MANDARIN ORIENTAL INTERNATIONAL LIMITED

Preliminary Financial Statements

for the year ended 31st December 2021

Consolidated Profit and Loss Account

for the year ended 31st December 2021

	Note	2021 Underlying business performance US$m	2021 Non-trading items US$m	2021 Total US$m	2020 Underlying business performance US$m	2020 Non-trading items US$m	2020 Total US$m
Revenue	2	**316.9**	**–**	**316.9**	183.7	–	183.7
Cost of sales		**(261.3)**	**–**	**(261.3)**	(233.0)	–	(233.0)
Gross profit/(loss)		**55.6**	**–**	**55.6**	(49.3)	–	(49.3)
Selling and distribution costs		**(20.7)**	**–**	**(20.7)**	(31.4)	–	(31.4)
Administration expenses		**(104.1)**	**–**	**(104.1)**	(97.5)	–	(97.5)
Other operating income/(expense)		**43.2**	**0.6**	**43.8**	(7.6)	0.7	(6.9)
Change in fair value of investment property under development	12	**–**	**(73.9)**	**(73.9)**	–	(474.9)	(474.9)
Operating loss	3	**(26.0)**	**(73.3)**	**(99.3)**	(185.8)	(474.2)	(660.0)
Financing charges		**(13.8)**	**–**	**(13.8)**	(14.2)	–	(14.2)
Interest income		**1.1**	**–**	**1.1**	1.6	–	1.6
Net financing charges	4	**(12.7)**	**–**	**(12.7)**	(12.6)	–	(12.6)
Share of results of associates and joint ventures	5	**(21.8)**	**–**	**(21.8)**	(26.8)	–	(26.8)
Loss before tax		**(60.5)**	**(73.3)**	**(133.8)**	(225.2)	(474.2)	(699.4)
Tax	6	**(7.6)**	**–**	**(7.6)**	19.4	–	19.4
Loss after tax		**(68.1)**	**(73.3)**	**(141.4)**	(205.8)	(474.2)	(680.0)
Attributable to:							
Shareholders of the Company	7&8	**(68.1)**	**(73.3)**	**(141.4)**	(205.9)	(474.2)	(680.1)
Non-controlling interests		**–**	**–**	**–**	0.1	–	0.1
		(68.1)	**(73.3)**	**(141.4)**	(205.8)	(474.2)	(680.0)
		US¢		**US¢**	US¢		US¢
Loss per share	7						
– basic		**(5.39)**		**(11.19)**	(16.30)		(53.84)
– diluted		**(5.39)**		**(11.19)**	(16.30)		(53.84)

Consolidated Statement of Comprehensive Income

for the year ended 31st December 2021

	Note	**2021 US$m**	2020 US$m
Loss for the year		**(141.4)**	(680.0)
Other comprehensive (expense)/income			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit plans	16	**3.5**	5.2
Tax on items that will not be reclassified	6	**(0.6)**	(0.9)
		2.9	4.3
Items that may be reclassified subsequently to profit or loss:			
Net exchange translation differences			
– net (losses)/gains arising during the year		**(70.7)**	80.0
Cash flow hedges			
– net gains/(losses) arising during the year		**11.6**	(11.4)
Tax relating to items that may be reclassified	6	**(1.3)**	1.9
Share of other comprehensive (expense)/income of associates and joint ventures		**(2.0)**	1.8
		(62.4)	72.3
Other comprehensive (expense)/income for the year, net of tax		**(59.5)**	76.6
Total comprehensive expense for the year		**(200.9)**	(603.4)
Attributable to:			
Shareholders of the Company		**(200.7)**	(603.9)
Non-controlling interests		**(0.2)**	0.5
		(200.9)	(603.4)

Consolidated Balance Sheet

at 31st December 2021

	Note	2021 US$m	2020 US$m
Net assets			
Intangible assets	9	**46.7**	45.4
Tangible assets	10	**1,098.2**	1,181.5
Right-of-use assets	11	**273.3**	297.4
Investment property under development	12	**2,462.0**	2,528.3
Associates and joint ventures	13	**201.5**	231.6
Other investments	14	**16.5**	16.1
Deferred tax assets	15	**13.7**	17.8
Pension assets	16	**7.1**	5.5
Non-current debtors	17	**8.9**	5.1
Non-current assets		**4,127.9**	4,328.7
Stocks		**5.3**	6.0
Current debtors	17	**68.8**	71.7
Current tax assets		**2.2**	3.1
Bank and cash balances	18	**212.8**	164.6
Current assets		**289.1**	245.4
Current creditors	19	**(157.2)**	(144.6)
Current borrowings	20	**(2.5)**	(64.2)
Current lease liabilities	21	**(6.3)**	(7.0)
Current tax liabilities		**(9.9)**	(10.1)
Current liabilities		**(175.9)**	(225.9)
Net current assets		**113.2**	19.5
Long-term borrowings	20	**(727.8)**	(606.6)
Non-current lease liabilities	21	**(147.4)**	(170.1)
Deferred tax liabilities	15	**(50.1)**	(47.1)
Pension liabilities	16	**(0.3)**	(0.3)
Non-current creditors	19	**(3.2)**	(10.9)
Non-current liabilities		**(928.8)**	(835.0)
		3,312.3	3,513.2
Total equity			
Share capital	24	**63.2**	63.2
Share premium	25	**500.5**	499.7
Revenue and other reserves		**2,745.1**	2,946.6
Shareholders' funds		**3,308.8**	3,509.5
Non-controlling interests		**3.5**	3.7
		3,312.3	3,513.2

Approved by the Board of Directors

James Riley
Matthew Bishop
Directors
3rd March 2022

Consolidated Statement of Changes in Equity

for the year ended 31st December 2021

	Share capital US$m	Share premium US$m	Capital reserves US$m	Revenue reserves US$m	Asset revaluation 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
2021										
At 1st January	**63.2**	**499.7**	**260.3**	**(240.3)**	**2,943.4**	**(9.7)**	**(7.1)**	**3,509.5**	**3.7**	**3,513.2**
Total comprehensive income	–	–	–	**(137.8)**	–	**10.6**	**(73.5)**	**(200.7)**	**(0.2)**	**(200.9)**
Transfer	–	**0.8**	**(1.2)**	**0.4**	–	–	–	–	–	–
At 31st December	**63.2**	**500.5**	**259.1**	**(377.7)**	**2,943.4**	**0.9**	**(80.6)**	**3,308.8**	**3.5**	**3,312.3**
2020										
At 1st January	63.2	499.7	260.3	434.8	2,943.4	–	(88.4)	4,113.0	3.6	4,116.6
Total comprehensive income	–	–	–	(675.5)	–	(9.7)	81.3	(603.9)	0.5	(603.4)
Change in interest in a subsidiary	–	–	–	0.4	–	–	–	0.4	(0.4)	–
At 31st December	63.2	499.7	260.3	(240.3)	2,943.4	(9.7)	(7.1)	3,509.5	3.7	3,513.2

Revenue reserves as at 31st December 2021 included cumulative fair value loss on the investment property under development of US$616.1 million (2020: US$542.2 million).

Consolidated Cash Flow Statement

for the year ended 31st December 2021

	Note	2021 US$m	2020 US$m
Operating activities			
Operating loss	3	**(99.3)**	(660.0)
Depreciation, amortisation and impairment		**68.5**	124.2
Other non-cash items	28a	**71.2**	472.8
Movements in working capital	28b	**0.9**	1.4
Interest received		**0.4**	1.8
Interest and other financing charges paid		**(13.5)**	(14.1)
Tax paid		**(1.8)**	(9.6)
Cash flows from operating activities		**26.4**	(83.5)
Investing activities			
Purchase of tangible assets		**(15.3)**	(38.9)
Additions to investment property under development		**(19.7)**	(21.6)
Purchase of intangible assets		**(6.1)**	(5.3)
Refund on Munich expansion	28c	**13.0**	–
Purchase of other investments		**(0.3)**	(0.6)
Purchase of an associate	28d	**–**	(2.0)
Advance to associates and joint ventures	28e	**(7.1)**	(40.5)
Repayment of loans to associates and joint ventures	28f	**3.0**	0.4
Cash flows from investing activities		**(32.5)**	(108.5)
Financing activities			
Drawdown of borrowings	20	**130.6**	88.4
Repayment of borrowings	20	**(66.4)**	(0.1)
Principal elements of lease payments	28g	**(3.3)**	(6.0)
Cash flows from financing activities		**60.9**	82.3
Net increase/(decrease) in cash and cash equivalents		**54.8**	(109.7)
Cash and cash equivalents at 1st January		**164.6**	270.7
Effect of exchange rate changes		**(6.6)**	3.6
Cash and cash equivalents at 31st December	28h	**212.8**	164.6

Notes to the Financial Statements

1 Going concern and basis of preparation

a) Going concern

The Group's operations and financial performance were severely impacted by the unprecedented decline in both international and domestic travel since the COVID-19 pandemic began. Prior to the pandemic the Group had significant headroom in its committed debt facilities and cash balances available to finance operating losses, which was increased with new debt facilities in February 2021.

Operating conditions generally improved towards the end of 2021, with 34 hotels open in the second quarter and additions of two new hotels in Bosphorus, Istanbul and Shenzhen in August 2021 and January 2022 respectively. In 2021, the Group recorded a total cash inflow from operating activities of US$26 million, a significant improvement from a total cash outflow from operating activities of US$84 million in 2020.

A return of profitability by the Group will be dependent on the level of travel restrictions that are maintained by governments.

The Group's balance sheet is underpinned by equity interests in a number of prime hotel properties which are carried on the Group's balance sheet at historical cost less depreciation. Taking into account the market value of the Group's property interests, the adjusted shareholders' funds were US$5.0 billion at 31st December 2021.

At 31st December 2021, the Group had total liquidity of US$507 million, comprising US$294 million of undrawn committed facilities and US$213 million of cash balances. The Group's facilities are not subject to any cash flow covenants and had an average remaining tenor of 2.1 years. This robust liquidity position enables the Group to sustain a prolonged downturn in the hospitality industry should that eventuate as well as meet its capital commitments. Overall, the Group's balance sheet position remains strong.

In adopting the going concern basis for preparing the financial statements, the Directors have considered a stress-test cash flow forecast which assumes the majority of the Group's hotels operate at substantially reduced levels of business as a consequence of travel restrictions maintained by governments for a period of 12 months from the date of approval of the financial statements.

Having considered the outcome of the stress-test cash flow forecast, the Directors are of the opinion that the Group has sufficient resources to continue operating for a period of at least 12 months from the date of approval of the financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

1 Going concern and basis of preparation *continued*

b) 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.

Details of the Group's principal accounting policies are included in note 34.

The Group has adopted the following amendments for the annual reporting period commencing 1st January 2021.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 ***(effective 1st January 2021)***

The amendments provide practical expedient from certain requirements under the IFRSs as a result of the reform which affect the measurement of financial assets, financial liabilities and lease liabilities, and a number of reliefs for hedging relationships. The Group applied the amendments from 1st January 2021 and there is no significant impact on the Group's consolidated financial statements.

COVID-19 Related Rent Concessions beyond 30th June 2021: Amendment to IFRS 16 Leases ***(effective 1st April 2021)***

The Group adopted and applied the practical expedient of the COVID-19 Related Rent Concessions: Amendment to IFRS 16 Leases, published in June 2020 ('2020 amendment'), in the 2020 annual financial statements. The 2021 amendment extends the practical expedient in the 2020 amendment to eligible lease payments due on or before 30th June 2022. By using the 2021 amendment, the Group continues to apply the practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances, and does not assess these concessions as lease modifications.

Apart from the above, there are no other amendments which are effective in 2021 and relevant to the Group's operations, that have a significant impact on the Group's results, financial position and accounting policies.

The Group has not early adopted any standard, interpretation or amendments that have been issued but not yet effective *(refer note 35)*.

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 2.

2 Segmental information and revenue

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 has three (2020: three) distinct business activities: Hotel ownership, Hotel & Residences branding and management, and Property development which form the basis of its operating and reportable segments. The Property development segment represents the redevelopment of The Excelsior site as a commercial building following the closure of The Excelsior, Hong Kong on 31st March 2019 (the 'Causeway Bay site under development'). The redevelopment is expected to complete in 2025.

