	**2.1**	**(2.3)**	**(0.2)**
	2.1	**(6.8)**	**(4.7)**
	67.7	**(75.6)**	**(7.9)**
Exchange differences	**(0.5)**	**0.5**	**-**
Remeasurements			
- return on plan assets, excluding amounts included in interest income/(expense)	**8.9**	**-**	**8.9**
- change in financial assumptions	**-**	**(1.8)**	**(1.8)**
- experience gains	**-**	**0.5**	**0.5**
- demographic assumption changes	**-**	**0.1**	**0.1**
	8.9	**(1.2)**	**7.7**
Contributions from employers	**4.5**	**-**	**4.5**
Contributions from plan participants	**0.8**	**(0.8)**	**-**
Benefit payments	**(8.5)**	**8.5**	**-**
Transfer from other plans	**0.2**	**(0.2)**	**-**
At 31st December	**73.1**	**(68.8)**	**4.3**
2016			
At 1st January	66.1	(66.1)	-
Current service cost	-	(4.3)	(4.3)
Past service cost-plan amendments	-	(0.3)	(0.3)
Interest income/(expense)	1.8	(1.8)	-
Administration expenses	(0.3)	-	(0.3)
	1.5	(6.4)	(4.9)
	67.6	(72.5)	(4.9)
Exchange differences	-	(0.1)	(0.1)
Remeasurements			
- return on plan assets, excluding amounts included in interest income/(expense)	0.6	-	0.6
- change in financial assumptions	-	1.9	1.9
- experience losses	-	(3.2)	(3.2)
- demographic assumption changes	-	(2.4)	(2.4)
	0.6	(3.7)	(3.1)
Contributions from employers	4.9	-	4.9
Contributions from plan participants	0.8	(0.8)	-
Benefit payments	(12.0)	12.0	-
Transfer to other plans	3.7	(3.7)	-
At 31st December	65.6	(68.8)	(3.2)

12. Pension Plans *continued*

The weighted average duration of the defined benefit obligation at 31st December 2017 is 5.6 years (2016: 5.3 years).

Expected maturity analysis of undiscounted pension benefits at 31st December is as follows:

	2017	2016
	US$m	US$m
Less than a year	**9.6**	9.5
Between one and two years	**11.3**	11.3
Between two and five years	**21.6**	20.6
Beyond five years	**106.8**	94.6
	149.3	136.0

The principal actuarial assumptions used for accounting purposes at 31st December are as follows:

	Hong Kong	
	2017	2016
	%	%
Discount rate	**2.90**	3.30
Salary growth rate	**4.75**	4.75

As participants of the plans relating to Hong Kong usually take lump sum amounts upon retirement, mortality is not a principal assumption for these plans.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

		Increase/(decrease) on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
		US$m	US$m
Discount rate	**1%**	**(3.7)**	**4.1**
Salary growth rate	**1%**	**3.6**	**(3.3)**

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied when calculating the pension liability recognized within the balance sheet.

12. Pension Plans *continued*

The analysis of the fair value of plan assets at 31st December is as follows:

	Asia Pacific US$m	Europe US$m	North America US$m	Global US$m	Total US$m
2017					
Quoted investments					
Equity instruments	**5.1**	**-**	**-**	**-**	**5.1**
Investment funds	**16.0**	**4.4**	**13.3**	**10.1**	**43.8**
	21.1	**4.4**	**13.3**	**10.1**	**48.9**
Unquoted investments					
Investment funds	**0.6**	**0.5**	**0.8**	**21.9**	**23.8**
Total investments	**21.7**	**4.9**	**14.1**	**32.0**	**72.7**
Cash and cash equivalents					**0.4**
					73.1
2016					
Quoted investments					
Equity instruments	5.0	-	-	-	5.0
Investment funds	10.1	4.1	11.3	7.5	33.0
	15.1	4.1	11.3	7.5	38.0
Unquoted investments					
Investment funds	0.6	0.3	0.3	21.8	23.0
Total investments	15.7	4.4	11.6	29.3	61.0
Cash and cash equivalents					4.6
					65.6

The defined benefit plans in Hong Kong have strategic asset allocation for its closed plans. The closed plans have an equity/debt allocation of 55/45 split.

