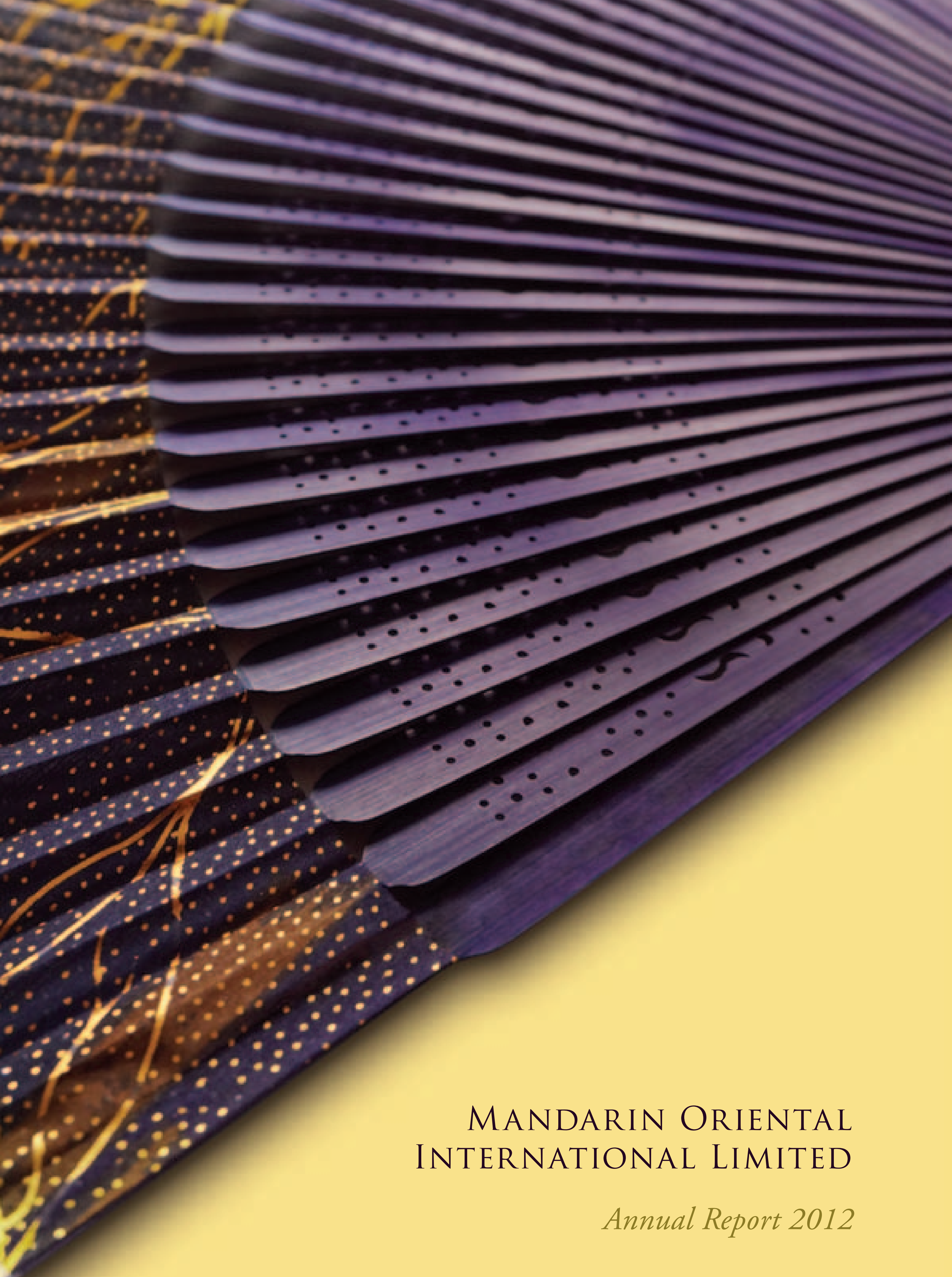

Mandarin Oriental International Limited

Annual Report 2012

Mandarin Oriental Hotel Group is an international hotel investment and management group with deluxe and first class hotels, resorts and residences in sought-after destinations around the world. The Group now operates, or has under development, 44 hotels representing over 11,000 rooms in 27 countries, with 19 hotels in Asia, 12 in The Americas and 13 in Europe, Middle East and North Africa. In addition, the Group operates, or has under development, 14 *Residences at Mandarin Oriental* connected to its properties. The Group has equity interests in a number of its properties and net assets worth approximately US$2.9 billion as at 31st December 2012.

Mandarin Oriental's aim is to be recognized widely as the best global luxury hotel group, providing 21st century luxury with oriental charm in each of its hotels. This will be achieved by investing in the Group's exceptional facilities and its people, while maximizing profitability and long-term shareholder value. The Group regularly receives recognition and awards for outstanding service and quality management. The strategy of the Group is to open the hotels currently under development, while continuing to seek further selective opportunities for expansion around the world.

The parent company, Mandarin Oriental International Limited, is incorporated in Bermuda and has a premium listing on the London Stock Exchange, with secondary listings in Bermuda and Singapore. Mandarin Oriental Hotel Group International Limited, which operates from Hong Kong, manages the activities of the Group's hotels. Mandarin Oriental is a member of the Jardine Matheson Group.

Jardines
A member of the Jardine Matheson Group

Contents

Corporate Information

Directors

Simon Keswick *Chairman*
Ben Keswick *Managing Director*
Edouard Ettedgui *Group Chief Executive*
Stuart Dickie
Mark Greenberg
Julian Hui
Adam Keswick
Sir Henry Keswick
Lord Leach of Fairford
Dr Richard Lee
Lincoln K.K. Leong
Anthony Nightingale
Lord Powell of Bayswater, KCMG
Lord Sassoon, Kt
James Watkins
Percy Weatherall
Giles White

Company Secretary and Registered Office

John C. Lang
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Hamilton, Bermuda

Mandarin Oriental Hotel Group International Limited

Directors

Ben Keswick *Chairman*
Edouard Ettedgui *Group Chief Executive*
R.D. Baker
Stuart Dickie *Chief Financial Officer*
Mark Greenberg
A.R.R. Hirst
M.H. Hobson
Adam Keswick
C.J.W. Mares
James Riley
T.L. Stinson
Giles White

Corporate Secretary

N.M. McNamara

Highlights

Mandarin Oriental International Limited

- Underlying profit up 20%
- Four new hotel management contracts announced
- Acquisition of the freehold interest in Mandarin Oriental, Paris
- Mandarin Oriental, Guangzhou opens

Results

	Year ended 31st December 2012 US$m	2011 US$m	Change %
Combined total revenue of hotels under management[1]	**1,283.3**	1,196.4	7
Underlying EBITDA (Earnings before interest, tax, depreciation and amortization)[2]	**174.6**	163.0	7
Underlying profit attributable to shareholders[3]	**70.8**	59.0	20
Profit attributable to shareholders	**72.3**	67.5	7
	US¢	US¢	%
Underlying earnings per share[3]	**7.09**	5.92	20
Earnings per share	**7.24**	6.78	7
Dividends per share	**7.00**	6.00	17
	US$	US$	%
Net asset value per share	**0.95**	0.91	4
Adjusted net asset value per share[4]	**2.88**	2.70	7
Net debt/shareholders' funds	**14%**	12%	
Net debt/adjusted shareholders' funds[4]	**5%**	4%	

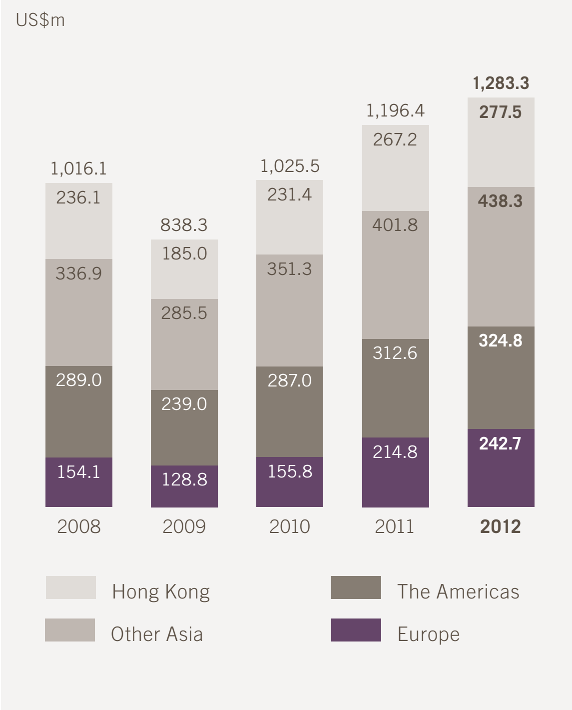
1 Combined revenue includes turnover of the Group's subsidiary hotels in addition to 100% of revenue from associate and managed hotels.

2 EBITDA of subsidiaries plus the Group's share of EBITDA of associates.

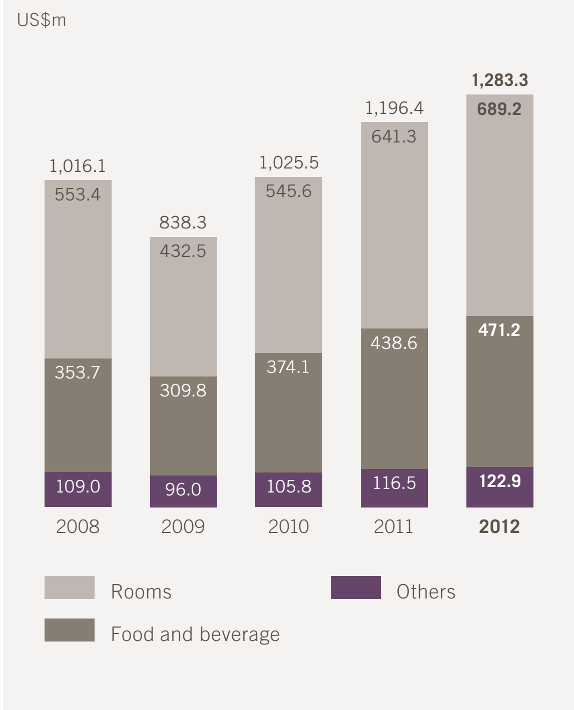
3 Underlying profit attributable to shareholders and underlying earnings per share exclude non-trading items such as gains on disposals, provisions against asset impairment and writeback thereof.

4 The adjusted net asset value per share and net debt/adjusted shareholders' funds have been adjusted to include the market value of the Group's freehold and leasehold interests which are carried in the consolidated balance sheet at amortized cost.

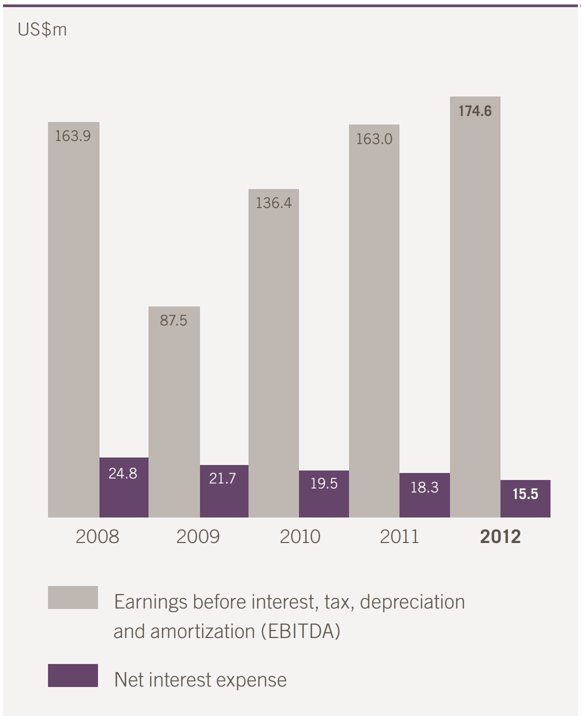
Combined total revenue
by geographical area



Combined total revenue
by type of business



EBITDA and net interest expense



Net debt/adjusted shareholders' funds

Chairman's Statement

Overview

Resilient demand from the leisure sector enabled most of the Group's hotels to increase average rates during the year despite the impact on corporate business from the continued uncertainty in the global economy. Overall, the Group's hotels performed well and underlying profitability was higher than in the prior year.