In addition, The Group is operated on a worldwide basis in three (2020: three) regions: Asia, Europe, Middle East and Africa ('EMEA'), and America. The Group's segmental information for non-current assets is set out in note 23.

	2021 US$m	2020 US$m
Analysis by business activity		
– Hotel ownership	**278.9**	161.4
– Hotel & Residences branding and management	**48.5**	27.1
– Less: intra-segment revenue	**(10.5)**	(4.8)
	316.9	183.7
Analysis by geographical area		
– Asia	**132.4**	96.9
– EMEA	**137.8**	66.1
– America	**46.7**	20.7
	316.9	183.7
From contracts with customers		
– Recognised at a point in time	**111.5**	72.5
– Recognised over time	**185.6**	94.8
	297.1	167.3
From other sources		
– Rental income	**19.8**	16.4
	316.9	183.7

Contract balances

Setup costs in order to secure long-term hotel management contracts are capitalised under intangible assets and amortised in profit and loss when the related revenue is recognised. Management reviews the capitalised costs on a regular basis and expects the setup costs to be recoverable.

Contract liabilities primarily relate to the advance consideration received from customers relating to gift cards and advance customer deposits for hotel services, for which revenue is recognised when the goods and services are provided to the customers.

Contract liabilities are further analysed as follows:

	2021 US$m	2020 US$m
Contract liabilities *(refer note 19)*		
– Gift cards	**11.2**	10.3
– Advance customer deposits and other	**12.1**	20.8
	23.3	31.1

2 Segmental information and revenue *continued*

Revenue recognised in relation to contract liabilities

Revenue recognised in the current year relating to carried-forward contract liabilities:

	2021 US$m	2020 US$m
Gift cards	**10.0**	10.4
Advance customer deposits and other	**11.8**	5.9
	21.8	16.3

Revenue expected to be recognised on unsatisfied contracts with customers

Timing of revenue to be recognised on unsatisfied performance obligations:

	Gift cards **US$m**	Advance customer deposits and other **US$m**	Total **US$m**
2021			
Within one year	**4.3**	**16.4**	**20.7**
Between one and two years	**4.6**	**1.7**	**6.3**
Between two and three years	**1.4**	**–**	**1.4**
Between three and four years	**0.6**	**–**	**0.6**
Between four and five years	**0.3**	**–**	**0.3**
	11.2	**18.1**	**29.3**
2020			
Within one year	4.0	24.2	28.2
Between one and two years	4.2	0.8	5.0
Between two and three years	1.3	–	1.3
Between three and four years	0.5	–	0.5
Between four and five years	0.3	–	0.3
	10.3	25.0	35.3

3 EBITDA (earnings before interest, tax, depreciation and amortisation) and operating loss from subsidiaries

	2021 US$m	2020 US$m
Analysis by business activity		
– Hotel ownership	25.9	(49.2)
– Hotel & Residences branding and management	16.6	(12.4)
Underlying EBITDA from subsidiaries	42.5	(61.6)
Non-trading items *(refer note 8)*		
Change in fair value of investment property under development	(73.9)	(474.9)
Change in fair value of other investments	0.6	0.7
	(73.3)	(474.2)
EBITDA from subsidiaries	(30.8)	(535.8)
Underlying depreciation, amortisation and impairment from subsidiaries	(68.5)	(124.2)
Operating loss	(99.3)	(660.0)
Analysis by business activity		
– Hotel ownership	26.5	(48.5)
– Hotel & Residences branding and management	16.6	(12.4)
– Property development	(73.9)	(474.9)
EBITDA from subsidiaries	(30.8)	(535.8)
– Hotel ownership	(34.0)	(158.7)
– Hotel & Residences branding and management	8.6	(26.4)
– Property development	(73.9)	(474.9)
Operating loss	(99.3)	(660.0)
Analysis by geographical area		
– Asia	(8.6)	(18.6)
– EMEA	59.7	(10.5)
– America	(8.6)	(32.5)
Underlying EBITDA from subsidiaries	42.5	(61.6)

The impact of the impairment of Mandarin Oriental, Geneva on EBITDA in 2020 included an accelerated depreciation for the leasehold property of US$41.9 million and an accelerated amortisation for the leasehold land of US$3.4 million. Taking into account a deferred tax credit of US$14.4 million *(refer note 6)*, the net impact of the impairment was US$30.9 million, which was reflected in the underlying loss of 2020.

3 EBITDA (earnings before interest, tax, depreciation and amortisation) and operating loss from subsidiaries *continued*

	2021 US$m	2020 US$m
The following items have been credited/(charged) in arriving at operating loss:		
Rental income *(refer note 10)*	**19.8**	16.4
Amortisation of intangible assets *(refer note 9)*	**(5.8)**	(13.7)
Depreciation and impairment of tangible assets *(refer note 10)*	**(55.0)**	(97.6)
Amortisation/depreciation and impairment of right-of-use assets *(refer note 11)*	**(7.7)**	(12.9)
Employee benefit (expense)/credit		
– salaries and benefits in kind	**(192.2)**	(176.2)
– defined benefit pension plans *(refer note 16)*	**(3.4)**	(3.6)
– defined contribution pension plans	**(1.4)**	(1.6)
	(197.0)	(181.4)
Net foreign exchange (losses)/gains	**(1.3)**	1.3
Expenses relating to low value leases	**(0.5)**	–
Expenses relating to short-term leases	**(0.9)**	(0.5)
Expenses relating to variable lease payments not included in lease liabilities	**(2.4)**	(2.1)
Subleases income	**–**	0.2
Auditors' remuneration		
– audit	**(1.6)**	(1.7)
– non-audit services	**(0.7)**	(0.7)
	(2.3)	(2.4)

In relation to the COVID-19 pandemic, the Group received government grants and rent concessions of US$35.8 million (2020: US$31.9 million) and US$3.4 million (2020: US$2.3 million) respectively for the year ended 31st December 2021. These subsidies were accounted for as other operating income.

4 Net financing charges

	2021 US$m	2020 US$m
Interest expense		
– bank loans	(9.8)	(11.2)
– interest on lease liabilities	(2.2)	(1.9)
Commitment and other fees	(1.8)	(1.1)
Financing charges	(13.8)	(14.2)
Interest income	1.1	1.6
Net financing charges	(12.7)	(12.6)

5 Share of results of associates and joint ventures

	EBITDA US$m	Depreciation and amortisation US$m	Operating (loss)/ profit US$m	Net financing charges US$m	Tax US$m	Net loss US$m
2021						
Analysis by business activity						
– Hotel ownership	(1.7)	(14.5)	(16.2)	(4.5)	(0.4)	(21.1)
– Other	(0.1)	(0.6)	(0.7)	–	–	(0.7)
	(1.8)	(15.1)	(16.9)	(4.5)	(0.4)	(21.8)
Analysis by geographical area						
– Asia	(2.2)	(10.0)	(12.2)	(2.3)	1.5	(13.0)
– EMEA	(2.5)	(2.8)	(5.3)	(0.7)	(1.9)	(7.9)
– America	2.9	(2.3)	0.6	(1.5)	–	(0.9)
	(1.8)	(15.1)	(16.9)	(4.5)	(0.4)	(21.8)
2020						
Analysis by business activity						
– Hotel ownership	(12.9)	(12.7)	(25.6)	(3.2)	2.4	(26.4)
– Other	0.3	(0.6)	(0.3)	(0.1)	–	(0.4)
	(12.6)	(13.3)	(25.9)	(3.3)	2.4	(26.8)
Analysis by geographical area						
– Asia	0.7	(10.2)	(9.5)	(1.6)	2.4	(8.7)
– EMEA	(4.4)	(0.4)	(4.8)	(0.1)	–	(4.9)
– America	(8.9)	(2.7)	(11.6)	(1.6)	–	(13.2)
	(12.6)	(13.3)	(25.9)	(3.3)	2.4	(26.8)

In relation to the COVID-19 pandemic, the results of associates and joint ventures included the Group's share of government grants and rent concessions of US$1.4 million (2020: US$3.7 million) and US$0.1 million (2020: US$0.1 million) respectively for the year ended 31st December 2021.

6 Tax

	2021 US$m	2020 US$m
Tax (charged)/credited to profit and loss is analysed as follows:		
– current tax	**(2.5)**	0.6
– deferred tax *(refer note 15)*	**(5.1)**	18.8
	(7.6)	19.4
Analysis by business activity		
– Hotel ownership	**(5.8)**	19.5
– Hotel & Residences branding and management	**(1.8)**	(0.1)
	(7.6)	19.4
Analysis by geographical area		
– Asia	**(2.0)**	0.5
– EMEA	**(4.8)**	20.6
– America	**(0.8)**	(1.7)
	(7.6)	19.4
Reconciliation between tax expense and tax at the applicable tax rate*:		
Tax at applicable tax rate	**27.3**	122.7
Income not subject to tax		
– change in fair value of other investments	**0.1**	0.1
– other items	**3.3**	0.4
Expenses not deductible for tax purposes		
– change in fair value of investment property under development	**(12.2)**	(78.3)
– impairment of Mandarin Oriental, Geneva	**–**	(6.3)
– other items	**(3.5)**	(5.0)
Tax losses and temporary differences not recognised	**(18.9)**	(24.6)
Utilisation of previously unrecognised tax losses and temporary differences	**1.3**	0.4
Recognition of previously unrecognised tax losses and temporary differences	**1.4**	–
Deferred tax assets written off	**(2.9)**	(2.2)
Deferred tax liabilities written back		
– impairment of Mandarin Oriental, Geneva	**–**	14.4
– other items	**1.4**	–
Withholding tax	**(2.9)**	(2.6)
Overprovision in prior years	**0.5**	0.4
Change in tax rates	**(2.5)**	–
	(7.6)	19.4
Tax relating to components of other comprehensive income is analysed as follows:		
Remeasurements of defined benefit plans	**(0.6)**	(0.9)
Cash flow hedges	**(1.3)**	1.9
	(1.9)	1.0

Deferred tax in 2020 included a credit of US$14.4 million in relation to the impairment of Mandarin Oriental, Geneva *(refer note 3)*.

The results of associates and joint ventures included the Group's share of tax charges of US$0.4 million (2020: tax credits of US$2.4 million) *(refer note 5)*.

* The applicable tax rate for the year was 24% (2020: 18%) and represents the weighted average of the rates of taxation prevailing in the territories in which the Group operates.

7 Loss per share

Basic loss per share is calculated using loss attributable to shareholders of US$141.4 million (2020: US$680.1 million) and the weighted average number of 1,263.4 million (2020: 1,263.2 million) shares in issue during the year.

Diluted loss per share is calculated using loss attributable to shareholders of US$141.4 million (2020: US$680.1 million) and the weighted average number of 1,263.8 million (2020: 1,263.2 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	
	2021	2020
Weighted average number of shares for basic loss per share calculation	**1,263.4**	1,263.2
Adjustment for shares deemed to be issued for no consideration under the share-based long-term incentive plans	**0.4**	–
Weighted average number of shares for diluted loss per share calculation	**1,263.8**	1,263.2

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

		2021			2020	
		Basic loss per share	Diluted loss per share		Basic loss per share	Diluted loss per share
	US$m	**US¢**	**US¢**	US$m	US¢	US¢
Loss attributable to shareholders	**(141.4)**	**(11.19)**	**(11.19)**	(680.1)	(53.84)	(53.84)
Non-trading items *(refer note 8)*	**73.3**			474.2		
Underlying loss attributable to shareholders	**(68.1)**	**(5.39)**	**(5.39)**	(205.9)	(16.30)	(16.30)

8 Non-trading items

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

	2021 **US$m**	2020 US$m
Change in fair value of investment property under development	**(73.9)**	(474.9)
Change in fair value of other investments	**0.6**	0.7
	(73.3)	(474.2)

9 Intangible assets

	Goodwill US$m	Computer software US$m	Development project contract costs US$m	Total US$m
2021				
Cost	**23.9**	**32.7**	**25.3**	**81.9**
Amortisation and impairment	**–**	**(23.7)**	**(12.8)**	**(36.5)**
Net book value at 1st January	**23.9**	**9.0**	**12.5**	**45.4**
Exchange differences	**–**	**0.1**	**(0.1)**	**–**
Additions	**–**	**4.4**	**2.7**	**7.1**
Amortisation charge	**–**	**(3.5)**	**(2.3)**	**(5.8)**
Net book value at 31st December	**23.9**	**10.0**	**12.8**	**46.7**
Cost	**23.9**	**29.2**	**28.2**	**81.3**
Amortisation and impairment	**–**	**(19.2)**	**(15.4)**	**(34.6)**
	23.9	**10.0**	**12.8**	**46.7**
2020				
Cost	23.9	28.0	25.7	77.6
Amortisation and impairment	–	(17.1)	(7.5)	(24.6)
Net book value at 1st January	23.9	10.9	18.2	53.0
Exchange differences	–	0.1	0.1	0.2
Additions	–	3.8	2.1	5.9
Amortisation and impairment charge	–	(5.8)	(7.9)	(13.7)
Net book value at 31st December	23.9	9.0	12.5	45.4
Cost	23.9	32.7	25.3	81.9
Amortisation and impairment	–	(23.7)	(12.8)	(36.5)
	23.9	9.0	12.5	45.4

Management has performed an impairment review of the carrying amount of goodwill at 31st December 2021. 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 value-in-use calculations using 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 annual growth rates of 6% to 11% to forecast cash flows over a five-year period with an assumed recovery of business following the COVID-19 pandemic, after which the growth rate is assumed to be up to 4% in perpetuity. Individual growth assumptions vary across the Group's geographical locations, and are based on management expectations for each market's development. Pre-tax discount rates of 7% to 13% are 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 amortisation charges are all recognised in arriving at operating profit and are included in cost of sales, selling and distribution costs, administration expenses and other operating expense.