The strategic asset allocation is derived from the asset-liability modeling (‘ALM’) review, done triennially to ensure the plans can meet future funding and solvency requirements. The last ALM review was completed in 2015, with the new strategic asset allocations adopted in 2015. The next ALM review is scheduled for 2018.

12. Pension Plans *continued*

At 31st December 2017, the Hong Kong plans had assets of US$73.1 million (2016: US$65.6 million). These assets were invested 30% in Asia Pacific, 7% in Europe, 19% in North America with the balance of 44% invested in Global (2016: 26%, 7%, 19% and 48%, respectively). Within Asia Pacific, 30% was invested in Hong Kong equities. In 2017, 67% and 33% of the investments were in quoted and unquoted instruments respectively. In 2016, the split was 62% and 38% respectively. The high percentage of quoted instruments provides liquidity to fund drawdowns and benefit payments. Within the quoted equity allocation, the plan is well diversified in terms of sectors, with the top three being financials, technology and consumer goods with a combined fair value of US$3.8 million. In 2016, the top three sectors were financials, technology and industrials with a combined fair value of US$3.4 million.

Through its defined benefit pension plans, the Group is expected to be exposed to a number of risks such as asset volatility changes in bond yields and inflation risk, the most significant of which are detailed below:

Asset volatility
The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The Group's defined benefit plans hold a significant proportion of equities, which are expected to outperform corporate bonds in the long term while generating volatility and risk in the short term.

In Hong Kong, where the Group has closed plans, the assets and liabilities mix are distinct to reduce the level of investment risk to the plan. In 2017, the closed plans exited from commodities and increased allocations to hedge funds. The plans also reduced their allocations to global fixed income by holding cash and investing a portion to Asian fixed income to reduce volatility risks. Management believes the long-term nature of the plan liabilities and the strength of the Group supports a level of equity investment as part of the Group's long term strategy to manage the plans efficiently.

Change in bond yields
A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

Inflation risk
The majority of the Group's plan assets are unaffected by inflation.

The Group ensures that the investment positions are managed within an ALM framework that is developed to achieve long-term returns that are in line with the obligations under the pension schemes. Within the ALM framework, the Group's objective is to match assets to the pension obligations by investing in a well-diversified portfolio that generates sufficient risk-adjusted returns that match the benefit payments. The Group also actively monitors the duration and the expected yield of the investments to ensure it matches the expected cash outflows arising from the pension obligations.

Investments across the plans are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.

The Group maintains an active and regular contribution schedule across all the plans. The contributions to all its plans in 2017 were US$4.5 million and the estimated amount of contributions expected to be paid to all its plans in 2018 is US$4.8 million.

13. Debtors and Prepayments

	2017 US$m	2016 US$m
Trade debtors		
- third parties	**41.3**	38.5
- associates and joint ventures	**4.6**	4.0
	45.9	42.5
- provision for impairment	**(1.5)**	(1.8)
	44.4	40.7
Other debtors		
- third parties*	**55.1**	53.6
- associates and joint ventures	**2.8**	2.1
	57.9	55.7
- provision for impairment	**(2.1)**	(2.2)
	55.8	53.5
	100.2	94.2
Analysis by geographical area		
- Hong Kong	**21.4**	20.1
- Other Asia	**12.2**	17.0
- Europe	**48.5**	39.6
- The Americas	**18.1**	17.5
	100.2	94.2

* Included deposit of US$17.1 million (2016: US$12.1 million) in respect of the expansion project of Mandarin Oriental, Munich, pending transfer of title in the underlying land.

Trade and other debtors are stated at amortized cost. The fair values of short-term debtors approximate their carrying amounts.

	2017 US$m	2016 US$m
Fair value		
- trade debtors	**44.4**	40.7
- other debtors**	**21.1**	25.1
	65.5	65.8

** Excluding prepayments, rental and other deposits.

The average credit period on provision of services varies among Group businesses and is generally not more than 30 days. Before accepting any new customer, individual Group business assesses the potential customer's credit quality and sets credit limits by customer using internal credit scoring systems. These limits and scoring are reviewed periodically.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payment are considered indicators that the debtor is impaired. An allowance for impairment of trade debtors and other debtors is made based on the estimated irrecoverable amount determined by reference to past default experience.