Performance

Underlying earnings before interest, tax, depreciation and amortization for 2012 were US$175 million, compared to US$163 million in 2011. Underlying profit was up 20% at US$71 million, and underlying earnings per share were also 20% higher at US¢7.09.

Profit attributable to shareholders was US$72 million in 2012, compared to US$67 million in the prior year. The 2012 result includes a non-trading writeback of a US$2 million provision against an asset impairment, while 2011 benefited from US$8 million of net non-trading profit.

After taking into account an independent valuation of the Group's hotel properties, the net asset value per share was US$2.88 at 31st December 2012, compared with US$2.70 per share at the end of 2011.

The Directors recommend a final dividend of US¢5.00 per share. This, together with the interim dividend of US¢2.00 per share, will make a total annual dividend of US¢7.00 per share, an increase of US¢1.00 per share from 2011.

Group review

In Hong Kong, the Group's two wholly-owned hotels performed well, exceeding the record results achieved in the prior year. In Tokyo and Bangkok, a sustained recovery from the effects of natural disasters in 2011 resulted in increased occupancy at both hotels. Robust demand in Singapore also led to an improved performance.

In Europe, revenue per available room increased in every location except Geneva, where the hotel's performance was affected by a phased room renovation and a strong Swiss franc. Mandarin Oriental Hyde Park, London benefited from a number of one-off events, most notably the 2012 Olympics. Mandarin Oriental, Paris recorded increased occupancy while maintaining a high average rate.

In The Americas, individual hotel performances varied amidst a climate of political and economic uncertainty.

Development

In February 2013, the Group acquired the freehold rights of the building housing Mandarin Oriental, Paris and two prime retail units for €290 million (US$389 million). The Group previously leased the hotel under a long-term contract.

Mandarin Oriental, Guangzhou, which is located in the city's central business district, opened in January 2013 and features 263 rooms and 24 serviced apartments. Mandarin Oriental, Pudong Shanghai is scheduled to open in the second quarter of 2013, followed by Mandarin Oriental, Taipei later in the year.

During 2012, management contracts for new hotels under development in Bodrum in Turkey, Marrakech in Morocco, and Chengdu in China were announced. In addition, the Group assumed management of an existing 127-room luxury hotel in the United States, which has been rebranded Mandarin Oriental, Atlanta.

Mandarin Oriental now operates 28 hotels, compared with 26 at the start of 2012, and has a further 16 hotels under development. Together these represent over 11,000 rooms in 27 countries. In addition, the Group operates six *Residences at Mandarin Oriental* connected to its properties, with a further eight under development.

People

On behalf of the Directors, I would like to express my appreciation to the growing number of employees throughout the Group for continuing to deliver the exceptional service for which the brand is renowned.

Robert Léon retired as a Director on 31st December 2012 and we would like to thank him for his contribution. Lord Sassoon joined the Board on 23rd January 2013.

I will be stepping down as Chairman of the Company after the Annual General Meeting on 15th May 2013. I will remain as a non-executive Director. I am pleased to advise that Ben Keswick will be succeeding me as Chairman.

Outlook

While global economic conditions remain uncertain, the Group's results should benefit from the strength of its portfolio, the acquisition of the Paris property and the limited new supply of luxury hotels in the Group's key markets.

Simon Keswick
Chairman
7th March 2013

Group Chief Executive's Review

Business model and strategy

Mandarin Oriental Hotel Group is an award-winning international hotel investment and management group with deluxe and first class hotels, resorts and residences in sought-after destinations around the world. The Group now operates, or has under development, 44 hotels representing over 11,000 rooms in 27 countries, with 19 hotels in Asia, 12 in The Americas and 13 in Europe, Middle East and North Africa. In addition, the Group operates, or has under development, 14 *Residences at Mandarin Oriental* connected to its properties. The Group has equity interests in a number of its properties and adjusted net assets of approximately US$2.9 billion as at 31st December 2012. Capitalizing on the strength of its brand, the Group also operates hotels on behalf of third party owners that require no equity investment by the Group.

The Group's strategy is to be recognized widely as the best global luxury hotel group, which it will achieve by investing in its exceptional facilities and its people while continuing to seek further selective opportunities for expansion around the world. This strategy combined with a strong balance sheet is designed to achieve long-term growth in both earnings and net asset value.

Progress achieved

The Group benefited from continued recognition of the Mandarin Oriental brand internationally, which allowed the hotels to raise rates in almost every destination, despite reduced corporate demand in some markets. Overall, the Group experienced improved demand from the leisure sector, and from its successful development of new markets.

Overall performances were stronger in Asia, particularly in Hong Kong and Jakarta, as well as in Bangkok and Tokyo where our hotels have recovered from the effects of the natural disasters of 2011. In Europe, the Group benefited from the increasing number of high net worth travellers who are attracted to our luxury brand, particularly as a result of the positive publicity achieved following the opening of Mandarin Oriental, Paris in June 2011. In February 2013, the Group acquired the freehold rights of the building housing our Paris hotel, along with two prime retail units, for €290 million (US$389 million), securing a long-term presence in the city.

Having a strong brand presence in top tier cities such as Paris, London and New York is crucial to all luxury brands, and Mandarin Oriental will further benefit from the prominent exposure our owned hotels have achieved in these important destinations.

The Group's global brand recognition was further enhanced in 2012 with the re-branding of an existing luxury hotel in Atlanta in the United States and the announcement of three new management contracts for hotels under construction in Bodrum, Turkey, in Marrakech, Morocco and in Chengdu, China. In January 2013, the Group successfully launched Mandarin Oriental, Guangzhou, located in the heart of the city's central business district.

Mandarin Oriental's reputation for excellence continues to grow as more hotels open in key destinations, and this, combined with our financial strength, places the Group in a strong position to take advantage of opportunities for further growth.

Performance in 2012

Set out below is a review of the Group's performance in 2012, with reference to the following strategic objectives:

- Being recognized as the world's best luxury hotel group
- Strengthening our competitive position
- Increasing the number of rooms under operation to 10,000
- Achieving a strong financial performance

1) Being recognized as the world's best luxury hotel group

Mandarin Oriental is increasingly recognized for creating some of the world's most sought-after properties, delivering 21st century luxury with oriental charm. Each of our hotels ensures its position as one of the best in its market through a combination of tradition, quality and innovation. Throughout the portfolio, the Group delivers its unique style of luxury, and continues to invest behind its core brand attributes of creative hotel design, architecture and technology, holistic spa operations and excellent dining experiences. Above all, the delivery of legendary service to our guests remains at the forefront of everything we do.

The Group's increasing global recognition in 2012 is evidenced by the achievement of many significant awards from respected travel associations and publications worldwide. Highlights included 11 hotels being awarded in the 2013 *Forbes Travel Guide*, with eight properties around the world gaining the top 'Five Star Hotel' status, and two properties in the US gaining the rare 'triple crown' for hotel, spa and restaurant. Moreover, four of the Group's hotels in the United States achieved the coveted 'Five Diamond Lodging Award' for 2013 from the *American Automobile Association*. These two listings are the most prestigious awards in the hotel industry, and are given to very few hotels in recognition of service excellence.

Condé Nast Traveler US 'Readers Choice Awards' 2012 featured a record 15 hotel awards, with six hotels being listed as one of the top three in their respective cities. In addition, 'The World's Best 2012' from *Travel + Leisure* included winning entries for ten hotels. The Group was also well represented in the respected *Institutional Investor's* 'World's Best 2012' listings. Eight hotels were recognized here as best in their class, with The Landmark Mandarin Oriental, Hong Kong being voted the 'Best Hotel in the World'.

The Group's reputation for excellent and innovative dining experiences was again acknowledged in the most recent 2013 *Michelin* guides with nine restaurants being honoured – which is more than any other hotel group in the world – and a total of 12 stars being granted. In addition, both *Amber* at The Landmark Mandarin Oriental, Hong Kong and *Dinner* at Mandarin Oriental Hyde Park, London were voted as two of the 'Top 50 Restaurants' in the world in the prized *San Pellegrino* listings.

In terms of the Group's overall spa operations, Mandarin Oriental was nominated for the fifth consecutive year as one of the 'Best Spa Brands' in *SpaFinder's* 2012 'Readers' Choice Awards'. The prestigious *Forbes* 'Five Star Spa' 2013 award has also been granted to a record eight hotels. Again, this is more than any other hotel group in the world.

The Group's commitment to working with some of the best architects and designers was also recognized in 2012. In particular, Mandarin Oriental, Paris was singled out for several honours throughout the year for its creative design. These included *Travel + Leisure's* 'Best Restaurant Design Award' for both *Sur Mesure* and *Camélia*, and *Sleeper Magazine's* Design Award for 'Best Spa'.

Mandarin Oriental's global recognition is further enhanced by our award-winning international advertising campaign which now features 25 celebrity 'fans', who regularly stay in our hotels. The Group welcomed three new fans to the campaign in 2012: Hong Kong based actress and singer, Karen Mok; Taiwanese model and actress, Lin Chiling and Italian film star, Caterina Murino. All three celebrities will further enhance the Group's brand recognition as we open hotels over the next few years in China, Taiwan and Italy.

The Group also continues to invest in digital marketing, having recently launched its new experiential website, which has been designed to encourage visitors to spend more time with the brand online. Innovative features include the ability to create a unique guest profile, thereby allowing all hotels to better meet the individual preferences of our guests. Online bookings for the first three months since launch have increased by 14% over the same period in the previous year, representing 11% of total room nights sold. Furthermore, the Group actively encourages a global conversation with consumers through a strong presence on the major social media sites, including Facebook, Twitter, YouTube and Sina Weibo in China, where the Group has doubled its audience over 2011.

Our goal, to be recognized as the world's best luxury hotel group, will of course be further accomplished as we increase the number of hotels we operate in new and exciting travel destinations.

2) Strengthening our competitive position

Critical to the Group's success is the ability of our hotels to maintain or enhance their leadership positions against primary competitors in their individual markets. Strong brand recognition, combined with the strength of our hotel management teams, plus the added support provided by an established corporate structure, allows our properties to compete effectively and to achieve premium rates.

Demographic trends continue to support the Group's strategy of creating quality services and facilities which attract individuals who will pay a premium for genuine luxury experiences that are meaningful and of value. Understated luxury, as opposed to conspicuous consumption, remains in demand amongst the higher spending leisure customers, who now make up over 43% of the Group's room nights. This successful shift in consumer demand, as a result of the services and facilities offered and the Group's marketing efforts, has resulted in an increase in the average rate across the portfolio. These high net worth individuals continue to come from the Group's traditional markets, but increasingly, the Group is attracting additional customers from the emerging markets, predominantly China, which is the second largest source of business after the United States, accounting for 13% of our total visitor arrivals.

Our competitive position has been further supported by limited new supply in many of our key markets.

The highlights of each region are as follows:

Asia

The Group performed well in Asia, where all hotels increased their average rates in local currency terms and demand recovered in Tokyo and Bangkok. Overall, Revenue per Available Room ('RevPAR') for Asia was up by 6% in US dollar terms over the previous year on a like-for-like basis.

Strong city-wide activity continued in Hong Kong and the 100%-owned Mandarin Oriental, Hong Kong exceeded its historically high results achieved in 2011. Food and beverage revenues improved, with a 7% increase over the prior year. Both Mandarin Oriental, Hong Kong and The Landmark Mandarin Oriental received the 'Five Star' rating in the *Forbes Travel Guide 2013* for both the hotel and spa, for the fourth year in succession.

At The Excelsior, the Group's other 100%-owned hotel in Hong Kong, occupancy remained at high historical levels of 88%. The hotel maintained its RevPAR at similar levels to 2011.

In Tokyo, our hotel's performance benefited from an increase in occupancy following a recovery in visitor arrivals to the city, after the negative impact of the earthquake and subsequent tsunami in 2011. This resulted in an overall increase in RevPAR of 26% in local currency terms. The hotel was listed as the top hotel in Japan in *Travel + Leisure's* 2012 'Top 500 Hotels' listing.