The amortisation periods for intangible assets are as follows:

Computer software	3 to 5 years
Development project contract costs	20 to 40 years

10 Tangible assets

	Freehold properties US$m	Properties on leasehold land & leasehold improvements US$m	Plant & machinery US$m	Furniture, equipment & motor vehicles US$m	Total US$m
2021					
Cost	**950.6**	**428.2**	**135.7**	**317.0**	**1,831.5**
Depreciation and impairment	**(112.5)**	**(232.8)**	**(84.8)**	**(219.9)**	**(650.0)**
Net book value at 1st January	**838.1**	**195.4**	**50.9**	**97.1**	**1,181.5**
Exchange differences	**(32.7)**	**(4.2)**	**(2.5)**	**(2.9)**	**(42.3)**
Additions	**–**	**1.3**	**0.2**	**12.5**	**14.0**
Reclassification	**–**	**(0.7)**	**(0.3)**	**1.0**	**–**
Depreciation charge	**(11.8)**	**(12.9)**	**(5.6)**	**(24.7)**	**(55.0)**
Net book value at 31st December	**793.6**	**178.9**	**42.7**	**83.0**	**1,098.2**
Cost	**915.4**	**370.7**	**131.2**	**300.0**	**1,717.3**
Depreciation and impairment	**(121.8)**	**(191.8)**	**(88.5)**	**(217.0)**	**(619.1)**
	793.6	**178.9**	**42.7**	**83.0**	**1,098.2**
2020					
Cost	840.6	462.7	114.1	250.5	1,667.9
Depreciation and impairment	(94.9)	(173.8)	(60.0)	(164.6)	(493.3)
Net book value at 1st January	745.7	288.9	54.1	85.9	1,174.6
Exchange differences	44.7	12.9	3.3	3.5	64.4
Additions	7.2	3.3	0.4	29.5	40.4
Disposals	–	–	–	(0.3)	(0.3)
Reclassification	50.6	(52.4)	0.2	1.6	–
Depreciation and impairment charge	(10.1)	(57.3)	(7.1)	(23.1)	(97.6)
Net book value at 31st December	838.1	195.4	50.9	97.1	1,181.5
Cost	950.6	428.2	135.7	317.0	1,831.5
Depreciation and impairment	(112.5)	(232.8)	(84.8)	(219.9)	(650.0)
	838.1	195.4	50.9	97.1	1,181.5

Management performed an impairment review of the carrying amount of Mandarin Oriental, Geneva in 2020 because impairment indicators existed. Cash flow projections for the impairment review were based on value-in-use calculations using updated hotel forecasts (including the following year's hotel budget) with assumptions updated for the prevailing market conditions, and were discounted appropriately. On the basis of this review, management concluded that impairment charges of US$45.3 million were required and recognised in profit and loss in 2020. These were reflected in the accelerated depreciation charge for the leasehold property of US$41.9 million and the accelerated amortisation charge for the leasehold land of US$3.4 million in 2020 *(refer note 11)*.

10 Tangible assets *continued*

Freehold properties include a hotel property of US$93.5 million (2020: US$98.1 million), which is stated net of tax increment financing of US$18.0 million (2020: US$18.8 million) *(refer note 22)*.

Rental income from properties and other tangible assets amounted to US$19.8 million (2020: US$16.4 million) *(refer note 3)*.

The maturity analysis of the undiscounted lease payments to be received after the balance sheet date are as follows:

	2021 US$m	2020 US$m
Within one year	**19.4**	19.7
Between one and two years	**18.7**	17.0
Between two and five years	**42.3**	31.4
Beyond five years	**27.1**	35.0
	107.5	103.1

At 31st December 2021, the carrying amount of hotel properties pledged as security for bank borrowings amounted to US$449.0 million (2020: US$462.8 million) *(refer note 20)*.

11 Right-of-use assets

	Leasehold land US$m	Properties US$m	Total US$m
2021			
Cost	**144.6**	**253.1**	**397.7**
Amortisation/depreciation and impairment	**(12.2)**	**(88.1)**	**(100.3)**
Net book value at 1st January	**132.4**	**165.0**	**297.4**
Exchange differences	**(0.8)**	**(15.6)**	**(16.4)**
Additions	**–**	**0.2**	**0.2**
Disposals	**–**	**(0.2)**	**(0.2)**
Amortisation/depreciation charge	**(0.4)**	**(7.3)**	**(7.7)**
Net book value at 31st December	**131.2**	**142.1**	**273.3**
Cost	**143.6**	**228.2**	**371.8**
Amortisation/depreciation and impairment	**(12.4)**	**(86.1)**	**(98.5)**
	131.2	**142.1**	**273.3**
2020			
Cost	145.9	249.7	395.6
Amortisation/depreciation and impairment	(9.9)	(85.4)	(95.3)
Net book value at 1st January	136.0	164.3	300.3
Exchange differences	0.7	8.1	8.8
Additions	–	1.2	1.2
Amortisation/depreciation and impairment charge	(4.3)	(8.6)	(12.9)
Net book value at 31st December	132.4	165.0	297.4
Cost	144.6	253.1	397.7
Amortisation/depreciation and impairment	(12.2)	(88.1)	(100.3)
	132.4	165.0	297.4

The amortisation/depreciation charge in 2020 included an accelerated amortisation of US$3.4 million related to the impairment of the leasehold land of Mandarin Oriental, Geneva *(refer note 10)*.

At 31st December 2021, the carrying amount of leasehold land pledged as security for bank borrowings amounted to US$122.3 million (2020: US$123.2 million) *(refer note 20)*. None of the other right-of-use assets have been pledged at 31st December 2021 and 2020.

The typical lease term associated with the right-of-use assets are as follows:

Leasehold land	20 to 895 years
Properties	2 to 30 years

12 Investment property under development

	Under development leasehold commercial property 2021 US$m	2020 US$m
At 1st January	**2,528.3**	2,967.7
Exchange differences	**(15.0)**	12.1
Additions	**22.6**	23.4
Change in fair value	**(73.9)**	(474.9)
At 31st December	**2,462.0**	2,528.3

The Group measures its investment property at fair value. The fair value of the Group's investment property under development has been determined on the basis of a valuation carried out by independent valuers who hold a recognised relevant professional qualification and have recent experience in the location and segment of the investment property valued. The Group employed Jones Lang LaSalle to value its commercial investment property in Hong Kong which is held under leases with unexpired lease terms of more than 20 years. The valuation, which conforms to the International Valuation Standards issued by the International Valuation Standards Council and the HKIS Valuation Standards issued by the Hong Kong Institute of Surveyors, was derived using the direct comparison and the residual method. The Report of the Valuers is set out on page [•]. The valuation is comprehensively reviewed by the Group.

Fair value measurements of under development leasehold commercial property using significant unobservable inputs

Fair value of investment property under development is derived using the direct comparison method and the residual method with equal weighting. The direct comparison method is based on comparing the property to be valued directly with other comparable properties, which have recently sold. The residual method is essentially a means of valuing the land by reference to its development potential by deducting development costs together with developer's profit and risk from the estimated capital value of the proposed development assuming completion as at the date of valuation. For the direct comparison method and the estimated capital value of the residual method, given the heterogeneous nature of real estate properties, appropriate adjustments are usually required to allow for any qualitative differences that may affect the price likely to be achieved by the property under consideration.

Information about fair value measurements of the Group's under development leasehold commercial property using significant unobservable inputs as 31st December 2021:

			Range of significant unobservable inputs	
	Fair value US$m	Valuation method	Average unit price US$	Capitalisation rate %
Hong Kong	**2,462.0**	Direct comparison	4,066.0 per square foot	n/a
		Residual*	3,480.2 to 4,156.8 per square foot	2.4 to 3.8

Average unit prices are estimated based on independent valuers' view of recent transactions of comparable properties. The higher the unit prices, the higher the fair value.

Capitalisation rates are estimated by independent valuers based on the risk profile of the property being valued. The lower the rates, the higher the fair value.

* In using the residual method to make fair value measurements of the under development leasehold commercial property, unobservable inputs relating to the estimated costs to complete the development and the developer's estimated profit and margin for risk have also been used.

13 Associates and joint ventures

	2021 US$m	2020 US$m
Associates		
Listed associate – OHTL	–	8.0
Unlisted associates	**44.8**	47.3
Share of attributable net assets	**44.8**	55.3
Notional goodwill	**5.5**	5.5
Goodwill on acquisition	**1.5**	1.5
	51.8	62.3
Amounts due from associates	**36.5**	42.7
	88.3	105.0
Joint ventures		
Share of attributable net assets of unlisted joint ventures	**(25.6)**	(18.3)
Goodwill on acquisition	**6.3**	6.8
	(19.3)	(11.5)
Amounts due from joint ventures	**132.5**	138.1
	113.2	126.6
	201.5	231.6

Amounts due from associates are interest free, unsecured and have no fixed terms of repayment.

Amounts due from joint ventures bear interest at rates ranging from approximately 1.15% to 5.00% (2020: 1.15% to 5.00%) per annum and are repayable within one to four years.

The Group's share of the carrying value of hotel properties (including properties, plant and equipment, and leasehold land) owned by the Group's associates and joint ventures amounted to US$198.1 million (2020: US$222.7 million) and US$117.0 million (2020: US$123.7 million) respectively.

	Associates		Joint ventures	
	2021 US$m	2020 US$m	2021 US$m	2020 US$m
Movements of associates and joint ventures during the year:				
At 1st January	**105.0**	114.0	**126.6**	89.1
Exchange differences	–	–	**(10.4)**	11.4
Share of results after tax and non-controlling interests	**(13.9)**	(21.9)	**(7.9)**	(4.9)
Share of other comprehensive income after tax and non-controlling interests	**(2.5)**	1.8	**0.5**	–
Acquisition of an associate *(refer note 28d)*	–	2.0	–	–
Advance to associates and joint ventures *(refer note 28e)*	**2.3**	9.1	**4.8**	31.4
Repayment of loans to associates and joint ventures *(refer note 28f)*	**(2.6)**	–	**(0.4)**	(0.4)
At 31st December	**88.3**	105.0	**113.2**	126.6
Fair value of listed associate	**190.3**	211.9	**n/a**	n/a

13 Associates and joint ventures *continued*

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 2021 and 2020:

Name of entity	Nature of business	Country of incorporation and principal place of business/ place of listing	% of ownership interest 2021	2020
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 2021, the fair value of the Group's interest in OHTL, which is listed on the Thailand Stock Exchange, was US$190.3 million (2020: US$211.9 million) and the carrying amount of the Group's interest was US$5.5 million (2020: US$13.4 million).