13. Debtors and Prepayments *continued*

At 31st December 2017, trade debtors of US$1.5 million (2016: US$2.3 million) and other debtors of US$2.1 million (2016: US$2.5 million) were impaired. The amounts of the provision were US$1.5 million (2016: US$1.8 million) and US$2.1 million (2016: US$2.2 million), respectively. It was assessed that a portion of the debtors is expected to be recoverable. The ageing analysis of these debtors is as follows:

	Trade debtors		Other debtors	
	2017	2016	**2017**	2016
	US$m	US$m	**US$m**	US$m
Below 30 days	**0.1**	0.7	**0.6**	0.3
Between 31 and 60 days	**0.2**	-	**0.4**	-
Between 61 and 90 days	**-**	-	**0.3**	-
Over 90 days	**1.2**	1.6	**0.8**	2.2
	1.5	2.3	**2.1**	2.5

At 31st December 2017, trade debtors of US$9.7 million (2016: US$13.9 million) and other debtors of US$2.7 million (2016: US$2.1 million), respectively, were past due but not impaired. The ageing analysis of these debtors is as follows:

	Trade debtors		Other debtors	
	2017	2016	**2017**	2016
	US$m	US$m	**US$m**	US$m
Below 30 days	**6.8**	7.9	**2.5**	1.0
Between 31 and 60 days	**1.6**	1.9	**0.2**	0.5
Between 61 and 90 days	**0.8**	0.8	**-**	0.2
Over 90 days	**0.5**	3.3	**-**	0.4
	9.7	13.9	**2.7**	2.1

The risk of trade debtors and other debtors that are neither past due nor impaired at 31st December 2017 becoming impaired is low as they have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Movements in the provisions for impairment are as follows:

	Trade debtors		Other debtors	
	2017	2016	**2017**	2016
	US$m	US$m	**US$m**	US$m
At 1st January	**(1.8)**	(1.6)	**(2.2)**	(2.4)
Additional provisions	**-**	(0.6)	**(0.8)**	-
Unused amounts reversed	**-**	0.3	**-**	0.2
Amounts written off	**0.3**	0.1	**0.9**	-
At 31st December	**(1.5)**	(1.8)	**(2.1)**	(2.2)

13. Debtors and Prepayments *continued*

Other debtors are further analyzed as follows:

	2017	2016
	US$m	US$m
Other amounts due from associates and joint ventures	**2.8**	2.1
Other receivables	**18.3**	23.0
Financial assets	**21.1**	25.1
Prepayments	**13.8**	12.1
Rental and other deposits	**20.8**	16.2
Other	**0.1**	0.1
	55.8	53.5

No debtors and prepayments have been pledged as security.

14. Bank and Cash Balances

	2017	2016
	US$m	US$m
Deposits with banks and financial institutions	**75.0**	96.7
Bank balances	**107.8**	84.9
Cash balances	**1.1**	1.0
	183.9	182.6
Analysis by currency		
- Euro	**26.9**	12.2
- Hong Kong dollar	**16.1**	16.9
- Indonesian rupiah	**13.4**	13.8
- Japanese yen	**19.0**	16.7
- Swiss franc	**4.4**	3.1
- United Kingdom sterling	**15.1**	25.6
- United States dollar	**81.8**	89.0
- Other	**7.2**	5.3
	183.9	182.6

The weighted average interest rate on deposits with banks and financial institutions is 1.1% (2016: 0.9%) per annum.

15. Creditors and Accruals

	2017 US$m	2016 US$m
Trade creditors	**33.8**	32.9
Accruals	**76.5**	64.8
Rental and other refundable deposits	**12.2**	12.1
Derivative financial instruments *(refer note 24)*	**-**	0.6
Other creditors	**23.8**	24.3
Financial liabilities	**146.3**	134.7
Rental income received in advance	**3.0**	3.4
Other income received in advance	**2.1**	2.0
	151.4	140.1
Analysis by currency		
- Euro	**17.8**	16.6
- Hong Kong dollar	**49.0**	47.6
- Japanese yen	**12.3**	11.9
- Swiss franc	**5.2**	5.1
- United Kingdom sterling	**11.4**	8.6
- United States dollar	**50.5**	46.0
- Other	**5.2**	4.3
	151.4	140.1

Creditors and accruals are stated at amortized cost. Their fair values approximate their carrying amounts.