Mandarin Oriental, Singapore took full advantage of stronger city-wide demand, driving further increases in occupancy and average rate, which led to an overall RevPAR improvement of 10% in local currency terms. Mandarin Oriental, Singapore was the only property in the city to achieve *Forbes* 'Five Star' status in the annual *Forbes Travel Guide 2013* for both the hotel and its spa, and was voted the number one hotel in Singapore in *Trip Advisor's* 2012 'Traveler's Choice'.

Mandarin Oriental, Bangkok also benefited from increased visitor arrivals to the city, following a sustained recovery from the effects of severe flooding in northern Thailand in the last quarter of 2011, resulting in an overall RevPAR improvement of 21% in local currency terms. The hotel remains the market leader in the city and was once again recognized as one of the world's best hotels in the most important travel awards, including the 'Best Hotel in Thailand' in *Condé Nast Traveler, US 2012* 'Readers' Choice Awards'.

Mandarin Oriental, Jakarta was positively impacted by the stronger Indonesian economy and continued to improve its competitive position following its comprehensive renovation in 2010, achieving an overall increase in RevPAR of 27% in local currency terms over the previous year. The hotel was voted the 'Best Hotel in Jakarta' in *Business Traveller, Asia Pacific 2012* 'Readers Choice Awards'. In addition, Mandarin Oriental, Kuala Lumpur achieved an increase in RevPAR of 7% in local currency terms and improved its food and beverage revenues by 8% in local currency terms, following investment in the refurbishment of several of its restaurants and bars.

The Group's remaining hotels benefited from the region's stronger demand, with RevPAR up in nearly all locations.

Europe

In Europe, despite difficult market conditions, all of the Group's hotels are positioned at the top end of their markets, and mostly continued to benefit from resilient demand in the leisure sector, which compensated somewhat for reduced corporate business. Across the region, RevPAR was down 3% in US dollar terms, on a like-for-like basis with 2011. In local currency terms, RevPAR increased by 1%.

Mandarin Oriental Hyde Park, London's performance was bolstered by strong demand, particularly from leisure travellers from both traditional and new markets, in a landmark year for the city as a result of the 2012 Olympics and the celebrations for the Queen's Diamond Jubilee. Occupancy remained high at 78% and further increases in average rates led to a 3% improvement in RevPAR, in local currency terms. The hotel's food and beverage revenues also increased by 7% with the hotel's two award-winning restaurants, *Dinner* by Heston Blumenthal and *Bar Boulud*, continuing to garner significant publicity. As well as being listed as the ninth 'Best Restaurant in the World' in the *San Pellegrino Awards*, *Dinner* was also voted the 'Best UK Hotel Restaurant' in the 2012 *National Restaurant Awards*.

The hotel will introduce new facilities in 2013, including a swimming pool and fitness centre, in space created within the *One Hyde Park*, *Residences at Mandarin Oriental* complex, adjacent to the hotel.

Mandarin Oriental, Munich benefited from strong demand in the high-end leisure market, successfully maintaining its position as the undisputed market leader. Despite a reduction in occupancy levels, strong improvements in average rate resulted in a 7% RevPAR increase in local currency terms.

In Geneva, our hotel's performance was negatively impacted by a phased rooms renovation and the strong Swiss franc which continued to deter visitors to the city. Consequently average rates were lower, resulting in an overall RevPAR decrease of 9% in local currency terms. The Group will continue to invest in the hotel's facilities with plans for a new pool and spa to be introduced in the next few years.

Since its opening in June 2011, Mandarin Oriental, Paris continued to stabilize and is now recognized as one of the best luxury hotels in the city. The property achieved an average rate of €910, and an occupancy of 58%, which will grow over time as the hotel builds market share in this highly competitive city. The hotel's food and beverage operations, led by renowned Chef Thierry Marx, have attained many accolades, and the signature restaurant, *Sur Mesure*, was once again awarded two Michelin stars in the 2013 listing. Mandarin Oriental, Paris was highlighted in *Condé Nast Traveler's*, 2012 'Hot List' as 'Best New Hotel' with *Sur Mesure* nominated as one of the year's best dining experiences or 'Hot Tables'.

In Barcelona and Prague, our hotels successfully improved their performance over 2011, and performed well against the competition in their respective markets. Both properties received further global recognition for excellence, with Mandarin Oriental, Prague voted the 'Best Hotel in the Czech Republic' in the *World Travel Awards 2012*, and Mandarin Oriental, Barcelona achieving two Michelin Stars for Chef Carme Ruscalleda's restaurant *Moments* in the 2013 Guide.

Group Chief Executive's Review *Continued*

The Americas

In The Americas, RevPAR increased by 5% on a like-for-like basis compared to the previous year, despite uncertain economic conditions in the United States which resulted in an uneven pace of recovery across the country.

Mandarin Oriental, Washington D.C. did well to maintain its average rate despite weaker city-wide demand. Overall, RevPAR decreased by 4% compared to 2011. The hotel appeared in numerous reader surveys in prestigious publications and received the *American Automobile Association's* 'Five Diamond Award' for its restaurant *Cityzen*.

Mandarin Oriental, New York improved its competitive position, increasing its average rate to over US$900, while maintaining occupancy at 71%. This resulted in a 4% increase in RevPAR. The hotel's international recognition as one of the world's most luxurious properties was further reinforced by the retention of both the prestigious *Forbes* 'Five Star' rating and the *American Automobile Association's* 'Five Diamond Lodging Award'.

In Miami, our hotel did well to maintain its competitive position, increasing its average rate despite a drop in city-wide demand, which led to a decline in occupancy. The hotel continues to receive positive media attention, achieving a triple *Forbes* 'Five Star' rating in 2013 for the hotel, the spa and for its restaurant *Azul* – the only hotel in Florida to so do.

Mandarin Oriental, San Francisco celebrated its 25th anniversary this year and completed a rooms and public area renovation. While overall occupancy levels declined following the closure of the hotel during the renovation, the new facilities have been well received and the hotel has increased its average rate by approximately 14% compared to 2011.

In other destinations, our managed hotels in Boston and Las Vegas performed particularly well, with significant RevPAR increases. Both properties achieved the *Forbes* 'Five Star' rating in 2013 for hotel and spa, with the hotel in Las Vegas achieving a further 'Five Star' rating for its restaurant, *Twist*, operated by Pierre Gagnaire.

3) Increasing the number of rooms under operation to 10,000

Mandarin Oriental has achieved strong geographic diversification with a well balanced portfolio across the globe and is on track to achieve its mid-term goal of operating 10,000 rooms in key global locations within the next few years. Today, the Group operates close to 8,000 rooms in 28 hotels around the world. The total portfolio however, including hotels under development, now extends to over 11,000 rooms, with 44 hotels in 27 countries.

Four new hotel management contracts were signed in the first half of 2012:

- In February, the Group announced a new resort in Bodrum, currently under development on an exclusive 60 hectare waterfront site on Turkey's Riviera coastline. Expected to open in 2014, the property will feature 82 guestrooms and 20 suites, as well as 214 luxury private homes which will be branded and managed as *Residences at Mandarin Oriental*.
- In March, the Group announced a luxury resort currently under development in Marrakech, Morocco, which is also scheduled to open in 2014. Mandarin Oriental, Marrakech will be set in 20 hectares of landscaped grounds, featuring 54 individual villas and seven suites in a unique resort environment.
- In May, the Group successfully took over the management of an existing 127-room luxury hotel in Atlanta, which has been rebranded Mandarin Oriental, Atlanta. The hotel is situated in the heart of the city's prestigious Buckhead neighbourhood, with easy access to the region's finest dining, shopping and cultural attractions. Also included in the building are 25 *Residences at Mandarin Oriental*, which are currently being marketed and which will provide the Group with additional branding fees.
- In June, a luxury 320-room hotel project was announced in Chengdu, China. Mandarin Oriental, Chengdu, which is due to open in 2015, will form part of a mixed-use development located on a prime riverfront site, close to the city's prominent commercial and entertainment area.

In January 2013, the Group launched a new luxury property in Guangzhou, which will be followed later in the year by hotel openings in Shanghai and Taipei. Mandarin Oriental, Beijing will follow in 2014. Mandarin Oriental now has five hotels in operation or under development in mainland China, plus the three operating properties in Hong Kong and two operating in Macau. Looking forward, the Group sees further potential in greater China for additional hotels in top tier cities, as well as opportunities to grow our brand in relevant second tier cities.

In February 2013, Mandarin Oriental acquired the freehold interest in the building housing Mandarin Oriental, Paris and two prime street front retail units for €290 million (US$389 million). The transaction has been partly funded by new five-year €150 million (US$201 million) debt facilities, with the balance from the Group's cash reserves. The transaction offers a rare opportunity to acquire a prime piece of real estate in a key gateway city which is an important destination for our luxury brand. The acquisition is expected to be earnings enhancing and to bring a number of additional benefits including single ownership, whereby the Freehold, Leasehold and *Fonds de Commerce* rights are combined, unlocking the full market value of the asset. The acquisition also brings about opportunities for future expansion of the hotel.

In total, the Group has 16 new hotels under development, all of which are long-term management contracts requiring no capital investment by the Group. In addition to the Group's portfolio of hotels, a total of 14 *Residences at Mandarin Oriental* projects are open or under development. The associated branding fees from these projects, as well as ongoing revenues from management fees and the use of hotel facilities by the home owners, will provide an additional return for the Group over the next few years.

The long-term potential for growth is significant and the Group's strategy of operating both owned and managed hotels remains in place. Mandarin Oriental is well positioned to take advantage of selective investment opportunities in strategic locations that offer attractive returns, such as we have recently done in Paris, while at the same time our strong brand continues to be sought after by developers of luxury hotels. The Group has in the pipeline many opportunities for additional luxurious hotels and residences in important or unique locations around the world.

4) Achieving a strong financial performance

The Group's financial well being remains fundamental to its success. In 2012, the Group's overall financial performance was strengthened as a result of the solid operating performances across its portfolio, particularly in Asia. Profit attributable to shareholders in 2012 was US$71 million compared to US$59 million in 2011, excluding non-trading items. Including non-trading items, profit attributable to shareholders in 2012 was US$72 million, an increase of US$5 million from 2011.

The Group's balance sheet remains strong. Including the impact of the Paris acquisition in February 2013, the Group's gearing was 18% of adjusted shareholder funds.

Reflecting the Group's strong financial position, the Board has recommended a final dividend of US¢5.00, which, when combined with the interim dividend of US¢2.00, makes a full year dividend of US¢7.00.

The future

Further improvement in demand for Mandarin Oriental's luxury hotels is dependent on a sustained recovery of the global economy. However, the Group will benefit from its strong brand and its growing portfolio as new properties open in sought-after destinations around the world, as well as by the limited supply of competitive luxury hotels in our key markets. With the credibility of the brand now firmly established, supported by our strong balance sheet, Mandarin Oriental is well on the way to being recognized as the best luxury hotel group in the world.

Edouard Ettedgui
Group Chief Executive
7th March 2013

Operating Summary

There are 28 hotels in operation, but the operating summary includes only hotels in which the Group has an equity interest and were operating throughout 2012.