Summarised financial information for material associates

Summarised balance sheet at 31st December

	OHTL		Marina Bay Hotel		Total	
	2021 US$m	2020 US$m	**2021 US$m**	2020 US$m	**2021 US$m**	2020 US$m
Non-current assets	**126.6**	149.7	**109.4**	117.9	**236.0**	267.6
Current assets						
Cash and cash equivalents	**3.1**	3.6	**23.7**	24.9	**26.8**	28.5
Other current assets	**4.1**	4.6	**5.8**	2.0	**9.9**	6.6
Total current assets	**7.2**	8.2	**29.5**	26.9	**36.7**	35.1
Non-current liabilities						
Financial liabilities*	**(69.4)**	(72.6)	**–**	–	**(69.4)**	(72.6)
Other non-current liabilities*	**(23.5)**	(29.4)	**(2.6)**	(3.0)	**(26.1)**	(32.4)
Total non-current liabilities	**(92.9)**	(102.0)	**(2.6)**	(3.0)	**(95.5)**	(105.0)
Current liabilities						
Financial liabilities*	**(38.1)**	(34.9)	**(7.5)**	(7.2)	**(45.6)**	(42.1)
Other current liabilities*	**(2.7)**	(4.3)	**(2.8)**	(3.4)	**(5.5)**	(7.7)
Total current liabilities	**(40.8)**	(39.2)	**(10.3)**	(10.6)	**(51.1)**	(49.8)
Net assets	**0.1**	16.7	**126.0**	131.2	**126.1**	147.9

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

13 Associates and joint ventures *continued*

a) Investment in associates continued

Summarised financial information for material associates *continued*

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

	OHTL		Marina Bay Hotel		Total	
	2021 US$m	2020 US$m	**2021 US$m**	2020 US$m	**2021 US$m**	2020 US$m
Revenue	**17.5**	29.2	**29.3**	27.5	**46.8**	56.7
Depreciation and amortisation	**(9.9)**	(10.7)	**(5.8)**	(5.6)	**(15.7)**	(16.3)
Interest expense	**(2.9)**	(1.6)	**–**	–	**(2.9)**	(1.6)
(Loss)/profit from underlying business performance	**(18.7)**	(16.6)	**(1.9)**	1.8	**(20.6)**	(14.8)
Income tax credit	**2.3**	3.4	**0.2**	0.5	**2.5**	3.9
(Loss)/profit after tax	**(16.4)**	(13.2)	**(1.7)**	2.3	**(18.1)**	(10.9)
Other comprehensive (expense)/income	**(0.2)**	(0.3)	**(3.5)**	3.2	**(3.7)**	2.9
Total comprehensive (expense)/income	**(16.6)**	(13.5)	**(5.2)**	5.5	**(21.8)**	(8.0)

The information contained in the summarised 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.

13 Associates and joint ventures *continued*

a) Investment in associates *continued*

Reconciliation of the summarised financial information

Reconciliation of the summarised 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	
	2021 US$m	2020 US$m	**2021 US$m**	2020 US$m	**2021 US$m**	2020 US$m
Net assets at 1st January	**16.7**	30.2	**131.2**	125.7	**147.9**	155.9
(Loss)/profit for the year	**(16.4)**	(13.2)	**(1.7)**	2.3	**(18.1)**	(10.9)
Other comprehensive (expense)/income	**(0.2)**	(0.3)	**(3.5)**	3.2	**(3.7)**	2.9
Net assets at 31st December	**0.1**	16.7	**126.0**	131.2	**126.1**	147.9
Effective interest in associates (%)	**47.6**	47.6	**50.0**	50.0		
Group's share of net assets in associates	**–**	7.9	**63.0**	65.6	**63.0**	73.5
Notional goodwill*	**5.5**	5.5	**–**	–	**5.5**	5.5
Carrying value	**5.5**	13.4	**63.0**	65.6	**68.5**	79.0
Fair value	**190.3**	211.9	**n/a**	n/a	**190.3**	211.9

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

	2021 US$m	2020 US$m
Share of loss	**(5.3)**	(16.7)
Share of other comprehensive (expense)/income	**(0.6)**	0.4
Share of total comprehensive expense	**(5.9)**	(16.3)
Carrying amount of interests in these associates	**19.8**	26.0

* 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 recognised and the Group's effective interest increased to 47.6%.

Contingent liabilities relating to the Group's interest in associates

	2021 US$m	2020 US$m
Financial guarantee in respect of facilities made available to an associate	**20.3**	20.3

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.

13 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 2021 and 2020:

Name of entity	Nature of business	Country of incorporation and principal place of business	% of ownership interest 2021	2020
Ritz Madrid, S.A. ('Ritz Madrid')	Owner of Mandarin Oriental Ritz, Madrid	Spain	**50.0%**	50.0%

Summarised financial information for material joint venture

Summarised balance sheet at 31st December

	Ritz Madrid 2021 US$m	2020 US$m
Non-current assets	**265.9**	286.9
Current assets		
Cash and cash equivalents	**10.7**	20.7
Other current assets	**3.2**	1.9
Total current assets	**13.9**	22.6
Non-current liabilities		
Financial liabilities*†	**(265.0)**	(276.2)
Other non-current liabilities*	**(40.0)**	(44.8)
Total non-current liabilities	**(305.0)**	(321.0)
Current liabilities		
Other current liabilities*	**(26.0)**	(25.0)
Net liabilities	**(51.2)**	(36.5)

* 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$265.0 million (2020: US$276.2 million).

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

	Ritz Madrid 2021 US$m	2020 US$m
Revenue	**26.0**	0.1
Depreciation and amortisation	**(5.6)**	(0.9)
Interest expense	**(1.4)**	(0.2)
Loss after tax	**(15.7)**	(10.2)
Other comprehensive income/(expense)	**1.0**	(1.7)
Total comprehensive expense	**(14.7)**	(11.9)

The information contained in the summarised 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.

13 Associates and joint ventures *continued*

b) Investment in joint ventures *continued*

Reconciliation of the summarised financial information

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

	Ritz Madrid 2021 US$m	2020 US$m
Net liabilities at 1st January	**(36.5)**	(24.6)
Loss for the year	**(15.7)**	(10.2)
Other comprehensive income/(expense)	**1.0**	(1.7)
Net liabilities at 31st December	**(51.2)**	(36.5)
Effective interest in joint venture (%)	**50.0**	50.0
Group's share of net liabilities in joint venture	**(25.6)**	(18.3)
Goodwill on acquisition	**6.3**	6.8
Shareholders' loans	**132.5**	138.1
Carrying value	**113.2**	126.6

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

Commitments and contingent liabilities in respect of joint venture

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

	2021 US$m	2020 US$m
Commitment to provide funding if called	**–**	7.8

There were no contingent liabilities relating to the Group's interest in its joint venture at 31st December 2021 and 2020.

14 Other investments

	2021 US$m	2020 US$m
Investment measured at fair value through profit and loss – unlisted investments	**16.5**	16.1

Movements of these investments which were valued based on unobservable inputs during the year are disclosed in note 36.

15 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
2021							
At 1st January	**(43.5)**	**1.8**	**15.5**	**(1.3)**	**(0.9)**	**(0.9)**	**(29.3)**
Exchange differences	**0.3**	**0.1**	**(0.6)**	**–**	**0.1**	**–**	**(0.1)**
(Charged)/credited to profit and loss	**(2.9)**	**–**	**(2.9)**	**–**	**0.8**	**(0.1)**	**(5.1)**
Charged to other comprehensive income	**–**	**(1.3)**	**–**	**(0.6)**	**–**	**–**	**(1.9)**
At 31st December	**(46.1)**	**0.6**	**12.0**	**(1.9)**	**–**	**(1.0)**	**(36.4)**
Deferred tax assets	**1.0**	**0.6**	**12.0**	**–**	**–**	**0.1**	**13.7**
Deferred tax liabilities	**(47.1)**	**–**	**–**	**(1.9)**	**–**	**(1.1)**	**(50.1)**
	(46.1)	**0.6**	**12.0**	**(1.9)**	**–**	**(1.0)**	**(36.4)**
2020							
At 1st January	(55.7)	(0.1)	8.1	(0.3)	(0.9)	0.1	(48.8)
Exchange differences	(1.0)	–	0.8	–	–	(0.1)	(0.3)
Credited/(charged) to profit and loss	13.2	–	6.6	(0.1)	–	(0.9)	18.8
Credited/(charged) to other comprehensive income	–	1.9	–	(0.9)	–	–	1.0
At 31st December	(43.5)	1.8	15.5	(1.3)	(0.9)	(0.9)	(29.3)
Deferred tax assets	0.3	1.8	15.5	–	–	0.2	17.8
Deferred tax liabilities	(43.8)	–	–	(1.3)	(0.9)	(1.1)	(47.1)
	(43.5)	1.8	15.5	(1.3)	(0.9)	(0.9)	(29.3)

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$85.0 million (2020: US$71.5 million) arising from unused tax losses of US$385.5 million (2020: US$329.6 million) have not been recognised in the financial statements. Included in the unused tax losses, US$334.2 million have no expiry date and the balance will expire at various dates up to and including 2037. Following a recoverability review performed in 2021, deferred tax assets of US$2.9 million were derecognised due to hotel losses following the COVID-19 pandemic.

Deferred tax assets of US$3.3 million (2020: US$2.4 million) have not been recognised in relation to temporary differences in subsidiaries.

The Group has no unrecognised deferred tax liabilities arising on temporary differences associated with investments in subsidiaries at 31st December 2021 and 2020.

16 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 recognised in the consolidated balance sheet are as follows:

	2021 US$m	2020 US$m
Fair value of plan assets	**53.5**	52.4
Present value of funded obligations	**(46.4)**	(46.9)
	7.1	5.5
Present value of unfunded obligations	**(0.3)**	(0.3)
Net pension assets	**6.8**	5.2
Analysis of net pension assets		
Pension assets	**7.1**	5.5
Pension liabilities	**(0.3)**	(0.3)
	6.8	5.2

16 Pension plans *continued*

The movement in the net pension assets is as follows:

	Fair value of plan assets US$m	Present value of obligation US$m	Total US$m
2021			
At 1st January	**52.4**	**(47.2)**	**5.2**
Current service cost	**–**	**(3.2)**	**(3.2)**
Interest income/(expense)	**1.0**	**(0.9)**	**0.1**
Administration expenses	**(0.3)**	**–**	**(0.3)**
	0.7	**(4.1)**	**(3.4)**
	53.1	**(51.3)**	**1.8**
Exchange differences	**(0.3)**	**0.3**	**–**
Remeasurements			
– return on plan assets, excluding amounts included in interest income	**2.5**	**–**	**2.5**
– change in financial assumptions	**–**	**1.3**	**1.3**
– experience losses	**–**	**(0.3)**	**(0.3)**
	2.5	**1.0**	**3.5**
Contributions from employers	**1.5**	**–**	**1.5**
Contributions from plan participants	**0.5**	**(0.5)**	**–**
Benefit payments	**(3.4)**	**3.4**	**–**
Transfer to other plans	**(0.4)**	**0.4**	**–**
At 31st December	**53.5**	**(46.7)**	**6.8**
2020			
At 1st January	49.8	(48.7)	1.1
Current service cost	–	(3.4)	(3.4)
Interest income/(expense)	1.4	(1.3)	0.1
Administration expenses	(0.3)	–	(0.3)
	1.1	(4.7)	(3.6)
	50.9	(53.4)	(2.5)
Exchange differences	0.2	(0.2)	–
Remeasurements			
– return on plan assets, excluding amounts included in interest income	3.3	–	3.3
– change in demographic assumption	–	(0.1)	(0.1)
– change in financial assumptions	–	(0.7)	(0.7)
– experience gains	–	2.7	2.7
	3.3	1.9	5.2
Contributions from employers	2.5	–	2.5
Contributions from plan participants	0.6	(0.6)	–
Benefit payments	(4.2)	4.2	–
Transfer from other plans	(0.9)	0.9	–
At 31st December	52.4	(47.2)	5.2

16 Pension plans *continued*

The weighted average duration of the defined benefit obligation at 31st December 2021 is 5.2 years (2020: 5.5 years).

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

	2021 US$m	2020 US$m
Within one year	**11.6**	4.8
Between one and two years	**5.1**	10.0
Between two and five years	**15.5**	14.9
Between five and ten years	**20.9**	23.6
Between ten and fifteen years	**16.1**	15.7
Between fifteen and twenty years	**8.9**	10.7
Beyond twenty years	**5.6**	9.3
	83.7	89.0

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

	Hong Kong	
	2021 %	2020 %
Discount rate	**2.40**	1.90
Salary growth rate	**3.80**	3.80

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 US$m	Decrease in assumption US$m
Discount rate	1	(2.6)	2.9
Salary growth rate	1	2.6	(2.4)

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 as when calculating the pension liability recognised within the balance sheet.