16. Borrowings

	2017 Carrying amount US$m	2017 Fair value US$m	2016 Carrying amount US$m	2016 Fair value US$m
Current				
- bank overdrafts	**-**	**-**	0.1	0.1
Current portion of long-term borrowings				
- bank loans	**-**	**-**	0.6	0.6
- other borrowings	**2.6**	**2.6**	0.1	0.1
- tax increment financing *(refer note 17)*	**-**	**-**	1.7	1.7
	2.6	**2.6**	2.4	2.4
Current borrowings	**2.6**	**2.6**	2.5	2.5
Long-term borrowings				
- bank loans	**506.5**	**506.5**	473.3	473.3
- other borrowings	**1.6**	**1.6**	4.1	4.1
Long-term borrowings	**508.1**	**508.1**	477.4	477.4
	510.7	**510.7**	479.9	479.9

The fair values are estimated using the expected future payments discounted at market interest rate less than 0.1% (2016: less than 0.1%) per annum. This is in line with the definition of 'observable current market transactions' under the fair value measurement hierarchy. The fair value of current borrowings approximates their carrying amount, as the impact of discounting is not significant.

16. Borrowings *continued*

	2017	2016
	US$m	US$m
Secured	**508.2**	475.6
Unsecured	**2.5**	4.3
	510.7	479.9

Borrowings of US$508.2 million (2016: US$475.6 million) are secured against the tangible fixed assets of certain subsidiaries. The book value of these tangible fixed assets at 31st December 2017 was US$477.7 million (2016: US$457.9 million).

The borrowings at 31st December are further summarized as follows:

	Fixed rate borrowings				
	Weighted average interest rates %	Weighted average period outstanding **Years**	**US$m**	Floating rate borrowings **US$m**	Total **US$m**
2017					
Hong Kong dollar	**2.7**	**1.5**	**118.3**	**302.5**	**420.8**
Swiss franc	**2.6**	**14.0**	**1.7**	**2.5**	**4.2**
United Kingdom sterling	**1.5**	**-**	**-**	**85.7**	**85.7**
			120.0	**390.7**	**510.7**
2016					
Euro	2.0	0.4	0.6	-	0.6
Hong Kong dollar	2.5	1.5	119.3	305.0	424.3
Swiss franc	2.6	15.0	1.7	2.5	4.2
United Kingdom sterling	1.4	-	-	49.1	49.1
United States dollar	6.0	0.3	1.7	-	1.7
			123.3	356.6	479.9

The weighted average interest rates and period of fixed rate borrowings are stated after taking into account of hedging transactions *(refer note 24).*

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at 31st December after taking into account hedging transactions are as follows:

	2017	2016
	US$m	US$m
Within one year	**390.7**	413.8
Between one and two years	**118.3**	-
Between two and three years	**-**	64.4
Between three and four years	**-**	-
Between four and five years	**-**	-
Beyond five years	**1.7**	1.7
	510.7	479.9

16. Borrowings *continued*

The movement in borrowings are as follows:

	Bank overdrafts US$m	Long-term borrowings US$m	Total US$m
2017			
At 1st January	**0.1**	**479.8**	**479.9**
Exchange differences	**-**	**2.6**	**2.6**
Change in bank overdrafts	**(0.1)**	**-**	**(0.1)**
Drawdown of borrowings	**-**	**30.8**	**30.8**
Repayment of borrowings	**-**	**(2.5)**	**(2.5)**
At 31st December	**-**	**510.7**	**510.7**
2016			
At 1st January	-	440.4	440.4
Exchange differences	-	(10.5)	(10.5)
Change in bank overdrafts	0.1	-	0.1
Drawdown of borrowings	-	51.5	51.5
Repayment of borrowings	-	(1.6)	(1.6)
At 31st December	0.1	479.8	479.9

17. Tax Increment Financing

	2017 US$m	2016 US$m
Netted off against the net book value of the property *(refer note 9)*	21.3	22.2
Loan *(refer note 16)*	-	1.7
	21.3	23.9

A development agreement was entered into between one of the Group's subsidiaries and the District of Columbia ('District'), pursuant to which the District agreed to provide certain funds to the subsidiary out of the net proceeds obtained through the issuance and sale of certain tax increment financing bonds ('TIF Bonds') for the development and construction of Mandarin Oriental, Washington D.C.