ASIA

Mandarin Oriental, Hong Kong 100% ownership

	2012	2011	% Change
Available rooms	**501**	501	0
Average occupancy (%)	**69**	71	(3)
Average room rate (US$)	**475**	468	1
RevPAR (US$)	**329**	330	(0)

The Excelsior, Hong Kong 100% ownership

	2012	2011	% Change
Available rooms	**884**	884	0
Average occupancy (%)	**88**	89	(1)
Average room rate (US$)	**196**	195	1
RevPAR (US$)	**173**	174	(1)

Mandarin Oriental, Tokyo 100% leasehold

	2012	2011	% Change
Available rooms	**178**	178	0
Average occupancy (%)	**59**	50	18
Average room rate (US$)	**595**	570	4
RevPAR (US$)	**353**	283	25

Mandarin Oriental, Jakarta 96.9% ownership

	2012	2011	% Change
Available rooms	**272**	272	0
Average occupancy (%)	**61**	59	3
Average room rate (US$)	**182**	159	14
RevPAR (US$)	**111**	94	18

Mandarin Oriental, Manila 96.2% ownership

	2012	2011	% Change
Available rooms	**442**	442	0
Average occupancy (%)	**70**	72	(3)
Average room rate (US$)	**116**	112	4
RevPAR (US$)	**81**	80	1

Mandarin Oriental, Singapore 50% ownership

	2012	2011	% Change
Available rooms	**527**	527	0
Average occupancy (%)	**85**	82	4
Average room rate (US$)	**286**	267	7
RevPAR (US$)	**242**	218	11

Mandarin Oriental, Bangkok 44.9% ownership

	2012	2011	% Change
Available rooms	**393**	393	0
Average occupancy (%)	**54**	45	20
Average room rate (US$)	**333**	336	(1)
RevPAR (US$)	**178**	150	19

Mandarin Oriental, Kuala Lumpur 25% ownership

	2012	2011	% Change
Available rooms	**632**	632	0
Average occupancy (%)	**67**	66	2
Average room rate (US$)	**200**	190	5
RevPAR (US$)	**133**	126	6

EUROPE

Mandarin Oriental Hyde Park, London 100% ownership

	2012	2011	% Change
Available rooms	**194**	189	3
Average occupancy (%)	**78**	80	(3)
Average room rate (US$)	**900**	863	4
RevPAR (US$)	**703**	688	2

Mandarin Oriental, Munich 100% ownership

	2012	2011	% Change
Available rooms	**73**	73	0
Average occupancy (%)	**76**	82	(7)
Average room rate (US$)	**819**	768	7
RevPAR (US$)	**619**	626	(1)

Mandarin Oriental, Paris (opening date: June 2011*)

100% ownership with effect from 8 February 2013
(previously 100% leasehold)

	2012	2011*	% Change
Available rooms	**138**	138	0
Average occupancy (%)	**58**	32	81
Average room rate (US$)	**1,176**	1,326	(11)
RevPAR (US$)	**676**	430	57

Mandarin Oriental, Geneva 92.6% ownership

	2012	2011	% Change
Available rooms	**190**	185	3
Average occupancy (%)	**51**	52	(2)
Average room rate (US$)	**700**	802	(13)
RevPAR (US$)	**359**	416	(14)

THE AMERICAS

Mandarin Oriental, Washington D.C. 80% ownership

	2012	2011	% Change
Available rooms	**400**	400	0
Average occupancy (%)	**60**	62	(3)
Average room rate (US$)	**294**	296	(1)
RevPAR (US$)	**177**	184	(4)

Mandarin Oriental, New York 25% ownership

	2012	2011	% Change
Available rooms	**243**	248	(2)
Average occupancy (%)	**71**	71	0
Average room rate (US$)	**915**	883	4
RevPAR (US$)	**650**	627	4

Mandarin Oriental, Miami 25% ownership

	2012	2011	% Change
Available rooms	**326**	326	0
Average occupancy (%)	**66**	72	(8)
Average room rate (US$)	**347**	312	11
RevPAR (US$)	**228**	225	1

Development Portfolio

Mandarin Oriental Hotel Group currently has 16 hotels and 8 *Residences at Mandarin Oriental* under development.

Asia

Mandarin Oriental, Beijing
A 241-room hotel located in the central business district, and part of the iconic new headquarters of China Central Television (CCTV).

Mandarin Oriental, Chengdu
A 320-room hotel located on a prime river front site in Jinjiang District, across from the ancient Wang-jiang Park.

Mandarin Oriental, Maldives
An exclusive hideaway retreat located on a pristine private island in The Maldives, featuring 114 spacious stand-alone villas, including 20 water villas and four Presidential villas, in a stunning natural setting.

Mandarin Oriental Pudong, Shanghai
A 362-room hotel and 210 serviced apartments located in the Lujiazui central financial district in Pudong. The hotel will form part of 'Harbour City' a 25 hectare mixed-use development, with outstanding views of the city skyline and the Huangpu River.

Mandarin Oriental, Taipei
A 303-room hotel which will be a key component of a mixed-use luxury lifestyle and entertainment complex in the heart of the central business district, with 26 luxurious *Residences at Mandarin Oriental*, adjacent to the hotel.

Europe, Middle East and Africa

Mandarin Oriental, Abu Dhabi
A 195-room resort and 50 *Residences at Mandarin Oriental* located on Saadiyat Island, set to become a leading leisure and cultural destination.

Mandarin Oriental, Bodrum
A 107-room resort and 214 *Residences at Mandarin Oriental* located on a waterfront site on the Bodrum peninsula in Turkey, with panoramic views of the Aegean sea.

Mandarin Oriental, Doha
A 158-room hotel and 91 serviced apartments located in Musheireb, adjacent to Doha's cultural gem, Souk Waqif, and the city's business centre in West Bay.

Mandarin Oriental, Marbella
A 114-room hotel and 94 *Residences at Mandarin Oriental* located on a hill top in southern Spain, with spectacular views overlooking the Mediterranean Sea.

Mandarin Oriental, Marrakech
A 61-villa resort located in the heart of the Palmeraie set amongst 20 hectares of private olive groves, surrounded by Marrakech's three premium golf courses.

Mandarin Oriental, Milan
A 104-room hotel housed in the redevelopment of three elegant 19th century buildings, ideally located on Via Monte di Pietà, one of Milan's most prestigious addresses.

Mandarin Oriental, Moscow
A 262-room hotel situated in the redevelopment of an original 19th century manor house. Located close to the Kremlin and Red Square.

The Americas

Mandarin Oriental, Costa Rica
A 130-room beach resort and 92 *Residences at Mandarin Oriental* located at Playa Manzanillo, in Guanacaste province on Costa Rica's northern Pacific coast.

Mandarin Oriental, Grand Cayman
An intimate 114-room hideaway, set on an unspoiled 10-acre beachfront site with 42 *Residences at Mandarin Oriental*.

Mandarin Oriental, St. Kitts
A 125-room resort and 20 *Residences at Mandarin Oriental* located on a pristine 50-acre site at Majors Bay, a private cove on the island's secluded southeast peninsula.

Mandarin Oriental Dellis Cay, Turks & Caicos
A secluded 150-room hideaway resort including a variety of *Residences at Mandarin Oriental*, located on an unspoilt 35-acre beachfront site.

Opening dates are determined by each project's owner/developer. All of the above projects will be managed by Mandarin Oriental Hotel Group with no equity investment from the Group.

International Recognition

Mandarin Oriental Hotel Group has been recognized consistently by influential global publications as an outstanding hotel company. Highlighted below are quotes from a selection of these publications that highlight individual properties and the Group in the last year.

Mandarin Oriental Hotel Group

No longer full of Eastern promise, the group that grew out of Mandarin Hong Kong and the Oriental Bangkok now rules the world.

GQ, June 2012

Mandarin Oriental, Bangkok

Entering the exquisite lobby of Mandarin Oriental, Bangkok is like coming home – the welcome is warm and genuine, and it has everything you want in a five-star hotel.

The Mail on Sunday, April 2012

Bangkok's Mandarin Oriental has played host to everyone from Joseph Conrad to Mick Jagger, and remains the city's best luxury hotel experience.

The Daily Telegraph Travel Online, November 2012

Mandarin Oriental Dhara Dhevi, Chiang Mai

Fantastical reimagining of Thailand's Lanna Kingdom, with wing-tipped rooftops and hand-carved facades across 123 elegantly gilded guest rooms and villas.

Robb Report, May 2012

Mandarin Oriental, Hong Kong

The property doesn't miss a beat – from the completely renovated and modernized hotels rooms, to its ten different high-end restaurants and bars. Situated in central Hong Kong, Mandarin Oriental, Hong Kong offers the best of both worlds – iconic Hong Kong history and all the modern amenities you would expect of a five-star luxury hotel.

www.washingtonlife.com, January 2012

Mandarin Oriental, Hong Kong has long been the benchmark for Asian service, the kind of place where the entire staff knows your name within minutes.

The Sunday Times Online, July 2012

The Landmark Mandarin Oriental, Hong Kong

The Landmark Mandarin Oriental in Hong Kong, where amenities and service are polished, with the ambience to match.

The Independent on Sunday, December 2012

Mandarin Oriental, Singapore

Has all the benefits of a classic Mandarin Oriental property – fast check-in, outstanding service, terrific beds and spacious rooms with classy décor. Most of the harbor rooms have floor-to-ceiling windows, so the views are dramatic.

The Sunday Telegraph Discover, December 2012

Mandarin Oriental, Tokyo

The 38-floor Mandarin Oriental, Tokyo is a cool, cutting-edge hotel in the buzzing business and shopping district of Nihonbashi. All 179 rooms and suites have floor-to-ceiling windows with jaw-dropping views of the city; all combine state-of-the-art technology with sleek Asian design.

Condé Nast Traveller Online, January 2012

Mandarin Oriental, Barcelona

Since opening in late 2009, Mandarin Oriental, Barcelona, with 98 elegant rooms and suites, has been the choicest hotel on the grand Passeig de Grácia. Faultless service and unadulterated luxury.

International Herald Tribune Online, May 2012

Mandarin Oriental Hyde Park, London

Mandarin Oriental Hyde Park, London is known for its award-winning spa, sharp service and luxurious accommodation… With Hyde Park on one side and Harvey Nichols and Harrods on the other, the hotel is one of London's best locations for both shopping and green space.

Condé Nast Traveller, January 2012

International Recognition *Continued*

Mandarin Oriental, Paris

The charming hotel feels like a haven of TLC, and is nestled in the heart of the luxury/shopping area of rue Saint-Honoré.

The Sunday Times Online, January 2012

The latest and greatest addition to Paris in luxury hotel properties is the Mandarin Oriental, a modern Parisian hotel "that is infused with a subtle air of exoticism and romance."

JustLuxe, December 2011

Mandarin Oriental, Atlanta

The Mandarin Oriental is making a splash in the South's capital city. The hotel is on-brand with sleek, modern decor; expert service; and delicious cuisine. It's the perfect marriage of Southern hospitality and Oriental modernity.

American Way, December 2012

Mandarin Oriental, Boston

Mandarin Oriental is one of the most respected luxury hotel brands in the world, and its Boston property fits the mold elegantly. With a prime Back Bay location that suits business and leisure travelers alike, this property is a class act when it comes to service and style.

Jetsetter, May 2012

Mandarin Oriental, Las Vegas

Mandarin Oriental, Las Vegas has both impeccable service and a sense of luxurious calm throughout, the Spa at Mandarin Oriental, Las Vegas is the hotel's true oasis in the desert.

Startle – Forbes blog, October 2012

Mandarin Oriental, Miami

Close to the financial district, yet remaining a resort feeling, Mandarin Oriental, Miami is just minutes from South Beach and Coconut Grove, perfect for discriminating business and leisure travelers. The hotel provides levels of luxury and service that have made Mandarin Oriental legendary.

National Geographic The 10 Best of Everything, 2012 edition

Mandarin Oriental, New York

The Mandarin Oriental, located across Columbus Circle from Central Park, offers a dizzying array of modern luxuries – a 75-foot pool, one of the city's best spas, sweeping views from nearly every common area and superb fine-dining options – all while providing outstanding service. Its Oriental Suite is one of the hotel's most exclusive accommodations.

USA Today, November 2012

Mandarin Oriental, San Francisco

Truly spectacular views coupled with seamless and personal service at every point, this hotel offers a luxury experience while being located right in the heart of the city.

Business Traveller Online, October 2012

Financial Review

Accounting policies

The Directors continue to review the appropriateness of the accounting policies adopted by the Group having regard to developments in International Financial Reporting Standards ('IFRS').

The accounting policies adopted are consistent with those of the previous year, except that the Group has adopted several new standards, amendments and interpretations to IFRS effective on 1st January 2012, as more fully detailed in the 'Basis of preparation' note in the financial statements. The adoption of these new standards, amendments and interpretations did not have a material impact on the Group's financial statements.