16 Pension plans *continued*

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

	2021 US$m	2020 US$m
Equity investments		
– Asia-Pacific	4.4	5.2
– Europe	4.3	4.0
– North America	10.7	10.2
– Global	0.6	0.3
	20.0	19.7
Investment funds		
– Asia-Pacific	7.4	8.3
– Europe	6.9	6.5
– North America	15.7	11.4
– Global	3.0	4.8
	33.0	31.0
Total investments	53.0	50.7
Cash and cash equivalents	2.7	3.8
Benefits payable and other	(2.2)	(2.1)
	53.5	52.4

As at 31st December 2021, 91.2% of equity investments and 97.5% of investment funds were quoted on active markets (2020: 100% and 95% respectively).

The strategic asset allocation is derived from the asset-liability modelling ('ALM') review, done triennially to ensure the plans can meet future funding and solvency requirements. The last ALM review was completed in 2021. The next ALM review is scheduled for 2024.

As at 31st December 2021, the Hong Kong plans had assets of US$53.5 million (2020: US$52.4 million).

The Group maintains an active and regular contribution schedule across all the plans. The contribution to all its plans in 2021 were US$1.5 million and the estimated amount of contributions expected to be paid to all its plans in 2022 is US$1.5 million.

17 Debtors

	2021 US$m	2020 US$m
Trade debtors		
– third parties	28.6	20.4
– associates and joint ventures	2.1	0.3
	30.7	20.7
– provision for impairment	(3.5)	(3.1)
	27.2	17.6
Other debtors		
– third parties	49.6	59.7
– associates and joint ventures	2.7	1.5
	52.3	61.2
– provision for impairment	(1.8)	(2.0)
	50.5	59.2
	77.7	76.8
Non-current	8.9	5.1
Current	68.8	71.7
	77.7	76.8
Analysis by geographical area		
– Asia	34.4	29.5
– EMEA	30.6	41.6
– America	12.7	5.7
	77.7	76.8

Derivative financial instruments are stated at fair value. Other debtors are stated at amortised cost. The fair values of short-term debtors approximate their carrying amounts.

	2021 US$m	2020 US$m
Fair value		
– trade debtors	27.2	17.6
– other debtors*	35.2	42.9
	62.4	60.5

* Excluding prepayments.

17 Debtors *continued*

Trade and other debtors

The average credit period on provision of services varies among Group businesses and is generally not more than 30 days.

Other debtors are further analysed as follows:

	2021 US$m	2020 US$m
Derivatives financial instruments *(refer note 29)*	**4.4**	–
Other amounts due from associates and joint ventures	**2.7**	1.5
Rental and other deposits	**7.7**	22.5
Other receivables	**20.4**	18.9
Financial assets	**35.2**	42.9
Prepayments	**15.3**	16.3
	50.5	59.2

No debtors and prepayments have been pledged as security.

Impairment of trade debtors

Before accepting any new customer, the 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 reorganisation, and default or delinquency in payment are considered indicators that the debtor is impaired. An allowance for impairment of trade debtors is made based on the estimated irrecoverable amount determined by reference to past default experience.

The Group applied the simplified approach to measure expected credit loss, that is a lifetime expected loss allowance for trade debtors. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Changes in certain macroeconomic information such as GDP and inflation rate, are relevant for determining expected credit loss rates.

The expected loss rates are based on the historical payment profiles of sales and the corresponding historical credit losses. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors and industry trends affecting the ability of the customers to settle the receivables.

The loss allowances for trade debtors at 31st December 2021 and 2020 were determined as follows:

	Below 30 days	Between 31 and 60 days	Between 61 and 120 days	More than 120 days	Total
2021					
Weighted average expected loss rate	**–**	**–**	**45%**	**57%**	**11%**
Gross carrying amount – trade debtors (US$m)	**21.1**	**3.4**	**1.1**	**5.1**	**30.7**
Loss allowance (US$m)	**0.1**	**–**	**0.5**	**2.9**	**3.5**
2020					
Weighted average expected loss rate	–	–	–	89%	15%
Gross carrying amount – trade debtors (US$m)	15.0	1.2	1.0	3.5	20.7
Loss allowance (US$m)	–	–	–	3.1	3.1

17 Debtors *continued*

Impairment of trade debtors continued

Movements in the provisions for impairment are as follows:

	Trade debtors		Other debtors	
	2021 US$m	2020 US$m	**2021 US$m**	2020 US$m
At 1st January	**(3.1)**	(3.6)	**(2.0)**	(1.5)
Additional provisions	**(1.0)**	(0.6)	**(0.6)**	(1.3)
Unused amounts reversed	**0.3**	1.0	**0.6**	0.8
Amounts written off	**0.3**	0.1	**0.2**	–
At 31st December	**(3.5)**	(3.1)	**(1.8)**	(2.0)

Trade debtors and other debtors are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

18 Bank and cash balances

	2021 US$m	2020 US$m
Deposits with banks and financial institutions	**64.9**	75.3
Bank balances	**147.1**	88.6
Cash balances	**0.8**	0.7
	212.8	164.6
Analysis by currency		
– Euro	**72.1**	24.4
– Hong Kong dollar	**14.2**	15.7
– Indonesian rupiah	**5.6**	7.7
– Japanese yen	**5.7**	9.3
– Swiss franc	**9.3**	2.2
– United Kingdom sterling	**23.7**	22.6
– United States dollar	**74.2**	75.8
– Other	**8.0**	6.9
	212.8	164.6

The weighted average interest rate on deposits with banks and financial institutions at 31st December 2021 was 0.2% (2020: 1.0%) per annum.

19 Creditors

	2021 US$m	2020 US$m
Trade creditors	**16.8**	15.0
Accruals	**80.6**	62.5
Rental and other refundable deposits	**4.4**	6.7
Derivative financial instruments *(refer note 29)*	**3.6**	10.9
Other creditors	**28.1**	23.5
Financial liabilities	**133.5**	118.6
Contract liabilities *(refer note 2)*	**23.3**	31.1
Rental income received in advance	**3.6**	5.8
	160.4	155.5
Non-current	**3.2**	10.9
Current	**157.2**	144.6
	160.4	155.5
Analysis by geographical area		
– Asia	**66.1**	74.2
– EMEA	**45.5**	38.2
– America	**48.8**	43.1
	160.4	155.5

Derivative financial instruments are stated at fair value. Other creditors are stated at amortised cost. The fair values of these creditors approximate their carrying amounts.

Provision for reinstatement and restoration costs comprised the estimated costs, to be incurred by the Group as lessees, in dismantling and removing the underlying assets, restoring the sites on which they are located or restoring the underlying assets to the condition required by the terms and conditions of the leases. The costs of US$0.8 million (2020: US$0.8 million) were included in accruals at 31st December 2021.

20 Borrowings

	2021		2020	
	Carrying amount US$m	**Fair value US$m**	Carrying amount US$m	Fair value US$m
Current portion of long-term borrowings				
– bank loans	–	–	61.5	61.5
– other borrowings	**2.5**	**2.5**	2.7	2.7
Current borrowings	**2.5**	**2.5**	64.2	64.2
Long-term borrowings				
– bank loans	**726.5**	**726.5**	605.2	605.2
– other borrowings	**1.3**	**1.3**	1.4	1.4
Long-term borrowings	**727.8**	**727.8**	606.6	606.6
	730.3	**730.3**	670.8	670.8

The fair values are estimated using the expected future payments discounted at market interest rate from 0.3% to 3.5% (2020: 0.3% to 3.5%) 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.

	2021 US$m	2020 US$m
Secured	**640.9**	606.8
Unsecured	**89.4**	64.0
	730.3	670.8

Borrowings of US$640.9 million (2020: US$606.8 million) were secured against the tangible fixed assets and right-of-use assets of certain subsidiaries at 31st December 2021. The book value of these tangible fixed assets and right-of-use assets at 31st December 2021 was US$571.3 million (2020: US$586.0 million).

20 Borrowings *continued*

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

	Fixed rate borrowings				
	Weighted average interest rates %	Weighted average period outstanding Years	US$m	Floating rate borrowings US$m	Total US$m
2021					
Hong Kong dollar	**1.6**	**1.7**	**214.8**	**316.1**	**530.9**
Swiss franc	**2.2**	**10.0**	**1.4**	**2.3**	**3.7**
United Kingdom sterling	**1.6**	**2.4**	**54.0**	**54.7**	**108.7**
United States dollar	**1.0**	**–**	**–**	**87.0**	**87.0**
			270.2	**460.1**	**730.3**
2020					
Euro	0.5	–	–	61.5	61.5
Hong Kong dollar	1.7	2.7	216.1	279.3	495.4
Swiss franc	2.3	11.0	1.6	2.5	4.1
United Kingdom sterling	1.5	3.4	54.5	55.3	109.8
			272.2	398.6	670.8

The weighted average interest rates and period of fixed rate borrowings are stated after taking into account hedging transactions *(refer note 29)*.

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:

	2021 US$m	2020 US$m
Floating rate borrowings	**460.1**	398.6
Fixed rate borrowings		
– Within one year	**54.5**	–
– Between one and two years	**–**	54.8
– Between two and three years	**214.3**	–
– Between three and four years	**–**	215.8
– Between four and five years	**–**	–
– Beyond five years	**1.4**	1.6
	270.2	272.2
	730.3	670.8

20 Borrowings *continued*

The movements in borrowings are as follows:

	Long-term borrowings US$m	Short-term borrowings US$m	Total US$m
2021			
At 1st January	**606.6**	**64.2**	**670.8**
Exchange differences	**(4.3)**	**(0.4)**	**(4.7)**
Transfer	**(0.1)**	**0.1**	**–**
Drawdown of borrowings	**130.6**	**–**	**130.6**
Repayment of borrowings	**(5.0)**	**(61.4)**	**(66.4)**
At 31st December	**727.8**	**2.5**	**730.3**
2020			
At 1st January	568.6	2.5	571.1
Exchange differences	11.1	0.3	11.4
Transfer	(61.5)	61.5	–
Drawdown of borrowings	88.4	–	88.4
Repayment of borrowings	–	(0.1)	(0.1)
At 31st December	606.6	64.2	670.8

21 Lease liabilities

	2021 US$m	2020 US$m
At 1st January	**177.1**	175.4
Exchange differences	**(16.7)**	8.8
Additions	**0.2**	1.2
Termination	**(0.2)**	–
Lease payments	**(5.5)**	(7.9)
Interest expense	**2.2**	1.9
Modification of lease terms and other	**(3.4)**	(2.3)
At 31st December	**153.7**	177.1
Non-current	**147.4**	170.1
Current	**6.3**	7.0
	153.7	177.1

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

The Group is not exposed to any residual guarantees in respect of the leases entered into at 31st December 2021 and 2020.

There is no lease contract entered but not commenced at 31st December 2021 and 2020.

22 Tax increment financing

	2021 US$m	2020 US$m
Netted off against the net book value of the property *(refer note 10)*	**18.0**	18.8

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 contribute to the subsidiary US$33.0 million 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 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. The TIF Bonds are being amortised over 39 years up to February 2043.

23 Segment information

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

	2021 US$m	2020 US$m
Analysis by geographical area		
– Asia	**2,946.4**	3,060.3
– EMEA	**770.5**	839.2
– America	**208.7**	211.4
	3,925.6	4,110.9

24 Share capital

	Ordinary shares in millions			
	2021	2020	**2021 US$m**	2020 US$m
Authorised				
Shares of US¢5.00 each	**1,500.0**	1,500.0	**75.0**	75.0
Issued and fully paid				
At 1st January	**1,263.2**	1,263.2	**63.2**	63.2
Issued under share-based long-term incentive plans	**0.4**	–	**–**	–
At 31st December	**1,263.6**	1,263.2	**63.2**	63.2

25 Share premium

	2021 US$m	2020 US$m
At 1st January	**499.7**	499.7
Transfer from capital reserves	**0.8**	–
At 31st December	**500.5**	499.7

26 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. No conditional share awards were granted in 2021 and 2020 under the 2014 Plan.