The District agreed to contribute to the subsidiary US$33.0 million through the issuance of TIF Bonds in addition to US$1.7 million issued in the form of a loan, bearing simple interest at an annual rate of 6.0% which was repaid on maturity on 10th April 2017.

The receipt of the TIF Bonds has been treated as a government grant and netted off against the net book value in respect of the property.

18. Segment Information

Set out below is an analysis of the Group's non-current assets, excluding other investments, deferred tax assets, pension assets and derivative financial instruments, by reportable segment.

	2017	2016
	US$m	US$m
Analysis by geographical area		
- Hong Kong	**372.3**	380.8
- Other Asia	**121.2**	105.5
- Europe	**937.8**	810.3
- The Americas	**266.2**	263.6
	1,697.5	1,560.2

19. Share Capital

	Ordinary shares in millions		**2017**	2016
	2017	2016	**US$m**	US$m
Authorized				
Shares of US¢5.00 each	**1,500.0**	1,500.0	**75.0**	75.0
Issued and fully paid				
At 1st January	**1,255.9**	1,255.9	**62.8**	62.8
Issued under share-based long-term incentive plans	**2.7**	-	**0.1**	-
At 31st December	**1,258.6**	1,255.9	**62.9**	62.8

20. Share Premium

	2017	2016
	US$m	US$m
At 1st January	**490.4**	490.3
Issued under share-based long-term incentive plans	**0.6**	-
Transfer from capital reserves	**2.9**	0.1
At 31st December	**493.9**	490.4

21. Share-based Long-Term Incentive Plans

Share-based long-term incentive plans have been set up to provide incentives for selected executives. Awards can take the form of share options with an exercise price based on the then prevailing market prices or such other price set by the Directors or share awards which will vest free of payment. Awards normally vest on or after the third anniversary of the date of grant and may be subject to the achievement of performance conditions.

i) The Mandarin Oriental Share-based Long-term Incentive Plan (the '2014 Plan') was adopted by the Company on 6th March 2014. Under these awards, the free shares are received by the participants to the extent the award vests. Conditions, if any, are at the discretion of the Directors. During 2017, no conditional share awards (2016: 1,976,000 shares) were awarded under the 2014 Plan. The fair value of the share awards granted in 2016 was US$2.2 million. The inputs into the discounted cash flow valuation model were share price of US$1.30 per share at the grant date, dividend yield of 4.6% and annual risk-free interest rate of 1.2%.

21. Share-based Long-Term Incentive Plans *continued*

Movements of the outstanding conditional awards during the year:

	Conditional awards in millions	
	2017	2016
At 1st January	**5.3**	3.5
Granted	**-**	2.0
Released	**(1.7)**	-
Cancelled	**(0.1)**	(0.2)
At 31st December	**3.5**	5.3

Outstanding conditional awards at 31st December:

	Ordinary shares in millions	
Awards vest date	**2017**	2016
2017	**-**	1.8
2018	**1.6**	1.6
2019	**1.9**	1.9
Total outstanding	**3.5**	5.3

ii) Prior to the adoption of the 2014 Plan, The Mandarin Oriental International Share Option Plan 2005 provided selected executives with options to purchase ordinary shares in the Company. The exercise price of the granted options was based on the average market price for the five trading days immediately preceding the date of grant of the options. Options are vested over a period of up to three years and are exercisable for up to ten years following the date of grant.

Movements of the outstanding options during the year:

	2017		2016	
	Weighted average exercise price US$	**Options in millions**	Weighted average exercise price US$	Options in millions
At 1st January	**1.61**	**31.4**	1.61	32.5
Exercised	**1.45**	**(7.8)**	1.20	(0.3)
Cancelled	**1.66**	**(15.3)**	1.82	(0.8)
At 31st December	**1.67**	**8.3**	1.61	31.4

The average share price during the year was US$1.78 (2016: US$1.36) per share.