Results

Overall

The Group uses earnings before interest, tax, depreciation and amortization ('EBITDA') to analyze operating performance. Total EBITDA including the Group's share of EBITDA from associates is shown below:

	2012 US$m	2011 US$m
Subsidiaries	**138.0**	130.3
Associates	**36.6**	32.7
Underlying EBITDA	**174.6**	163.0

Subsidiaries

	2012 US$m	2011 US$m
Underlying EBITDA from subsidiaries	**138.0**	130.3
Non-trading items:		
Gain on *One Hyde Park* lease space	**–**	10.1
Writeback of/(provisions against) asset impairment	**1.5**	(1.6)
EBITDA from subsidiaries	**139.5**	138.8
Less depreciation and amortization expenses	**(53.6)**	(49.7)
Operating profit	**85.9**	89.1

In 2012, underlying EBITDA from subsidiaries increased by US$7.7 million or 6%, to US$138.0 million, from US$130.3 million in the prior year. In 2011, there were US$3 million of net one-off items being US$16 million branding fees received in London, partially offset by US$13 million of pre-opening expenses for the hotel in Paris. Excluding these one-off items, 2012 EBITDA increased by US$10.7 million or 8%.

In Hong Kong, total revenues at Mandarin Oriental, Hong Kong increased by 5% when compared to the prior year, principally due to a higher level of food and beverage business and higher rental income from the hotel's prime retail units. As a consequence, the hotel's EBITDA contribution improved in 2012. The Group's other wholly owned Hong Kong hotel, The Excelsior, maintained its leading market position with an EBITDA contribution similar to 2011. In Tokyo, a continued recovery in demand following the 2011 natural disasters resulted in an improved operating performance. While overall hotel revenues in Manila were similar to the prior period, an increase in costs led to a small reduction in profitability. In Jakarta, a 27% increase in RevPAR in local currency terms enabled the hotel to improve its EBITDA contribution compared to the prior year.

Financial Review *Continued*

Subsidiaries continued

In Europe, London benefited from a higher level of rooms and food and beverage business, helped by the 2012 Olympics, leading to an improved EBITDA contribution during the year. In Paris, the 2012 result reflected a full year of trading with the hotel's full inventory of 138-room available. In 2011, the Paris results included US$13 million of pre-opening expenses, and approximately six months of trading with a reduced room inventory as, critically, the hotel's suites were only available in phases from September onwards. In Munich, strong demand enabled the hotel to further improve EBITDA from the record high achieved in 2011. Mandarin Oriental, Geneva was impacted by a phased rooms renovation and a strong Swiss franc, resulting in a lower EBITDA contribution than the prior year.

In The Americas, the contribution from the Washington D.C. hotel decreased slightly as the hotel's operating performance was affected by a reduction in city-wide demand.

In 2012, the contribution from management activities was US$22.3 million, a decrease of US$10.4 million from the prior year as 2011 results benefited from US$16 million branding fees received from *The Residences at Mandarin Oriental London*.

Depreciation and amortization expenses were US$53.6 million for 2012, an increase of US$3.9 million from the prior year. The majority of this increase is attributable to a full 12 months of depreciation at the Paris hotel, compared to six months in 2011.

Associates

The Group's share of results from associates was as follows:

	2012 US$m	2011 US$m
EBITDA from associates	**36.6**	32.7
Less depreciation and amortization expenses	**(11.9)**	(12.2)
Operating profit	**24.7**	20.5
Less net financing charges	**(4.4)**	(6.3)
tax	**(4.8)**	(4.4)
Share of results of associates	**15.5**	9.8

In total, the Group's share of EBITDA from associates increased by US$3.9 million or 12% to US$36.6 million in 2012.

In Asia, the Group's 50%-owned hotel in Singapore continued to benefit from strong market conditions and further improved its EBITDA during the year. In Bangkok, the hotel successfully recovered from the extensive floods that occurred in Thailand in the fourth quarter of 2011. As a result, 2012 EBITDA increased by 38% compared to the prior year. Kuala Lumpur's EBITDA was largely unchanged from 2011, in a highly competitive market.

In The Americas, the New York hotel improved its competitive market position enabling it to increase revenues, whilst maintaining its EBITDA contribution at a similar level to 2011. In Miami, the hotel was able to maintain its EBITDA contribution despite a highly competitive market by focusing on higher rated rooms business.

Depreciation and amortization expenses from associates were US$11.9 million, down US$0.3 million compared to 2011. The Group's share of net financing charges from associates was US$4.4 million, US$1.9 million lower than 2011 due to lower interest costs at the New York hotel following the part repayment and refinancing of the hotel's bank loan on more attractive terms in March 2012. The 2012 share of the tax charge for associates was US$4.8 million, up US$0.4 million from the prior year due to the improved financial performance of the associate hotels in Asia.

Non-trading items

In 2012, there was a non-trading gain of US$1.5 million reflecting a writeback of a provision for asset impairment made in relation to a managed hotel. In 2011, there were US$8.5 million of net non-trading items with the principal item being a gain of US$10.1 million representing the market value of a long-term leasehold interest in part of the *One Hyde Park* complex adjacent to the London hotel. This leasehold interest was granted by the developer to the Group at no cost. This gain was partially offset by a US$1.6 million provision for asset impairment made in relation to a managed hotel.

Net financing charges

Net financing charges for the Group's subsidiaries decreased to US$11.1 million in 2012 from US$12.0 million in 2011. This decrease is principally due to higher interest received on cash balances as deposit rates improved in 2012.

Interest cover

EBITDA is used as an indicator of the Group's ability to service debt and finance its future capital expenditure. Interest cover in 2012 calculated as EBITDA (including the Group's share of EBITDA from associates) over net financing charges (including the Group's share of net financing charges from associates), was 11.3 times compared with 8.9 times in 2011.

Tax

The tax charge for 2012 was US$17.7 million compared to US$19.0 million in 2011. The lower tax charge is largely attributable to timing differences, as a larger amount of deferred tax was recorded in 2011. The underlying effective tax rate for the year was 22%, broadly in line with the 2011 rate of 23%.

Cash flow

The Group's consolidated cash flows are summarized as follows:

	2012 US$m	2011 US$m
Operating activities	**126**	146
Investing activities: • Capital expenditure on existing properties	**(51)**	(38)
• Investment in Paris fit-out costs	**–**	(25)
• Purchase of intangible assets	**(5)**	(3)
• Advance deposit for Paris acquisition	**(13)**	–
• Investments in and loans to associates	**(19)**	(1)
• Other	**1**	2
Financing activities: • Issue of shares	**3**	1
• Net drawdown of borrowings	**3**	3
• Dividends paid	**(60)**	(50)
• Other	**(1)**	1
Net (decrease)/increase in cash and cash equivalents	**(16)**	36
Cash and cash equivalents at 1st January	**469**	433
Cash and cash equivalents at 31st December	**453**	469

The Group's cash flows from operating activities were US$126 million in 2012, a decrease of US$20 million from 2011. While the amount of pre-tax cash flow generated by the Group's hotels increased during the year, the amount of tax paid increased by US$9 million due to higher hotel profits and funds invested in working capital also increased by US$15 million.

Under investing activities, capital expenditure on existing properties was US$51 million in 2012, compared to US$38 million in 2011. During the year, the London hotel spent approximately US$20 million principally fitting out the space granted to the hotel by the developer of *The Residences at Mandarin Oriental*, adjacent to the hotel. The balance of expenditure incurred related to ongoing asset improvements across the portfolio, including approximately US$8 million in Geneva on a phased rooms renovation.

Financial Review *Continued*

Cash flow continued

In 2011, The Group invested US$25 million completing the internal fit-out of the Paris hotel with furniture, fixtures and equipment (which had commenced in 2010). The hotel opened in June 2011.

Purchase of intangible assets includes amounts spent on computer software, leasehold improvements and other expenditure incurred in order to secure long-term management contracts.

In 2012, a €10 million (US$13 million) advance deposit was paid for the acquisition of the Paris property. In addition, the Group invested US$19 million in its 25%-owned New York hotel to enable it to part repay a maturing bank loan. In 2011, the Group made US$1 million in aggregate of investments in, and loans to, associate hotels in The Americas.

Dividends

The Board is recommending a final dividend of US¢5.00 per share for a full-year dividend of US¢7.00 per share (2011: US¢6.00 per share). No scrip alternative is being offered in respect of the dividend. The final dividend is payable on 22nd May 2013 to shareholders on the register of members at the close of business on 29th March 2013.

Supplementary information

Although the Group's accounting policy in respect of its freehold land and buildings and the building component of owner-occupied leasehold properties is based on the cost model, the Directors continue to review their fair market values in conjunction with an independent appraiser on an annual basis. The fair market value of both freehold and leasehold land and buildings is used by the Group to calculate adjusted net assets, which the Directors believe gives important supplementary information regarding net asset value per share and gearing as outlined below:

	2012		2011	
	US$m	**Per share US$**	US$m	Per share US$
Shareholders' funds/net assets at amortized cost	**946**	**0.95**	911	0.91
Add surplus for fair market value of freehold and leasehold land and buildings	**1,930**	**1.93**	1,781	1.79
Adjusted shareholders' funds/net assets	**2,876**	**2.88**	2,692	2.70

On an IFRS basis, the Group's consolidated net debt of US$137 million at 31st December 2012 was 14% of shareholders' funds, compared with consolidated net debt of US$113 million at 31st December 2011 which was 12% of shareholders' funds. Taking into account the fair market value of the Group's interests in freehold and leasehold land, gearing was 5% of adjusted shareholders' funds at 31st December 2012, compared with 4% at 31st December 2011.

Treasury activities

The Group manages its exposure to financial risk using a variety of techniques and instruments. The main objective is to manage exchange and interest rate risks and to provide a degree of certainty in respect of costs. The Group has fixed or capped interest rates on 44% of its gross borrowings.

In respect of specific hotel financing, borrowings are normally taken in the local currency to hedge partially the investment and the projected income. At 31st December 2012, the Group's net assets were denominated in the following currencies:

	Net assets		Adjusted net assets*	
	US$m	%	US$m	%
Hong Kong dollar	2	–	1,596	55
United States dollar	482	51	526	18
United Kingdom sterling	115	12	174	6
Singapore dollar	49	5	164	6
Euro	110	12	136	5
Swiss franc	90	10	90	3
Thai baht	23	2	86	3
Others	75	8	104	4
	946	100	2,876	100

* see supplementary information section on page 22.

Included on the Group's consolidated balance sheet is cash at bank of US$453.7 million (2011: US$470.1 million) which, after the deduction of US$0.3 million (2011: US$1.0 million) of bank overdraft facilities, is shown in the Group's consolidated cash flow as cash and cash equivalents of US$453.4 million (2011: US$469.1 million).

The Group, excluding associates, had committed borrowing facilities totalling US$878 million, of which US$590 million was drawn at 31st December 2012. The principal amounts due for repayment are as follows:

	Facilities committed US$m	Facilities drawn US$m	Unused facilities US$m
Within one year	11	10	1
Between one and two years	632	543	89
Between two and three years	229	31	198
Between three and four years	2	2	–
Between four and five years	2	2	–
Beyond five years	2	2	–
	878	590	288

At 31st December 2012, the Group had US$288 million of committed, undrawn facilities in addition to its net cash balances of US$453 million. The average tenor of the Group's borrowings was 2.1 years (2011: 2.8 years).

Post balance sheet event

On the 8th February 2013, the Group acquired the building housing Mandarin Oriental, Paris and two prime retail units. The total investment cost was US$395 million, with the source and application of funds as follows:

Source	US$m
New bank facilities	201
Existing cash reserves	194
	395

Application	US$m
Advance deposit	13
Balance of purchase price	375
Transaction expenses	7
	395

Had the acquisition taken place at 31st December 2012, the Group's net debt would have increased to US$519 million from US$137 million, and gearing would have increased to 18% of adjusted shareholders' funds from 5%. In addition, the Group's cash balances would have been US$272 million.

Principal risks and uncertainties

A review of the principal risks and uncertainties facing the Group is set out on pages 84 to 85.

Stuart Dickie
Chief Financial Officer
7th March 2013

Directors' Profiles

Simon Keswick *Chairman*
Mr Simon Keswick joined the Board and became Chairman in 1986. He joined the Jardine Matheson group in 1962 and is also chairman of Dairy Farm and Hongkong Land, and a director of Jardine Lloyd Thompson, Jardine Matheson and Jardine Strategic.