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:

	2021		2020	
	Weighted average exercise price US$	Options in millions	Weighted average exercise price US$	Options in millions
At 1st January	**1.72**	**4.2**	1.72	4.2
Exercised	**1.68**	**(2.1)**	–	–
Cancelled	**1.91**	**(1.1)**	–	–
At 31st December	**1.59**	**1.0**	1.72	4.2

The average share price during the year was US$2.00 (2020: US$1.61) per share.

Outstanding options at 31st December:

		Ordinary shares in millions	
Expiry date	Exercise price US$	2021	2020
2021	1.99	**–**	1.3
2022	1.61	**0.5**	1.9
2023	1.57	**0.5**	1.0
Total outstanding		**1.0**	4.2
of which exercisable		**1.0**	4.2

27 Dividends

In light of the substantially reduced levels of business due to the impact of COVID-19 pandemic, no interim and final dividends in respect of the 2021 and 2020 financial years have been declared or proposed by the Board.

28 Notes to consolidated cash flow statement

a) Other non-cash items

	2021 US$m	2020 US$m
Fair value loss on investment property under development	**73.9**	474.9
Fair value gain on other investments	**(0.6)**	(0.7)
Gain on modification of lease terms	**(3.4)**	(2.3)
Other	**1.3**	0.9
	71.2	472.8

b) Movements in working capital

	2021 US$m	2020 US$m
Decrease in stocks	**0.4**	0.5
(Increase)/decrease in debtors	**(13.9)**	29.1
Increase/(decrease) in creditors	**12.6**	(29.3)
Increase in pension obligations	**1.8**	1.1
	0.9	1.4

28 Notes to consolidated cash flow statement *continued*

c) The Group withdrew from the expansion project of Mandarin Oriental, Munich and received cash refund on the deposits of land and related costs in October 2021.

d) In December 2020, the Group acquired a 16.7% interest in Stay One Degree Limited ('S1D') for a consideration of US$2.0 million. The principal activity of S1D is developing and operating an online booking service platform for luxury homes. The Group has appointed two of five directors to the board of S1D and has exercised significant influence on the decisions about the operation of S1D.

e) During 2021, the Group provided shareholder loans to Mandarin Oriental, New York of US$2.2 million (2020: US$8.6 million), Mandarin Oriental Ritz, Madrid of US$4.8 million (2020: US$31.4 million) and River City Shopping Complex of US$0.1 million (2020: nil). No shareholder loan was provided to Mandarin Oriental, Miami in 2021 (2020: US$0.5 million).

f) During 2021, the Group received repayments on its shareholder loans previously provided to Mandarin Oriental Ritz, Madrid of US$0.4 million (2020: US$0.4 million) and Mandarin Oriental, Miami of US$2.6million (2020: nil).

g) Cash outflows for leases

	2021 US$m	2020 US$m
Lease rentals paid	**(9.3)**	(10.5)
The above cash outflows are included in		
– operating activities	**(6.0)**	(4.5)
– financing activities	**(3.3)**	(6.0)
	(9.3)	(10.5)

h) Analysis of balances of cash and cash equivalents

	2021 US$m	2020 US$m
Bank and cash balances *(refer note 18)*	**212.8**	164.6

29 Derivative financial instruments

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

	2021		2020	
	Positive fair value US$m	Negative fair value US$m	Positive fair value US$m	Negative fair value US$m
Designated as cash flow hedges				
– forward foreign exchange contracts	4.4	–	–	–
– interest rate swaps	–	(3.6)	–	(10.9)
	4.4	(3.6)	–	(10.9)

Forward foreign exchange contracts

The contract amounts of the outstanding forward foreign exchange contracts at 31st December 2021 were US$56.6 million (2020: nil).

Interest rate swaps

The notional principal amounts of the outstanding interest rate swap contracts at 31st December 2021 were US$268.8 million (2020: US$270.6 million).

At 31st December 2021, the fixed interest rates relating to interest rate swaps varied from 1.2% to 1.8% (2020: 1.2% to 1.8%) per annum.

The fair values of interest rate swaps at 31st December 2021 were based on the estimated cash flows discounted at market rates ranging from 0.9% to 1.0% (2020: 0.9% to 1.0%) per annum.

30 Commitments

	2021 US$m	2020 US$m
Capital commitments		
Authorised not contracted		
– other	506.7	618.4
Contracted not provided		
– joint ventures	–	7.8
– other	43.6	102.5
	43.6	110.3
	550.3	728.7

This primarily related to capital commitments for the Causeway Bay site under development, which is expected to complete in 2025.

31 Related party transactions

Jardine Strategic Limited ('JSL') became the parent company of the Group following the completion of the simplification of the Group's parent company structure in April 2021. Jardine Strategic Holdings Limited and JMH Bermuda Limited, a wholly-owned subsidiary of the Group's ultimate parent company, Jardine Matheson Holdings Limited ('JMH'), amalgamated under the Bermuda Companies Act to form JSL, a wholly-owned subsidiary of JMH. Both JMH and JSL 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's subsidiaries, associates and joint ventures. The more significant of these transactions are described below:

During 2021, the Group managed six (2020: six) associate and joint venture hotels and received management fees of US$6.6 million (2020: US$4.2 million) based on long-term management agreements on normal commercial terms.

The Group provided hotel management services to Hongkong Land ('HKL'), a subsidiary of JMH. Total management fees received from HKL in 2021 amounted to US$2.3 million (2020: US$1.2 million), based on long-term management agreements on normal commercial terms.

The Group pays a management fee to Jardine Matheson Limited, a subsidiary of JMH, in consideration for certain management consultancy services. The fee is calculated as 0.5% of the Group's net profit. No fee was paid in 2021 and 2020 (due to underlying losses).

During 2021, in respect of the Causeway Bay site under development, the Group paid consultancy fees of US$1.2 million (2020: US$2.1 million) to HKL in consideration for project management consultancy services. In addition, Gammon Construction Limited ('GCL'), a joint venture of JMH, completed value of works of US$17.9 million (2020: US$16.3 million). The HKL agreement and GCL contract were arranged on normal commercial terms.

The outstanding balances with associates and joint ventures are set out in debtors in note 17.

Details of Directors' emoluments (being the key management personnel compensation) are shown on page [•] under the heading of 'Remuneration outcomes in 2021'.

32 Summarised balance sheet of the Company

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

	2021 US$m	2020 US$m
Subsidiaries	**1,347.2**	1,308.3
Net current liabilities	**(1.8)**	(1.6)
Net assets	**1,345.4**	1,306.7
Share capital *(refer note 24)*	**63.2**	63.2
Share premium *(refer note 25)*	**500.5**	499.7
Revenue and other reserves	**781.7**	743.8
Shareholders' funds	**1,345.4**	1,306.7

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

33 Principal subsidiaries, associates, joint ventures and managed hotels

The principal subsidiaries, associates, joint ventures and managed hotels of the Group at 31st December 2021 are set out below.

Principal place of business	Name of entity	Nature of business
Subsidiaries		
Hong Kong	Mandarin Oriental Hotel Group International Limited	Management
Hong Kong	Mandarin Oriental Hotel Group Limited	Management
Hong Kong	Mandarin Oriental, Hong Kong Limited	Owner: Mandarin Oriental, Hong Kong
Hong Kong	Excelsior Hotel (BVI) Limited	The Causeway Bay site under development
Japan	Mandarin Oriental Tokyo KK	Owner: Mandarin Oriental, Tokyo
Indonesia	P.T. Jaya Mandarin Agung	Owner: Mandarin Oriental, Jakarta
United Kingdom	Mandarin Oriental Hyde Park Limited	Owner: Mandarin Oriental Hyde Park, London
Switzerland	Société Immobilière de Mandarin Oriental (Genèva) SA	Owner: Mandarin Oriental, Geneva
Switzerland	Société pour l' Exploitation de Mandarin Oriental (Genèva) SA	
Germany	Dinavest International Holdings B.V.	Owner: Mandarin Oriental, Munich
France	MOHG Hotel (Paris) Sarl	Owner: Mandarin Oriental, Paris
United States	Boylston Street Hotel LLC	Owner: Mandarin Oriental, Boston
United States	Portals Hotel Site LLC	Owner: Mandarin Oriental, Washington D.C.
Associates and joint ventures		
Singapore	Marina Bay Hotel Private Limited	Owner: Mandarin Oriental, Singapore
Thailand	OHTL PCL	Owner: Mandarin Oriental, Bangkok
Malaysia	Asas Klasik Sdn Bhd	Owner: Mandarin Oriental, Kuala Lumpur
Thailand	Chaophaya Development Corporation Limited	Owner: River City Shopping Complex
Spain	Ritz Madrid, S.A.	Owner: Mandarin Oriental Ritz, Madrid
United States	ICD Columbus Centre Hotel LLC	Owner: Mandarin Oriental, New York
United States	Swire Brickell Key Hotel Limited	Owner: Mandarin Oriental, Miami
Hong Kong	Stay One Degree Limited	Online booking service platform for luxury homes
Managed hotels		
Hong Kong	The Landmark Mandarin Oriental, Hong Kong	
Macau	Mandarin Oriental, Macau	
China	Mandarin Oriental, Sanya	
China	Mandarin Oriental, Guangzhou	
China	Mandarin Oriental Pudong, Shanghai	
China	Mandarin Oriental Wangfujing, Beijing	
Taiwan	Mandarin Oriental, Taipei	
Czech Republic	Mandarin Oriental, Prague	
Spain	Mandarin Oriental, Barcelona	
Turkey	Mandarin Oriental, Bodrum	
Turkey	Mandarin Oriental Bosphorus, Istanbul	
Italy	Mandarin Oriental, Milan	
Italy	Mandarin Oriental, Lago di Como	
Morocco	Mandarin Oriental, Marrakech	
Qatar	Mandarin Oriental, Doha	
United Arab Emirates	Mandarin Oriental Jumeira, Dubai	
United Arab Emirates	Emirates Palace, Abu Dhabi	
Saudi Arabia	Al Faisaliah Hotel, Riyadh	
Chile	Mandarin Oriental, Santiago	
Saint Vincent and the Grenadines	Mandarin Oriental, Canouan	

Mandarin Oriental, Shenzhen in China with 178 rooms, a managed hotel of the Group, opened on 20th January 2022.

Attributable interest % 2021	2020	Proportion of ordinary shares and voting powers at 31st December 2021 held by the Group %	non-controlling interests %	Hotel profile
100	100	100	–	–
100	100	100	–	–
100	100	100	–	494 rooms. Lease expiry 2895
100	100	100	–	–
100	100	100	–	179 rooms. Lease expiry 2050
96.9	96.9	96.9	3.1	272 rooms. Lease expiry 2023
100	100	100	–	181 rooms. Freehold
85.3	85.3	85.3	14.7	Lease expiry 2040
100	100	100	–	181 rooms
100	100	100	–	73 rooms. Freehold
100	100	100	–	135 rooms. Freehold
100	100	100	–	148 rooms. Freehold
100	100	100	–	373 rooms. Freehold
50	50	50	50	527 rooms. Lease expiry 2079
47.6	47.6	47.6	52.4	331 rooms. Various freehold/leasehold
25	25	25	75	629 rooms. Freehold
49	49	49	51	–
50	50	50	50	153 rooms. Freehold
25.1	25	25.1	74.9	244 rooms. Freehold
25	25	25	75	326 rooms. Freehold
16.7	16.7	16.7	83.3	–
–	–	–	–	111 rooms
–	–	–	–	213 rooms
–	–	–	–	278 rooms
–	–	–	–	263 rooms
–	–	–	–	362 rooms
–	–	–	–	73 rooms
–	–	–	–	294 rooms
–	–	–	–	99 rooms
–	–	–	–	120 rooms
–	–	–	–	130 rooms
–	–	–	–	100 rooms
–	–	–	–	104 rooms
–	–	–	–	75 rooms
–	–	–	–	63 rooms
–	–	–	–	249 rooms
–	–	–	–	256 rooms
–	–	–	–	394 rooms
–	–	–	–	321 rooms
–	–	–	–	310 rooms
–	–	–	–	35 rooms

34 Principal accounting policies

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 recognises the non-controlling interest's proportionate share of the recognised 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 recognises 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 recognised in profit and loss.