Outstanding options at 31st December:

	Exercise price	Ordinary shares in millions	
Expiry date	US$	**2017**	2016
2017		**-**	3.6
2018	1.08-1.63	**0.5**	6.8
2019	0.66	**0.2**	1.2
2020	1.36	**0.7**	3.0
2021	1.99	**2.8**	4.3
2022	1.61	**2.5**	6.7
2023	1.57	**1.6**	5.8
Total outstanding		**8.3**	31.4
of which exercisable		**8.3**	31.4

22. Dividends

	2017	2016
	US$m	US$m
Final dividend in respect of 2016 of US¢2.50 (2015: US¢3.00) per share	**31.4**	37.7
Interim dividend in respect of 2017 of US¢1.50 (2016: US¢1.50) per share	**18.9**	18.8
	50.3	56.5

A final dividend in respect of 2017 of US¢1.50 (2016: US¢2.50) per share amounting to a total of US$18.9 million (2016: US$31.4 million) is proposed by the Board. The dividend proposed will not be accounted for until it has been approved at the 2018 Annual General Meeting. The amount will be accounted for as an appropriation of revenue reserves in the year ending 31st December 2018.

23. Notes to Consolidated Cash Flow Statement

	2017	2016
	US$m	US$m
a) Other non-cash items		
Share-based payment	**2.3**	2.2
Others	**(2.1)**	0.5
	0.2	2.7
b) Movements in working capital		
Increase in stocks	**(0.2)**	(0.2)
Increase in debtors and prepayments	**(0.3)**	(8.2)
Increase in creditors and accruals	**9.9**	4.6
Increase in pension obligations	**0.2**	-
	9.6	(3.8)

c) The Group paid a further US$3.1 million instalment in respect of the land purchase price and related cost for the expansion of Mandarin Oriental, Munich in 2017 (2016: nil). Cumulative costs paid by the Group amounted to US$20.0 million (2016: US$16.9 million), the majority of which have been included within Other Debtors pending transfer of title in the underlying land.

d) In April 2016, the Group completed its US$140.0 million acquisition of Mandarin Oriental, Boston, a hotel that the Group has managed since its opening in 2008. The consideration of US$140.0 million represented the fair values of the tangible assets acquired at the acquisition date. There was no goodwill arising on acquisition.

e) During 2017, the Group provided shareholder loans to Mandarin Oriental, New York of US$9.1 million (2016: nil) and Hotel Ritz, Madrid of US$2.3 million (2016: US$2.8 million).

f) During 2017, the Group received repayment on its shareholder loan previously provided to Hotel Ritz, Madrid of US$0.8 million (2016: nil) and Mandarin Oriental, Miami of US$0.5 million (2016: US$0.9 million).

g) Analysis of balances of cash and cash equivalents

	2017	2016
	US$m	US$m
Bank and cash balances *(refer note 14)*	**183.9**	182.6
Bank overdrafts *(refer note 16)*	**-**	(0.1)
	183.9	182.5

24. Derivative Financial Instruments

The fair values of derivative financial instruments at 31st December are as follows:

	2017 Positive fair value **US$m**	**2017** Negative fair value **US$m**	2016 Positive fair value US$m	2016 Negative fair value US$m
Designated as cash flow hedges				
- interest rate swaps and caps	**0.5**	**0.2**	-	0.6
At 31st December	**0.5**	**0.2**	-	0.6
Non-current	**0.5**	**0.2**	-	-
Current *(refer note 15)*	**-**	**-**	-	0.6
At 31st December	**0.5**	**0.2**	-	0.6

The notional principal amounts of the outstanding interest rate swap and cap contracts at 31st December 2017 were US$236.1 million (2016: US$232.9 million).

At 31st December 2017, the fixed interest rates relating to interest rate swaps and caps varied from 1.8% to 2.5% (2016: 1.9% to 2.9%) per annum.

The fair values of interest rate swaps are based on the estimated cash flows discounted at market rates ranging from 1.3% to 1.7% (2016: 0.7% to 1.9%) per annum.