Ben Keswick* *Managing Director*
Mr Ben Keswick joined the Board as Managing Director in April 2012. He has held a number of executive positions since joining the Jardine Matheson group in 1998, including finance director and then chief executive officer of Jardine Pacific between 2003 and 2007 and, thereafter, group managing director of Jardine Cycle & Carriage until March 2012. He has an MBA from INSEAD. Mr Keswick is chairman of Jardine Matheson Limited and Jardine Cycle & Carriage, and a commissioner of Astra and United Tractors. He is also managing director of Dairy Farm, Hongkong Land, Jardine Matheson and Jardine Strategic, and a director of Jardine Pacific and Jardine Motors.

Edouard Ettedgui* *Group Chief Executive*
Mr Ettedgui joined the Board in 1998 and is managing director of Mandarin Oriental Hotel Group International. He was formerly group finance director of Dairy Farm, prior to which he was business development director of British American Tobacco. He has extensive international experience in both financial and general management.

Stuart Dickie* *Chief Financial Officer*
Mr Dickie joined the Board as Chief Financial Officer in 2010. He was director of Corporate Finance of the Group from 2000. Prior to joining the Group, Mr Dickie was a senior manager at PricewaterhouseCoopers in Hong Kong from 1994 to 2000. He is a Chartered Accountant and a Member of the Association of Corporate Treasurers.

Mark Greenberg
Mr Greenberg joined the Board in 2006. He is group strategy director of Jardine Matheson. He had previously spent 16 years in investment banking with Dresdner Kleinwort Wasserstein in London. He is also a director of Jardine Matheson Limited, Dairy Farm, Hongkong Land and Jardine Cycle & Carriage, and a commissioner of Astra and Bank Permata.

Julian Hui
Mr Hui joined the Board in 1994. He is an executive director of Owens Company and a director of Central Development.

Adam Keswick
Mr Adam Keswick joined the Board in April 2012. He is deputy managing director of Jardine Matheson, chairman of Jardine Pacific, and chairman and chief executive of Jardine Motors. He has held a number of executive positions since joining the Jardine Matheson group from N M Rothschild & Sons in 2001, including group strategy director and, thereafter, group managing director of Jardine Cycle & Carriage between 2003 and 2007. Mr Keswick is also deputy chairman of Jardine Matheson Limited, and a director of Dairy Farm, Hongkong Land and Jardine Strategic.

Sir Henry Keswick
Sir Henry joined the Board in 1988. He is chairman of Jardine Matheson, having first joined the group in 1961, and is also chairman of Jardine Strategic. He is a director of Dairy Farm and Hongkong Land. He is also vice chairman of the Hong Kong Association.

Lord Leach of Fairford
Lord Leach joined the Board in 1987. He is deputy chairman of Jardine Lloyd Thompson, and a director of Dairy Farm, Hongkong Land, Jardine Matheson and Jardine Strategic. He is also a member of the supervisory board of Paris Orléans. He joined the Jardine Matheson group in 1983 after a career in banking and merchant banking.

* Executive Director

Dr Richard Lee
Dr Lee joined the Board in 1987. Dr Lee's principal business interests are in the manufacturing of textiles and apparel in Southeast Asia, and he is the honorary chairman of TAL Apparel. He is also a director of Jardine Matheson and Hongkong Land.

Lincoln K.K. Leong
Mr Leong joined the Board in March 2012. He is a Chartered Accountant and has extensive experience in the accountancy and investment banking industries. Mr Leong is also deputy chief executive officer of MTR Corporation and a non-executive director of Hong Kong Aircraft Engineering Company.

Anthony Nightingale
Mr Nightingale joined the Board in 2006 and was Managing Director of the Company from 2006 to March 2012. He is also a director of Dairy Farm, Hongkong Land, Jardine Cycle & Carriage, Jardine Matheson, Jardine Strategic and Schindler, and a commissioner of Astra. Mr Nightingale also acts as an adviser for certain companies outside the Group and holds a number of senior public appointments, including acting as a non-official member of the Commission on Strategic Development, a Hong Kong representative to the Asia Pacific Economic Cooperation (APEC) Business Advisory Council and a member of the UK ASEAN Business Council Advisory Panel. He is an Honorary Professor of the School of Business of the Hong Kong Baptist University.

Lord Powell of Bayswater, KCMG
Lord Powell joined the Board in 1992. He was previously Private Secretary and adviser on foreign affairs and defence to British Prime Ministers, Baroness Thatcher and Rt Hon John Major. He is a director of Caterpillar, Hongkong Land, LVMH Moët Hennessy Louis Vuitton, Matheson & Co, Capital Generation Partners, Textron Corporation, Schindler Holding, Northern Trust Global Services and Magna Holdings. He is co-chairman of the UK Government's Asia Task Force and was previously president of the China-Britain Business Council and chairman of the Singapore-British Business Council.

Lord Sassoon, Kt
Lord Sassoon joined the Board in January 2013. He began his career at KPMG, before joining SG Warburg (later UBS Warburg) in 1985. From 2002 to 2006 he was in the Treasury in the United Kingdom as a civil servant, where he had responsibility for financial services and enterprise policy. Following this, he chaired the Financial Action Task Force; and conducted a review of the UK's system of financial regulation. From 2010 to 2013 Lord Sassoon was the first Commercial Secretary to the Treasury and acted as the Government's Front Bench Treasury spokesman in the House of Lords. He is a director of Dairy Farm, Hongkong Land and Jardine Matheson.

James Watkins
Mr Watkins joined the Board in 1997. He was a director and group general counsel of Jardine Matheson from 1997 to 2003. Mr Watkins qualified as a solicitor in 1969 and was formerly a partner of Linklaters. He is also a director of Advanced Semiconductor Manufacturing Corporation, Asia Satellite Telecommunications Holdings, Global Sources, Hongkong Land, IL&FS India Realty Fund II and Jardine Cycle & Carriage.

Percy Weatherall
Mr Weatherall joined the Board in 2000 and was Managing Director from 2000 to 2006. He first joined the Jardine Matheson group in 1976 and retired from executive office in 2006. He is also a director of Dairy Farm, Hongkong Land, Jardine Matheson and Jardine Strategic. He is chairman of Corney & Barrow and the Nith District Salmon Fishery Board.

Giles White
Mr White joined the Board in 2009. He is the Jardine Matheson group general counsel. He was previously Asia managing partner of Linklaters based in Hong Kong, prior to which he was the firm's head of global finance and projects in London. Mr White is also a director of Jardine Matheson Limited, Dairy Farm and Jardine Matheson.

Consolidated Profit and Loss Account

for the year ended 31st December 2012

	Note	2012 Underlying US$m	2012 Non-trading items US$m	2012 Total US$m	2011 Underlying US$m	2011 Non-trading items US$m	2011 Total US$m
Revenue	1	**648.3**	**–**	**648.3**	614.2	–	614.2
Cost of sales		**(415.2)**	**–**	**(415.2)**	(377.3)	–	(377.3)
Gross profit		**233.1**	**–**	**233.1**	236.9	–	236.9
Selling and distribution costs		**(44.0)**	**–**	**(44.0)**	(42.1)	–	(42.1)
Administration expenses		**(104.7)**	**1.5**	**(103.2)**	(114.2)	8.5	(105.7)
Operating profit	2	**84.4**	**1.5**	**85.9**	80.6	8.5	89.1
Financing charges		**(14.6)**	**–**	**(14.6)**	(14.6)	–	(14.6)
Interest income		**3.5**	**–**	**3.5**	2.6	–	2.6
Net financing charges	3	**(11.1)**	**–**	**(11.1)**	(12.0)	–	(12.0)
Share of results of associates	4	**15.5**	**–**	**15.5**	9.8	–	9.8
Profit before tax		**88.8**	**1.5**	**90.3**	78.4	8.5	86.9
Tax	5	**(17.7)**	**–**	**(17.7)**	(19.0)	–	(19.0)
Profit after tax		**71.1**	**1.5**	**72.6**	59.4	8.5	67.9
Attributable to:							
Shareholders of the Company	6&7	**70.8**	**1.5**	**72.3**	59.0	8.5	67.5
Non-controlling interests		**0.3**	**–**	**0.3**	0.4	–	0.4
		71.1	**1.5**	**72.6**	59.4	8.5	67.9
		US¢		**US¢**	US¢		US¢
Earnings per share	6						
– basic		**7.09**		**7.24**	5.92		6.78
– diluted		**7.07**		**7.22**	5.88		6.73

Consolidated Statement of Comprehensive Income

for the year ended 31st December 2012

	Note	2012 US$m	2011 US$m
Profit for the year		**72.6**	67.9
Net actuarial loss on employee benefit plans		**(2.3)**	(7.3)
Net exchange translation differences			
– gains/(losses) arising during the year		**11.6**	(0.1)
Fair value gains/(losses) on cash flow hedges		**4.0**	(1.7)
Fair value gains on other investments		**–**	0.1
Share of other comprehensive income of associates		**4.8**	(2.7)
Tax relating to components of other comprehensive income	5	**(0.4)**	1.1
Other comprehensive income for the year		**17.7**	(10.6)
Total comprehensive income for the year		**90.3**	57.3
Attributable to:			
Shareholders of the Company		**89.9**	57.0
Non-controlling interests		**0.4**	0.3
		90.3	57.3

Consolidated Balance Sheet

as at 31st December 2012

	Note	2012 US$m	2011 US$m
Net assets			
Intangible assets	8	**42.1**	40.1
Tangible assets	9	**1,055.5**	1,038.0
Associates	10	**108.6**	78.4
Other investments		**7.2**	6.0
Loans receivable	11	**–**	–
Pension assets	12	**11.2**	12.5
Deferred tax assets	13	**4.7**	8.5
Non-current assets		**1,229.3**	1,183.5
Stocks		**6.3**	5.9
Debtors and prepayments	14	**78.2**	61.2
Current tax assets		**0.7**	0.8
Cash at bank	15	**453.7**	470.1
Current assets		**538.9**	538.0
Creditors and accruals	16	**(135.8)**	(128.2)
Current borrowings	17	**(9.7)**	(4.0)
Current tax liabilities		**(10.6)**	(10.9)
Current liabilities		**(156.1)**	(143.1)
Net current assets		**382.8**	394.9
Long-term borrowings	17	**(580.5)**	(578.5)
Deferred tax liabilities	13	**(64.3)**	(64.9)
Pension liabilities	12	**(0.6)**	(0.2)
Other non-current liabilities	25	**(15.5)**	(19.2)
		951.2	915.6
Total equity			
Share capital	20	**50.0**	49.8
Share premium	21	**182.1**	179.7
Revenue and other reserves		**713.8**	681.2
Shareholders' funds		**945.9**	910.7
Non-controlling interests		**5.3**	4.9
		951.2	915.6

Approved by the Board of Directors

Ben Keswick
Edouard Ettedgui
Directors
7th March 2013

Consolidated Statement of Changes in Equity

for the year ended 31st December 2012

	Share capital US$m	Share premium US$m	Capital reserves US$m	Revenue reserves US$m	Hedging reserves US$m	Exchange reserves US$m	Attributable to shareholders of the Company US$m	Attributable to non-controlling interests US$m	Total equity US$m
2012									
At 1st January	49.8	179.7	278.7	432.1	(16.1)	(13.5)	910.7	4.9	**915.6**
Total comprehensive income	–	–	–	70.4	3.2	16.3	89.9	0.4	**90.3**
Dividends paid by the Company	–	–	–	(59.9)	–	–	(59.9)	–	**(59.9)**
Issue of shares	0.2	2.4	–	–	–	–	2.6	–	**2.6**
Employee share option schemes	–	–	2.6	–	–	–	2.6	–	**2.6**
At 31st December	**50.0**	**182.1**	**281.3**	**442.6**	**(12.9)**	**2.8**	**945.9**	**5.3**	**951.2**
2011									
At 1st January	49.8	178.3	276.1	420.4	(14.5)	(10.8)	899.3	4.6	903.9
Total comprehensive income	–	–	–	61.3	(1.6)	(2.7)	57.0	0.3	57.3
Dividends paid by the Company	–	–	–	(49.8)	–	–	(49.8)	–	(49.8)
Issue of shares	–	1.4	–	–	–	–	1.4	–	1.4
Writeback of unclaimed dividends	–	–	–	0.2	–	–	0.2	–	0.2
Employee share option schemes	–	–	2.6	–	–	–	2.6	–	2.6
At 31st December	49.8	179.7	278.7	432.1	(16.1)	(13.5)	910.7	4.9	915.6

Total comprehensive income included in revenue reserves comprises profit attributable to shareholders of the Company of US$72.3 million (2011: US$67.5 million), net actuarial loss on employee benefit plans of US$1.9 million (2011: US$6.3 million). In 2011, this also included a net fair value gain on other investments of US$0.1 million. Cumulative net actuarial gain on employee benefit plans amounted to US$4.6 million (2011: US$6.5 million).