All material intercompany transactions, balances and unrealised 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.

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 recognised 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.

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.

34 Principal accounting policies *continued*

Foreign currencies *continued*

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 recognised in other comprehensive income and accumulated in equity under exchange reserves. On the disposal of these investments, such exchange differences are recognised in profit and loss. Exchange differences on other investments measured at fair value through other comprehensive income are recognised in other comprehensive income as part of the gains and losses arising from changes in their fair value. All other exchange differences are recognised 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.

Impairment of non-financial assets

Assets that have indefinite useful lives are not subject to amortisation and are tested for impairment annually and whenever there is an indication that the assets may be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 recognised 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.

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

iii) Development project contract costs are setup costs in order to secure long-term hotel management contracts and directly attributable to hotel projects under development, which are capitalised to the extent that such expenditure is expected to generate future economic benefits and upon completion of the project. Capitalised development project contract costs are amortised over the term of the management contracts when the related revenue is recognised.

34 Principal accounting policies *continued*

Tangible fixed assets and depreciation

Freehold properties comprised land and buildings. Freehold land is stated at cost less any impairment. No depreciation is provided on freehold land as it is deemed to have an indefinite life. Properties on freehold and leasehold land are stated at cost less any accumulated depreciation and impairment. 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:

Properties on freehold land and under leases more than 20 years	21 years to 150 years
Properties under leases less than 20 years	over unexpired period of lease
Surfaces, finishes and services of hotel properties	20 years to 30 years
Leasehold improvements	shorter of unexpired period of the lease or useful life
Plant and machinery	5 years to 15 years
Furniture, equipment and motor vehicles	3 years to 10 years

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 recognised by reference to their carrying amount.

Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Lease contracts may contain lease and non-lease components. The Group allocates the consideration in the contract to lease and non-lease component based on their relative stand-alone prices. For property leases where the Group is a lessee, it has elected not to separate lease and immaterial non-lease components and accounts for these items as a single lease component.

i) **As a lessee**

The Group enters into property leases for use as hotels or offices.

The Group recognises right-of-use assets and lease liabilities at the lease commencement dates, that is the dates the underlying assets are available for use. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment, and adjusted for any remeasurement of lease liabilities. The cost of the right-of-use assets includes amounts of the initial measurement of lease liabilities recognised, lease payments made at or before the commencement dates less any lease incentives received, initial direct costs incurred and restoration costs. Right-of-use assets are depreciated using the straight-line method over the shorter of their estimated useful lives and the lease terms.

When right-of-use assets meet the definition of investment properties, they are presented in investment properties, and are initially measured at cost and subsequently measured at fair value, in accordance with the Group's accounting policy.

34 Principal accounting policies *continued*

Leases *continued*

i) As a lessee *continued*

The Group also has interests in leasehold land for use in its operations. Lump sum payments were made upfront to acquire these land interests from their previous registered owners or governments in the jurisdictions where the land is located. There are no ongoing payments to be made under the term of the land leases, other than insignificant lease renewal costs or payments based on rateable value set by the relevant government authorities. These payments are stated at cost and are amortised over the term of the lease which includes the renewal period if the lease can be renewed by the Group without significant cost.

Lease liabilities are measured at the present value of lease payments to be made over the lease terms. Lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised and payments of penalties for terminating a lease, if the lease term reflects the Group exercising that option. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. Lease liabilities are measured at amortised cost using the effective interest method. After the commencement date, the amount of lease liabilities is increased by the interest costs on the lease liabilities and decreased by lease payments made.

The carrying amount of lease liabilities is remeasured when there is a change in the lease term, or there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise an extension or a termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of right-of-use asset has been reduced to zero.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low value assets (i.e. US$5,000 or less) and short-term leases. Low value assets comprised office equipment. Short-term leases are leases with a lease term of 12 months or less. Lease payments associated with these leases are recognised on a straight-line basis as an expense in profit and loss over the lease term.

Lease liabilities are classified as non-current liabilities unless payments are within 12 months from the balance sheet date.

ii) As a lessor

The Group enters into contracts with lease components as a lessor primarily on its properties. These leases are operating leases as they do not transfer the risk and rewards incidental to the underlying properties. The Group recognises the lease payments received under these operating leases on a straight-line basis over the lease term as part of revenue in the profit and loss.

34 Principal accounting policies *continued*

Investment property under development

Properties including those under operating leases which are held for long-term rental yields or capital gains are classified and accounted for as investment properties, but the business model does not necessarily envisage that the properties will be held for their entire useful life. Investment property under development is carried at fair value, representing estimated open market value determined annually by independent qualified valuers who have recent experience in the location and segment of the investment property being valued.

The market value of investment property under development is derived using the direct comparison method and the residual method. The direct comparison method is based on market evidence of transaction prices for similar properties which recently transacted. The residual method is based on the estimated capital value of the proposed development assuming completion as at the date of valuation, after deducting development costs together with developer's profit and risk. The direct comparison method and the estimated capital value of the residual method are adjusted to reflect the conditions of the subject property including property site and location. Changes in fair value are recognised in profit and loss.

Investments

The Group classifies its investments into the following measurement categories:

i) Those to be measured subsequently at fair value, either through other comprehensive income or through profit and loss; and

ii) Those to be measured at amortised cost.

The classification is based on the management's business model and their contractual cash flows characteristics.

Investments are measured at fair value with fair value gains and losses recognised in profit and loss, unless management has elected to recognise the fair value gains and losses through other comprehensive income. For investments measured at fair value through other comprehensive income, gains or losses realised upon disposal are not reclassified to profit and loss.

At initial recognition, the Group measures an investment at its fair value plus, in the case of the investment not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the investment. Transaction costs of investments carried at fair value through profit and loss are expensed in profit and loss.

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

Investments are classified as non-current assets.

34 Principal accounting policies *continued*

Stocks

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

Debtors

Trade debtors are recognised initially at the amount of consideration that is unconditional and measured subsequently at amortised costs using effective interest method. All other debtors, excluding derivative financial instruments, are measured at amortised cost except where the effect of discounting would be immaterial. The impairment measurement is subject to whether there has been a significant increase in credit risk. For trade debtors, the Group applied the simplified approach as permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the debtors. Provision for impairment is established by considering potential financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised 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.

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.

Provisions

Provisions are recognised 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.

Borrowings and borrowing costs

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

Borrowing costs relating to major development projects are capitalised until the asset is substantially completed. Capitalised 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.

34 Principal accounting policies *continued*

Government grants

Grants from governments are recognised at their fair value when there is reasonable assurance that the grant will be received, and the Group will comply with the conditions associated with the grants.

Grants that compensate the Group for expenses incurred are recognised in the profit and loss as other operating income on a systematic basis in the period in which the expenses are recognised. Unconditional grants are recognised in the profit and loss as other income on a systematic basis in the period in which the expenses are recognised. Unconditional grants are recognised in the profit and loss as other operating income when they become receivable.

Grants related to assets are deducted in arriving at the carrying value of the related assets.

Current and deferred tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted 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 realised 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 recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Employee benefits

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 recognised in other comprehensive income in the year in which they occur.

Past service costs are recognised immediately in profit and loss.

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

34 Principal accounting policies *continued*

Derivative financial instruments

The Group only enters into derivative financial instruments in order to hedge underlying exposures and not as speculative investments. Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising 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.

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective, are recognised in other comprehensive income and accumulated in equity under hedging reserves. Changes in the fair value relating to the ineffective portion is recognised immediately in profit and loss. Where the hedged item results in the recognition of a non-financial asset or of a non-financial liability, the deferred gains and losses and included in the initial measurement of the cost of the asset or liability. The deferred amounts are ultimately recognised in profit and loss as the hedged item affects profit and loss. 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. The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit and loss within finance cost at the same time as the interest expense on the hedged borrowings. 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 recognised when the committed or forecasted transaction ultimately is recognised 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 IFRS 9. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IFRS 9 are recognised 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 recognised in other comprehensive income and accumulated in exchange reserves; the gain or loss relating to the ineffective portion is recognised 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.

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 recognised 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.

34 Principal accounting policies *continued*

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 recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

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 fair value gains or losses on revaluation of investment property under development and investments which are measured at fair value through profit and loss; gains and losses arising from the sale of businesses, investments and properties; impairment of non-depreciable intangible assets, associates and joint ventures and other investments; provisions for the closure of businesses; acquisition-related costs in business combinations; and other credits and charges of a non-recurring nature that require inclusion in order to provide additional insight into underlying business performance.

Earning 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.

Dividends

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

Revenue recognition

i) Revenue from hotel ownership comprises amounts earned in respect of rental of rooms, food and beverage sales, and other ancillary services and goods supplied by the subsidiary hotels.

Revenue is recognised over the period when rooms are occupied or services are performed.

Revenue from the sale of food and beverages and goods is recognised at the point of sale when the food and beverages and goods are delivered to customers.

Payment is due immediately when the hotel guest occupies the room and receives the services and goods.

ii) Revenue from hotel and residences branding and management comprises gross fees earned from the branding and management of all the hotels and residences operated by the Group.

Branding and management fees are recognised over time as determined by the relevant contract, taking into account the performance of the hotels, and the sales and operating expenses of the residences. Fees charged to the subsidiary hotels are eliminated upon consolidation.

Hotels and residences are invoiced in accordance with the terms of contract and fees are payable when invoiced.

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

Pre-operating costs

Pre-operating costs are expensed as they are incurred.

35 Standards and amendments issued but not yet effective

A number of new standards and amendments effective for accounting periods beginning after 2021 have been published and will be adopted by the Group from their effective dates. The Group is currently assessing the potential impact of these standards and amendments but expects their adoption will not have a significant impact on the Group's consolidated financial statements. The relevant standard and amendments are set out below.

i) Amendment to IFRS 9: 'Fees in the '10 per cent' Test for Derecognition of Financial Liabilities' (effective from 1st January 2022) clarifies the requirement to derecognise the original financial liability and recognise a new financial liability where there is an exchange between an existing borrower and lender of debt instrument with substantially different terms. The amendments clarifies that the terms are substantially different if the discounted present value of the cash flows under the new terms using the original effective interest rate, including any fees paid net of any fees received, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. The Group will apply the amendment from 1st January 2022, but it is not expected the adoption will have a significant impact on the Group's consolidated financial statements.

ii) Amendments to IAS 37 – Onerous Contracts – Cost of Fulfilling a Contract (effective from 1st January 2022) clarifies that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The Group will apply the amendment from 1st January 2022, but it is not expected the adoption will have a significant impact on the Group's consolidated financial statements.

iii) IFRS 17 'Insurance Contracts' (effective from 1st January 2023) – The Group is assessing the potential impact on the Group's consolidated financial statements.

iv) Amendment to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective 1st January 2023) requires companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts taxable and deductible temporary differences. They typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities. The Group is assessing the potential impact on the Group's consolidated financial statements.

36 Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price 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 minimise 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. Hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item. The effective portion of the change in the fair value of the hedging instrument is deferred into the cash flow hedge reserve through other comprehensive income and will be recognised in profit and loss when the hedged item affects profit and loss. In general, the volatility in profit or loss can be reduced by applying hedge accounting.

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

The Group enters into interest rate swaps and caps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The Group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, effective economic relationship existed between the swaps and the loans.

The Group performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

Hedge ineffectiveness for interest rate swaps may occur due to:

i) The credit value/debit value adjustment on the interest rate swaps which is not matched by the loan;

ii) Differences in critical terms between the interest rate swaps and loans; and

iii) The effects of the forthcoming reforms to IBORs, because these might take effect at a different time and have a different impact on the hedged item (the floating-rate debt) and the hedging instrument (the interest rate swap used to hedge the debt).

The ineffectiveness during 2021 or 2020 in relation to the interest rate swaps was not material.

36 Financial risk management *continued*

Financial risk factors continued

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 2021 and 2020, the Group's principal foreign exchange exposure was with the Euro. At 31st December 2021, if the United States dollar had strengthened/weakened by 10% against Euro with all other variables unchanged, the Group's loss after tax would have been US$4.2 million (2020: US$0.2 million) higher/lower, arising from foreign exchange losses/gains taken on translation. The impact on amounts attributable to the shareholders of the Company would be US$4.2 million (2020: US$0.2 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 2021 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.