25. Commitments

	2017 **US$m**	2016 US$m
Capital commitments		
Authorized not contracted		
- other	**147.6**	134.4
Contracted not provided		
- joint ventures	**55.1**	36.6
- other	**51.6**	99.9
	106.7	136.5
	254.3	270.9
Operating lease commitments		
Total commitments under operating leases		
- due within one year	**7.2**	7.0
- due between one and two years	**6.7**	6.6
- due between two and three years	**6.4**	6.5
- due between three and four years	**5.8**	6.3
- due between four and five years	**5.8**	6.2
- due beyond five years	**75.7**	81.7
	107.6	114.3

No future sublease payments are receivable relating to the above operating leases (2016: nil).

Operating lease commitments principally include payments in respect of the Group's hotel in Tokyo.

In addition, the Group has operating lease commitments with rentals determined in relation to sales. It is not possible to quantify accurately future rentals payable under such leases.

26. Related Party Transactions

The parent company of the Group is Jardine Strategic Holdings Limited ('JSH') and the ultimate holding company of the Group is Jardine Matheson Holdings Limited ('JMH'). Both companies are incorporated in Bermuda.

In the normal course of business, the Group undertakes a variety of transactions with its associates and joint ventures and with JMH and its subsidiaries, associates and joint ventures. The more significant of these transactions are described below:

During 2017, the Group managed six (2016: six) associate and joint venture hotels and received management fees of US$13.6 million (2016: US$13.2 million) based on long-term management agreements on normal commercial terms.

The Group uses Jardine Lloyd Thompson ('JLT'), an associate of JMH, to place certain of its insurance. Brokerage fees and commissions, net of rebates, paid by the Group in 2017 to JLT amounted to US$1.2 million (2016: US$0.9 million).

The Group provides hotel management services to Hongkong Land ('HKL'), a subsidiary of JSH. Total management fees received from HKL in 2017 amounted to US$2.5 million (2016: US$2.1 million), based on long-term management agreements on normal commercial terms.

In addition, the Group paid a management fee of US$0.3 million (2016: US$0.3 million) to Jardine Matheson Limited ('JML'), a subsidiary of JMH, being a fee of 0.5% of the Group's net profit in consideration for certain management consultancy services provided by JML. The Group did not have any amount payable to JML as at 31st December 2017 (2016: nil).

The outstanding balances with associates and joint ventures are set out in debtors and prepayments in note 13.

Details of Directors' emoluments (being the key management personnel compensation) are shown on page [●] under the heading of 'Directors' appointment, retirement, remuneration and service contracts'.

27. Summarized Balance Sheet of the Company

Included below is certain summarized balance sheet information of the Company disclosed in accordance with Bermuda Law.

	2017	2016
	US$m	US$m
Subsidiaries	**964.3**	949.3
Net current liabilities	**(2.2)**	(1.9)
Net assets	**962.1**	947.4
Share capital *(refer note 19)*	**62.9**	62.8
Share premium *(refer note 20)*	**493.9**	490.4
Revenue and other reserves	**405.3**	394.2
Shareholders' funds	**962.1**	947.4

Subsidiaries are shown at cost less amount provided, and include amounts due from and due to subsidiaries.

28. Principal subsidiaries, Associates, Joint Ventures and Managed Hotels

The principal subsidiaries, associates, joint ventures and managed hotels of the Group at 31st December 2017 are set out below.