Consolidated Cash Flow Statement

for the year ended 31st December 2012

	Note	2012 US$m	2011 US$m
Operating activities			
Operating profit	2	**85.9**	89.1
Depreciation	9	**50.7**	47.1
Amortization of intangible assets	8	**2.9**	2.6
Other non-cash items	24a	**0.7**	(0.4)
Movements in working capital	24b	**3.1**	18.6
Interest received		**3.7**	2.4
Interest and other financing charges paid		**(14.4)**	(14.0)
Tax paid		**(16.0)**	(6.9)
		116.6	138.5
Dividends from associates		**9.4**	7.8
Cash flows from operating activities		**126.0**	146.3
Investing activities			
Purchase of tangible assets		**(50.5)**	(62.4)
Purchase of intangible assets		**(4.5)**	(3.8)
Advance deposit for Paris acquisition		**(13.1)**	–
Investments in and loans to associates	24c	**(19.3)**	(1.2)
Repayment of mezzanine loans		**1.5**	3.4
Purchase of other investments		**(1.1)**	(1.0)
Cash flows from investing activities		**(87.0)**	(65.0)
Financing activities			
Issue of shares		**2.6**	1.4
Drawdown of borrowings		**7.0**	10.0
Repayment of borrowings		**(4.1)**	(7.0)
Dividends paid by the Company	23	**(59.9)**	(49.8)
Cash flows from financing activities		**(54.4)**	(45.4)
Net (decrease)/increase in cash and cash equivalents		**(15.4)**	35.9
Cash and cash equivalents at 1st January		**469.1**	433.1
Effect of exchange rate changes		**(0.3)**	0.1
Cash and cash equivalents at 31st December	24d	**453.4**	469.1

Principal Accounting Policies

A Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards, including International Accounting Standards and Interpretations adopted by the International Accounting Standards Board. The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

Amendments to IFRS 7 'Financial Instruments: Transfers of Financial Assets' became effective in the current accounting period and are relevant to the Group's operations. The amendments promote transparency in the reporting of such transfer transactions and improve users' understanding of the risk exposures relating to transfer of financial assets and the effect of those risks on an entity's financial position particularly those involving securitization of financial assets. The adoption of these amendments does not have a material impact on the Group's accounting policies and disclosures.

Standards and amendments effective after 2012 which are relevant to the Group's operations and yet to be adopted

IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to IFRSs 10, 11 and 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
IAS 19 (amended 2011)	Employee Benefits
IAS 27 (2011)	Separate Financial Statements
IAS 28 (2011)	Investments in Associates and Joint Ventures
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Annual Improvements to IFRS	2009 – 2011 Cycle

The Group is currently assessing the impact of these new standards and amendments but expects their adoption will not have a material effect on the consolidated profit and loss account and balance sheet.

IFRS 9 'Financial Instruments' (effective 1st January 2015) is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. IFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities, to the version issued in November 2009. It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 'Remeasurement of Embedded Derivatives'. The Group will apply the standard from 1st January 2015.

Principal Accounting Policies *Continued*

A Basis of preparation *continued*

IFRS 10 'Consolidated Financial Statements' (effective 1st January 2013) replaces SIC Interpretation 12 'Consolidation – Special Purpose Entities' and most of IAS 27 'Consolidated and Separate Financial Statements'. It contains a new single consolidation model that identifies control as the basis for consolidation for all types of entities. It provides a definition of control that comprises the elements of power over an investee; exposure of rights to variable returns from an investees; and ability to use power to affect the reporting entity's returns. The Group will apply the standard from 1st January 2013.

IFRS 11 'Joint Arrangements' replaces IAS 31 'Interests in Joint Ventures' and SIC 13 'Jointly Controlled Entities – Non Monetary Contributions by Venturers'. Under IFRS 11, joint arrangements are classified as either joint operations (whereby the parties that have joint control have rights to the assets and obligations for the liabilities of the joint arrangements) or joint ventures (whereby the parties that have joint control have rights to the net assets of the joint arrangements). Joint operations are accounted for by showing the party's interest in the assets, liabilities, revenue and expenses, and/or its relative share of jointly controlled assets, liabilities, revenue and expenses, if any. Accounting for joint ventures is now covered by IAS 28 (2011) as proportionate consolidation is no longer permitted. The Group will apply the standard from 1st January 2013.

IFRS 12 'Disclosure of Interests in Other Entities' (effective 1st January 2013) requires entities to disclose information that helps financial statements readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. Disclosure required includes significant judgements and assumptions made in determining whether an entity controls, jointly controls, significantly influences or has some other interest in other entities. The Group will apply the standard from 1st January 2013.

IFRS 13 'Fair Value Measurement' (effective 1st January 2013) requires entities to disclose information about the valuation techniques and inputs used to measure fair value, as well as information about the uncertainty inherent in fair value measurements. The standard applies to both financial and non-financial items measured at fair value. Fair value is now defined as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date' (i.e. an exit price). The Group will apply the standard from 1st January 2013.

Amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities' focus on disclosures of quantitative information about recognized financial instruments that are offset in the balance sheet, as well as those recognized financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. The Group will adopt the amendments from 1st January 2013.

Amendments to IFRSs 10, 11 and 12 on transition guidance provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied. The Group will adopt the amendments from 1st January 2013.

Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income' (effective 1st July 2012) improve the consistency and clarity of the presentation of items of other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled – such as actuarial gains or losses on defined benefit pension plans – will be presented separately from items that may be recycled in the future – such as deferred gains and losses on cash flow hedges. The amounts of tax related to the two groups are required to be allocated on the same basis. The Group will adopt the amendments from 1st January 2013.

A Basis of preparation *continued*

IAS 19 (amended 2011) 'Employee Benefits' (effective 1st January 2013) requires the assumed return on plan assets recognized in the profit and loss to be the same as the rate used to discount the defined benefit obligation. It also requires actuarial gains and losses to be recognized immediately in other comprehensive income and past service costs immediately in profit or loss. Additional disclosures are required to present the characteristics of benefit plans, the amount recognized in the financial statements, and the risks arising from defined benefit plans and multi-employer plans. The Group will apply the amended standard from 1st January 2013.

IAS 27 (2011) 'Separate Financial Statements' (effective 1st January 2013) supersedes IAS 27 (2008) and prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. There will be no impact on the consolidated financial statements as the changes only affect the separate financial statements of the investing entity.

IAS 28 (2011) 'Investments in Associates and Joint Ventures' (effective 1st January 2013) supersedes IAS 28 (2008) and prescribes the accounting for investments in associates and joint ventures and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The adoption of this standard is not expected to have any material impact on the results of the Group as the Group is already following the standard.

Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities' (effective 1st January 2014) are made to the application guidance in IAS 32 and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The Group will adopt the amendments from 1st January 2014.

Annual improvements to IFRSs 2009 – 2011 Cycle comprise a number of non-urgent but necessary amendments to IFRSs. The amendments which are relevant to the Group's operations include the following:

Amendment to IAS 1 'Presentation of financial statements' clarifies the disclosure requirements for comparative information when an entity provides a third balance sheet either as required by IAS 8, 'Accounting policies, changes in accounting estimates and errors'; or voluntarily. When an entity produces an additional balance sheet as required by IAS 8, the balance sheet should be as at the date of the beginning of the preceding period – that is, the opening position. No notes are required to support this balance sheet. When management provides additional comparative information voluntarily – for example, profit and loss account, balance sheet – it should present the supporting notes to these additional statements. The Group will adopt the amendment from 1st January 2013.

Amendment to IAS 16 'Property, plant and equipment' clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment. The previous wording of IAS 16 indicated that servicing equipment should be classified as inventory, even if it was used for more than one period. Following the amendment, this equipment used for more than one period is classified as property, plant and equipment. The Group will adopt the amendment from 1st January 2013.

Amendment to IAS 32 'Financial instruments: Presentation' clarifies that income tax related to profit distributions is recognized in the profit and loss account, and income tax related to the costs of equity transactions is recognized in equity. Prior to the amendment, IAS 32 was ambiguous as to whether the tax effects of distributions and the tax effects of equity transactions should be accounted for in the profit and loss account or in equity. The Group will adopt the amendment from 1st January 2013.

Principal Accounting Policies *Continued*

A Basis of preparation *continued*

Amendment to IAS 34 'Interim financial reporting' clarifies the disclosure requirements for segment assets and liabilities in interim financial statements. A measure of total assets and liabilities is required for an operating segment in interim financial statements if such information is regularly provided to the chief operating decision maker and there has been a material change in those measures since the last annual financial statements. The Group will adopt the amendment from 1st January 2013.

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

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

B Basis of consolidation

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

ii) Subsidiaries are entities over which the Group has the power to govern the financial and operating policies. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition include the fair value at the acquisition date of any contingent consideration. In a business combination achieved in stages, the Group remeasures its previously held interest in the acquiree at its acquisition-date fair value and recognized the resulting gain or loss in profit and loss. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for as equity transactions. When control over a previous subsidiary is lost, any remaining interest in the entity is remeasured at fair value and the resulting gain or loss is recognized in profit and loss.

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

iii) Associates are entities, not being subsidiaries or joint ventures, over which the Group exercises significant influence. Joint ventures are entities which the Group jointly controls with one or more other venturers. 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 are recognized in the consolidated financial statements only to the extent of unrelated investor's interests in the associates.

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

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

C Foreign currencies

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

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

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

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

D Impairment of non-financial assets

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

E Intangible assets

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

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

Principal Accounting Policies *Continued*

E Intangible assets *continued*

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

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

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

F Tangible fixed assets and depreciation

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

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

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

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

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

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

G Loans receivable

Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified under non-current assets unless their maturities are within 12 months after the balance sheet date. Loans receivable are carried at amortized cost using the effective interest method.

H Investments

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

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

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

I Leases

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

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

ii) Plant and machinery under finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

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

J Stocks

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

K Debtors

Debtors, excluding derivative financial instruments, are measured at amortized cost except where the effect of discounting would be immaterial. Provision for impairment is established when there is objective evidence that the outstanding amounts will not be collected. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the debtor is impaired. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in arriving at operating profit. When a debtor is uncollectible, it is written off against the allowance account. Subsequent recoveries of amount previously written off are credited to profit and loss. Debtors with maturities greater than 12 months after the balance sheet date are classified under non-current assets.

Principal Accounting Policies *Continued*

L 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.

M Provisions

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

N Borrowings and borrowing costs

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

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

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

O Government grants

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

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

P Current and deferred tax

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

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.

P Current and deferred tax *continued*

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

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

Q Employee benefits

i) Pension obligations

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

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

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

ii) Share-based compensation

The Group has an equity settled Senior Executive Share Incentive Scheme in order to provide selected executives with options to purchase ordinary shares in the Company.

The fair value of the employee services received in exchange for the grant of the options in respect of options granted after 7th November 2002 is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted as determined on the grant date. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. The impact of the revision of original estimates, if any, is recognized in profit and loss.

Principal Accounting Policies *Continued*

R Derivative financial instruments

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

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

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

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

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

S Financial guarantee contracts

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

T Non-trading items

Non-trading items are separately identified to provide greater understanding of the Group's underlying business performance. Items classified as non-trading include items such as gains on disposals, provisions against asset impairment and other material items which are non-recurring in nature that require disclosure in order to provide additional insight into underlying business performance.