36 Financial risk management *continued*

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 2021, the Group's interest rate hedge was 37% (2020: 41%), with an average tenor of 1.9 years (2020: 2.9 years). The interest rate profile of the Group's borrowings after taking into account hedging transactions are set out in note 20.

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. Details of interest rate swaps are set out in note 29.

At 31st December 2021, if interest rates had been 100 basis points higher/lower with all other variables held constant, the Group's loss after tax would have been US$3.3 million (2020: US$2.6 million) higher/lower, and hedging reserves would have been US$4.2 million (2020: US$6.6 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 loss 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.

36 Financial risk management *continued*

Financial risk factors continued

i) **Market risk** *continued*

Price risk

The Group is exposed to price risk from its investments which are measured at fair value through profit and loss. Gains and losses arising from changes in the fair value of these investments are recognised in profit and loss or other comprehensive income according to their classification. The performance of these investments are monitored regularly, together with an assessment of their relevance to the Group's long-term strategic plans. Details of these investments are contained in note 14.

The Group's interest in these investments are unhedged. At 31st December 2021, if the price of these investments had been 25% higher/lower with all other variables held constant, non-trading operating profit and total equity would have been US$4.1 million (2020: US$4.0 million) higher/lower. The sensitivity analysis has been determined based on a reasonable expectation of possible valuation volatility over the next 12 months.

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 utilisation of credit limits is regularly monitored. At 31st December 2021, 90% (2020: 90%) 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.

36 Financial risk management *continued*

Financial risk factors *continued*

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 2021, total available borrowing facilities amounted to US$1,024 million (2020: US$834 million) of which US$730 million (2020: US$671 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities totalled US$294 million (2020: US$163 million), in addition to cash balances of US$213 million (2020: US$165 million).

The table below analyses the Group's non-derivative financial liabilities and net settled derivative financial liabilities into relevant maturity groupings based on the remaining period at 31st December 2021 and 2020 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
2021							
Borrowings	**13.3**	**96.8**	**642.9**	**0.2**	**0.2**	**1.0**	**754.4**
Lease liabilities	**8.9**	**9.1**	**8.8**	**8.8**	**7.2**	**136.6**	**179.4**
Creditors	**129.9**	**–**	**–**	**–**	**–**	**–**	**129.9**
Net settled derivative financial instruments	**2.8**	**0.8**	**0.1**	**–**	**–**	**–**	**3.7**
2020							
Borrowings	74.6	9.8	9.6	608.6	0.2	1.2	704.0
Lease liabilities	9.3	9.4	9.7	9.4	9.4	160.6	207.8
Creditors	107.7	–	–	–	–	–	107.7
Net settled derivative financial instruments	3.7	3.6	2.8	0.8	–	–	10.9

36 Financial risk management *continued*

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 maximise 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 before taking into account the impact of IFRS 16 'Leases'. 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 amortised 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 before the deduction of amortisation/depreciation of right-of-use assets, net of actual lease payments, and the Group's share of underlying results of associates and joint ventures, divided by net financing charges before the deduction of capitalised interest and excluding interest on lease liabilities. The Group does not have a defined gearing or interest cover benchmark or range.

The ratios at 31st December 2021 and 2020 are as follows:

	2021	2020
Gearing ratio		
– based on shareholders' funds	**16%**	14%
– based on adjusted shareholders' funds	**10%**	10%
Interest cover	**n/a**	n/a

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 values of unlisted investments, 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 values of other unlisted investments, are 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 or discounted cash flow by projecting the cash inflows from these investments.

There were no changes in valuation techniques during the year.

36 Financial risk management *continued*

Fair value estimation continued

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

The table below analyses financial instruments carried at fair value at 31st December 2021 and 2020, by the levels in the fair value measurement hierarchy.

	Observable current market transactions US$m	Unobservable input US$m	Total US$m
2021			
Assets			
Other investments	**6.0**	**10.5**	**16.5**
Derivative financial instruments at fair value			
– through other comprehensive income	**4.4**	**–**	**4.4**
	10.4	**10.5**	**20.9**
Liabilities			
Derivative financial instruments at fair value			
– through other comprehensive income	**(3.6)**	**–**	**(3.6)**
2020			
Assets			
Other investments	5.4	10.7	16.1
Liabilities			
Derivative financial instruments at fair value			
– through other comprehensive income	(10.9)	–	(10.9)

There were no transfers among the two categories during the year ended 31st December 2021 and 2020.

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

	Unlisted investments	
	2021 US$m	2020 US$m
At 1st January	**10.7**	11.3
Additions	**–**	0.6
Disposals	**(0.2)**	(1.2)
At 31st December	**10.5**	10.7

ii) **Financial instruments that are not measured at fair value**

The fair values of current debtors, bank and cash balances, current creditors, current borrowings and current lease liabilities 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. The fair values of non-current lease liabilities are estimated using the expected future payments discounted at market interest rates.

36 Financial risk management *continued*

Financial instruments by category

The fair values of financial assets and financial liabilities, together with carrying amounts at 31st December 2021 and 2020 are as follows:

	Fair value of hedging instruments US$m	Fair value through profit and loss US$m	Financial assets at amortised cost US$m	Other financial liabilities US$m	Total carrying amount US$m	Fair value US$m
2021						
Financial assets measured at fair value						
Other investments	–	**16.5**	–	–	**16.5**	**16.5**
Derivative financial instruments	**4.4**	–	–	–	**4.4**	**4.4**
	4.4	**16.5**	–	–	**20.9**	**20.9**
Financial assets not measured at fair value						
Debtors	–	–	**58.0**	–	**58.0**	**58.0**
Bank and cash balances	–	–	**212.8**	–	**212.8**	**212.8**
	–	–	**270.8**	–	**270.8**	**270.8**
Financial liabilities measured at fair value						
Derivative financial instruments	**(3.6)**	–	–	–	**(3.6)**	**(3.6)**
Financial liabilities not measured at fair value						
Borrowings	–	–	–	**(730.3)**	**(730.3)**	**(730.3)**
Lease liabilities	–	–	–	**(153.7)**	**(153.7)**	**(153.7)**
Trade and other payables excluding non-financial liabilities	–	–	–	**(129.9)**	**(129.9)**	**(129.9)**
	–	–	–	**(1,013.9)**	**(1,013.9)**	**(1,013.9)**
2020						
Financial assets measured at fair value						
Other investments	–	16.1	–	–	16.1	16.1
Financial assets not measured at fair value						
Debtors	–	–	60.5	–	60.5	60.5
Bank and cash balances	–	–	164.6	–	164.6	164.6
	–	–	225.1	–	225.1	225.1
Financial liabilities measured at fair value						
Derivative financial instruments	(10.9)	–	–	–	(10.9)	(10.9)
Financial liabilities not measured at fair value						
Borrowings	–	–	–	(670.8)	(670.8)	(670.8)
Lease liabilities	–	–	–	(177.1)	(177.1)	(177.1)
Trade and other payables excluding non-financial liabilities	–	–	–	(107.7)	(107.7)	(107.7)
	–	–	–	(955.6)	(955.6)	(955.6)

37 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 according to circumstances and conditions available. The existing and potential impacts arising from the COVID-19 pandemic have been considered when applying estimates and assumptions in the preparation of the financial statements, including the Group's assessment of impairment of assets and the independent valuers' valuation of the Group's investment property under development. Given the uncertainty of the impact of COVID-19 pandemic, the actual results may differ from these accounting estimates.

The estimates and assumptions that have a significant effect on the reported amounts of assets and liabilities, and income and expenses are discussed below.

Investment property under development

The fair value of investment property under development is determined by independent valuers on an open market basis using the direct comparison method and the residual method with equal weighting. The direct comparison method and the estimated capital value of the residual method are made by reference to comparable market transactions and adjusted for property-specific qualitative factors. The residual method is also based on assumptions about the estimated costs to complete the development, the developer's estimated profit and margin for risk and capitalisation rates.

Consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet date.

The independent valuers have considered climate change, sustainability, resilience and environmental, social and governance ('ESG') within their valuations. Investment property under development held by the Group is considered to currently display ESG characteristics that would be expected in the market, and therefore there were no direct and tangible pricing adjustments required to the valuation of the investment property under development. The Group will monitor these considerations for each reporting period.

Impairment of assets

The Group tests annually whether goodwill that has indefinite useful life suffered any impairment. Other assets such as tangible fixed assets and development project contract 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.

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the balance sheet date *(refer note 17)*.

37 Critical accounting estimates and judgements *continued*

Tangible fixed asses 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.

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. There is a rebuttable presumption in International Financial Reporting Standards that investment properties measured at fair value are recovered through sale. Thus deferred tax on revaluation of investment property under development held by the Group is calculated at the capital gain tax rate.

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 utilised. The outcome of their actual utilisation may be different.

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.

37 Critical accounting estimates and judgements *continued*

Leases

Liabilities and the corresponding right-of-use assets arising from leases are initially measured at the present value of the lease payments at the commencement date, discounted using the interest rates implicit in the leases, or if that rate cannot be readily determinable, the Group uses the incremental borrowing rate. The Group generally uses the incremental borrowing rate as the discount rate.

The Group applies the incremental borrowing rate with reference to the rate of interest that the Group would have to pay to borrow, over a similar term as that of the lease, the funds necessary to obtain an asset of a similar value to the right-of-use asset in the country where it is located.

Lease payments to be made during the lease term will be included in the measurement of a lease liability. The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any period covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, the Group considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew. The assessment of whether the Group is reasonably certain to exercise the options impacts the lease terms, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

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.

Interest rate benchmark reform

Following the financial crisis, the reform and replacement of benchmark interest rates such as US$ LIBOR and other interbank offered rates ('IBORs') has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes on some IBORs.

To transition existing contracts and agreements that reference IBORs (including US$ LIBOR) to risk free rates ('RFRs') such as US$ LIBOR to Secured Overnight Financing Rate, adjustments for term differences and credit differences might need to be applied to RFRs, to enable the two benchmark rates to be economically equivalent on transition. The greatest change will be amendments to the contractual terms of the IBORs-referenced floating-rate debt and the associated swap and the corresponding update of the hedge designation. However, the changed reference rate might also affect other systems, processes, risk and valuation models, as well as having tax and accounting implications.

37 Critical accounting estimates and judgements *continued*

Interest rate benchmark reform continued

Group Treasury is managing the IBORs transition plan, which has progressed throughout 2021. GBP LIBOR ceased on 31st December 2021 and all existing contracts and agreements with a reference to GBP LIBOR were transitioned by this date. We have also transitioned all material contracts referencing the Singapore Swap Offer Rate in 2021. US$ LIBOR is expected to cease on 30th June 2023, and the Group's transition plan is on track to ensure conversion of existing US$ LIBOR contracts by the date of cessation.

Relief applied

The Group has applied the following reliefs that were introduced by the amendments made to IFRS 9 'Financial Instruments' in September 2019 and August 2020:

i) When considering the 'highly probable' requirement, the Group has assumed that the IBORs interest rate on which the Group's hedged debt is based does not change as a result of IBORs reform.

ii) In assessing whether the hedge is expected to be highly effective on a forward-looking basis the Group has assumed that the IBORs interest rate on which the cash flows of the hedged debt and the interest rate swap that hedges it are based is not altered by IBORs reform.

iii) The Group has not recycled the cash flow hedge reserve relating to the period after the reforms are expected to take effect.

iv) For financial instruments measured using amortised cost measurement, changes to the basis for determining the contractual cash flows required by interest rate benchmark reform are reflected by adjusting their effective interest rate. No immediate gain or loss is recognised.

v) For lease liabilities where there is a change to the basis for determining the contractual cash flows, the lease liability is remeasured by discounting the revised lease payments using a discount rate that reflects the change in the interest rate where the change is required by IBORs reform.

Assumptions made

In calculating the change in fair value attributable to the hedged risk of floating-rate debt, the Group has made the following assumptions that reflect its current expectations:

i) The IBORs-referenced floating-rate debt will move to RFRs during 2023 and the spread will be similar to the spread included in the interest rate swap used as the hedging instrument.

ii) No other changes to the terms of the floating-rate debt are anticipated.

iii) The Group has incorporated the uncertainty over when the IBORs-referenced floating-rate debt will move to RFRs, the resulting adjustment to the spread, and the other aspects of the reform that have not yet been finalised by adjusting the discount rate used in the calculation.