Principal place of business	Name of entity	Nature of business	Attributable interest % 2017	Attributable interest % 2016	Proportion of ordinary shares and voting powers at 31st December 2017 held by the Group %	Proportion of ordinary shares and voting powers at 31st December 2017 held by non-controlling interests %	Hotel profile
SUBSIDIARIES							
Hong Kong	Mandarin Oriental Hotel Group International Limited	Management	**100**	100	**100**	**-**	-
Hong Kong	Mandarin Oriental Hotel Group Limited	Management	**100**	100	**100**	**-**	-
Hong Kong	Mandarin Oriental, Hong Kong Limited	Owner: Mandarin Oriental, Hong Kong	**100**	100	**100**	**-**	501 rooms. Lease expiry 2895
Hong Kong	Excelsior Hotel (BVI) Limited	Owner: The Excelsior, Hong Kong	**100**	100	**100**	**-**	869 rooms. Lease expiry 2842
Japan	Mandarin Oriental Tokyo KK	Owner: Mandarin Oriental, Tokyo	**100**	100	**100**	**-**	179 rooms. Lease expiry 2035
Indonesia	P.T. Jaya Mandarin Agung	Owner: Mandarin Oriental, Jakarta	**96.9**	96.9	**96.9**	**3.1**	272 rooms. Lease expiry 2023
United Kingdom	Mandarin Oriental Hyde Park Limited	Owner: Mandarin Oriental Hyde Park, London	**100**	100	**100**	**-**	181 rooms. Freehold
Switzerland	Société Immobilière de Mandarin Oriental (Genèva) SA	Owner: Mandarin Oriental, Geneva	**85.3**	85.3	**85.3**	**14.7**	189 rooms. Lease expiry 2040
Switzerland	Société pour l' Exploitation de Mandarin Oriental (Genèva) SA		**100**	100	**100**	**-**	-
Germany	Dinavest International Holdings B.V.	Owner: Mandarin Oriental, Munich	**100**	100	**100**	**-**	73 rooms. Freehold
France	MOHG Hotel (Paris) Sarl	Owner: Mandarin Oriental, Paris	**100**	100	**100**	**-**	138 rooms. Freehold
United States	Boylston Street Hotel LLC	Owner: Mandarin Oriental, Boston	**100**	100	**100**	**-**	148 rooms. Freehold
United States	Portals Hotel Site LLC	Owner: Mandarin Oriental, Washington D.C.	**83.6**	80	**83.6**	**16.4**	373 rooms. Freehold
ASSOCIATES AND JOINT VENTURES							
Singapore	Marina Bay Hotel Private Limited	Owner: Mandarin Oriental, Singapore	**50**	50	**50**	**50**	527 rooms. Lease expiry 2079
Thailand	OHTL PCL	Owner: Mandarin Oriental, Bangkok	**47.6**	47.6	**47.6**	**52.4**	368 rooms. Various freehold/leasehold
Malaysia	Asas Klasik Sdn Bhd	Owner: Mandarin Oriental, Kuala Lumpur	**25**	25	**25**	**75**	630 rooms. Freehold
Thailand	Chaophaya Development Corporation Limited	Owner: River City Shopping Complex	**49**	49	**49**	**51**	-
Spain	Ritz Madrid, S.A.	Owner: Hotel Ritz, Madrid	**50**	50	**50**	**50**	162 rooms. Freehold
United States	ICD Columbus Centre Hotel LLC	Owner: Mandarin Oriental, New York	**25**	25	**25**	**75**	244 rooms. Freehold
United States	Swire Brickell Key Hotel Limited	Owner: Mandarin Oriental, Miami	**25**	25	**25**	**75**	326 rooms. Freehold
MANAGED HOTELS							
Hong Kong	The Landmark Mandarin Oriental, Hong Kong		**-**	-	**-**	**-**	111 rooms
Macau	Mandarin Oriental, Macau		**-**	-	**-**	**-**	213 rooms
China	Mandarin Oriental, Sanya		**-**	-	**-**	**-**	296 rooms
China	Mandarin Oriental, Guangzhou		**-**	-	**-**	**-**	263 rooms
China	Mandarin Oriental Pudong, Shanghai		**-**	-	**-**	**-**	362 rooms
Taiwan	Mandarin Oriental, Taipei		**-**	-	**-**	**-**	296 rooms
Czech Republic	Mandarin Oriental, Prague		**-**	-	**-**	**-**	99 rooms
Spain	Mandarin Oriental, Barcelona		**-**	-	**-**	**-**	120 rooms
Turkey	Mandarin Oriental, Bodrum		**-**	-	**-**	**-**	129 rooms
Italy	Mandarin Oriental, Milan		**-**	-	**-**	**-**	104 rooms
Morocco	Mandarin Oriental, Marrakech		**-**	-	**-**	**-**	63 rooms
United States	Mandarin Oriental, Las Vegas		**-**	-	**-**	**-**	392 rooms
United States	Mandarin Oriental, Atlanta		**-**	-	**-**	**-**	127 rooms
Chile	Hotel Santiago		**-**	-	**-**	**-**	310 rooms
Saint Vincent and the Grenadines	Pink Sands Club, Canouan		**-**	-	**-**	**-**	38 rooms