U Earnings per share

Basic earnings per share are calculated on profit attributable to shareholders and on the weighted average number of shares in issue during the year. The weighted average number excludes the Company shares held by the Trustee under the Senior Executive Share Incentive Schemes. For the purpose of calculating diluted earnings per share, profit attributable to shareholders is adjusted for the effects of the conversion of dilutive potential ordinary shares of subsidiaries, associates or joint ventures, and the weighted average number of shares is adjusted for the number of shares which are deemed to be issued for no consideration under the Senior Executive Share Incentive Schemes based on the average share price during the year.

V Dividends

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

W Revenue recognition

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

Revenue from hotel ownership comprises amounts earned in respect of services, facilities and goods supplied by the subsidiary hotels. Revenue from the rendering of services is recognized when services are performed, provided that the amount can be measured reliably. Revenue from the sale of goods is recognized on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed. Receipts under operating leases are accounted for on an accrual basis over the lease terms.

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

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

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

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

X Pre-operating costs

Pre-operating costs are expensed as they are incurred.

Y Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the committee that makes strategic decisions.

Financial Risk Management

A Financial risk factors

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

The Group's treasury function co-ordinates, under the directions of the Board of Mandarin Oriental Hotel Group International Limited, financial risk management policies and their implementation. The Group's treasury policies are designed to manage the financial impact of fluctuations in interest rates and foreign exchange rates and to minimize the Group's financial risks. The Group uses derivative financial instruments, principally interest rate swaps and caps, and forward foreign exchange contracts as appropriate for hedging transactions and managing the Group's assets and liabilities in accordance with the Group's financial risk management policies. Financial derivative contracts are executed between third party banks and the Group entity that is directly exposed to the risk being hedged. Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognized immediately in profit and loss account. It is the Group's policy not to enter into derivative transactions for speculative purposes. The notional amounts and fair values of derivative financial instruments at 31st December 2012 are disclosed in note 25.

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 and foreign currency options in a consistent manner to hedge firm and anticipated foreign exchange commitments.

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 2012 and 2011, the Group's principal foreign exchange exposure was with the Hong Kong dollar (2012) and the Euro (2011). At 31st December 2012, if the United States dollar had strengthened/weakened by 10% against the Hong Kong dollar with all other variables unchanged, the Group's profit after tax would have been US$0.1 million higher/lower, arising from foreign exchange gains/losses taken on translation. The impact on amounts attributable to shareholders of the Company would be US$0.1 million higher/lower. At 31st December 2011, if the United States dollar had strengthened/weakened by 10% against Euro with all other variables unchanged, the Group's profit after tax would have been US$0.1 million lower/higher, arising from foreign exchange losses/gains taken on translation, and the impact on amount attributable to shareholders of the Company would have been US$0.1 million lower/higher. This sensitivity analysis ignores any offsetting foreign exchange factors and has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date. The stated change represents management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. There are no other significant monetary balances held by Group companies at 31st December 2012 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.

A Financial risk factors *continued*

i) *Market risk* *continued*

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. These exposures are managed partly by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities, and partly through fixed rate borrowings and the use of derivative financial instruments such as interest rate swaps, caps and collars. 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 2012 the Group's interest rate hedge was 44% (2011: 44%), with an average tenor of 2.2 years (2011: 3.2 years). The interest rate profile of the Group's borrowings after taking into account hedging transactions are set out in note 17.

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

At 31st December 2012, if interest rates had been 100 basis points higher/lower with all other variables held constant, the Group's profit after tax would have been US$0.9 million (2011: US$1.2 million) higher/lower, and hedging reserves would have been US$4.0 million (2011: US$5.5 million) higher/lower, as a result of fair value changes to cash flow hedges. The sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. There is no significant variation in the sensitivity analysis as a result of 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 and United Kingdom rates, over the period until the next annual balance sheet date. In the case of effective fair value hedges, changes in fair value of the hedged item caused by interest rate movements balance out in profit and loss against changes in the fair value of the hedging instruments. Changes in market interest rates affect the interest income or expense of non-derivative variable-interest financial instruments, the interest payments of which are not designated as hedged items of cash flow hedges against interest rate risks. As a consequence, they are included in the calculation of profit after tax sensitivities. Changes in the market interest rate of financial instruments that were designated as hedging instruments in a cash flow hedge to hedge payment fluctuations resulting from interest rate movements affect the hedging reserves and are therefore taken into consideration in the equity-related sensitivity calculations.

Financial Risk Management *Continued*

A Financial risk factors *continued*

ii) Credit risk

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

The Group manages its deposits with banks and financial institutions and transactions involving derivative financial instruments by monitoring credit ratings and capital adequacy ratios of counterparties, and limiting the aggregate risk to any individual counterparty. The utilization of credit limits is regularly monitored. At 31st December 2012, 98% (2011: 99%) 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. At 31st December 2012, there was no positive fair value of derivative financial instruments (2011: nil). Management does not expect any counterparty to fail to meet its obligations.

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

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

iii) Liquidity risk

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

At 31st December 2012, total available borrowing facilities amounted to US$881 million (2011: US$678 million) of which US$590 million (2011: US$582 million) was drawn down. Undrawn committed facilities, in the form of revolving credit and term loan facilities, and undrawn uncommitted facilities totalled US$288 million (2011: US$96 million) and US$3 million (2011: US$3 million), respectively.

A Financial risk factors *continued*

iii) Liquidity risk continued

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

	Within one year US$m	Between one and two years US$m	Between two and three years US$m	Between three and four years US$m	Between four and five years US$m	Beyond five years US$m	Total undiscounted cash flows US$m
At 31st December 2012							
Borrowings	22.9	552.3	31.5	2.2	2.5	2.9	**614.3**
Creditors	130.5	–	–	–	–	–	**130.5**
Net settled derivative financial instruments	7.2	5.2	1.3	1.2	0.5	–	**15.4**
At 31st December 2011							
Borrowings	17.7	22.7	538.3	34.6	2.1	5.4	620.8
Creditors	122.7	–	–	–	–	–	122.7
Net settled derivative financial instruments	6.6	6.9	3.6	0.7	0.4	0.1	18.3

B Capital management

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

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

The Group monitors capital on the basis of the Group's consolidated gearing ratio and consolidated interest cover. The gearing ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less bank balances and other liquid funds. Interest cover is calculated as underlying operating profit and share of results of associates and joint ventures divided by net financing charges. The Group does not have a defined gearing or interest cover benchmark or range.

The ratios at 31st December 2012 and 2011 based on IFRS balance sheets are as follows:

	2012	2011
Gearing ratio	**14%**	12%
Interest cover	**9.0**	7.5

Financial Risk Management *Continued*

C Fair value estimation

i) Financial instruments that are measured at fair value

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

a) **Quoted prices (unadjusted) in active markets for identical assets or liabilities ('quoted prices in active markets')**
The fair value of listed securities, which are classified as available-for-sale, is based on quoted prices in active markets at the balance sheet date. The quoted market price used for listed investments held by the Group is the current bid price.

b) **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 interest rate swaps and forward foreign exchange contracts have been determined using rates quoted by the Group's bankers at the balance sheet date which are calculated by reference to the market interest rates and foreign exchange rates.

c) **Inputs for the asset or liability that are not based on observable market data ('unobservable inputs')**
The fair value of unlisted securities, which are classified as available-for-sale, is determined using valuation techniques by reference to observable current market transactions or the market prices of the underlying investments with certain degree of entity specific estimates.

The table below analyzes financial instruments carried at fair value, by the levels in the fair value measurement hierarchy.

	Quoted prices in active markets US$m	Observable current market transactions US$m	Unobservable inputs US$m	Total US$m
2012				
Assets				
Available-for-sale financial assets – unlisted investments	–	2.4	4.8	**7.2**
Liabilities				
Derivatives used for hedging	–	15.5	–	**15.5**
2011				
Assets				
Available-for-sale financial assets – unlisted investments	–	2.3	3.7	6.0
Liabilities				
Derivatives used for hedging	–	19.2	–	19.2

C Fair value estimation *continued*

ii) Financial instruments that are not measured at fair value

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

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

Financial instruments by category

	Loans and receivables US$m	Available-for-sale US$m	Other financial liabilities at amortized cost US$m	Total carrying amount US$m	Fair value US$m
2012					
Other investments	–	7.2	–	7.2	7.2
Debtors	53.0	–	–	53.0	53.0
Bank balance and other liquid funds	453.7	–	–	453.7	453.7
	506.7	**7.2**	**–**	**513.9**	**513.9**
Borrowings	–	–	590.2	590.2	590.3
Trade and other payables excluding non-financial liabilities	–	–	130.5	130.5	130.5
	–	**–**	**720.7**	**720.7**	**720.8**
2011					
Other investments	–	6.0	–	6.0	6.0
Debtors	49.1	–	–	49.1	49.1
Bank balance and other liquid funds	470.1	–	–	470.1	470.1
	519.2	6.0	–	525.2	525.2
Borrowings	–	–	582.5	582.5	582.9
Trade and other payables excluding non-financial liabilities	–	–	122.7	122.7	122.7
	–	–	705.2	705.2	705.6

Critical Accounting Estimates and Judgements

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

A Impairment of assets

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

B Tangible fixed assets and depreciation

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

C Income taxes

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

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

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

D 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 expected long-term rate of return on the relevant plan assets and the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The expected return on plan assets assumption is determined on a uniform basis, taking into consideration long-term historical returns, asset allocation and future estimates of long-term investment returns.

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.

E 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.

Notes to the Financial Statements

1 Revenue

	2012 US$m	2011 US$m
Analysis by geographical area		
– Hong Kong	**238.8**	231.2
– Other Asia	**140.9**	127.5
– Europe	**208.8**	194.7
– The Americas	**59.8**	60.8
	648.3	614.2
Analysis by activity		
– Hotel ownership	**619.6**	570.1
– Hotel management	**59.9**	73.9
– Less: Intra-segment revenue	**(31.2)**	(29.8)
	648.3	614.2

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the executive directors of the Company for the purpose of resource allocation and performance assessment. The Group is operated on a worldwide basis in four regions: Hong Kong, Other Asia, Europe and The Americas which form the basis of its reportable segments.

In addition, the Group has two distinct business activities: hotel ownership and hotel management. The Group's segmental information for non-current assets is set out in note 19.

2 EBITDA (earnings before interest, tax, depreciation and amortization) and operating profit from subsidiaries

	2012 US$m	2011 US$m
Analysis by geographical area		
– Hong Kong	**86.3**	81.0
– Other Asia	**25.8**	18.8
– Europe	**23.4**	28.8
– The Americas	**2.5**	1.7
Underlying EBITDA from subsidiaries	**138.0**	130.3
Gain on *One Hyde Park* lease space (refer note 7)	**–**	10.1
Writeback of/(provisions against) asset impairment (refer note 7)	**1.5**	(1.6)
EBITDA from subsidiaries	**139.5**	138.8
Less depreciation and amortization	**(53.6)**	(49.7)
Operating profit	**85.9**	89.1
Analysis by activity		
– Hotel ownership	**117.2**	106.1
– Hotel management	**22.3**	32.7
EBITDA from subsidiaries	**139.5**	138.8
– Hotel ownership	**66.3**	58.6
– Hotel management	**19.6**	30.5
Operating profit	**85.9**	89.1
The following items have been (credited)/charged in arriving at operating profit:		
Rental income (refer note 9)	**(11.9)**	(10.5)
Interest income from mezzanine loans	**(0.7)**	(0.4)
Amortization of intangible assets (refer note 8)	**2.9**	2.6
Depreciation of tangible assets (refer note 9)	**50.7**	47.1
Writeback of/(provisions against) asset impairment	**(0.7)**	1.4
Employee benefit expense		
– Salaries and benefits in kind	**237.6**	220.2
– Share options granted	**2.6**	2.6
– Defined benefit pension plans (refer note 12)	**1.5**	0.6
– Defined contribution pension plans	**0.8**	0.4
	242.5	223.8
Net foreign exchange losses/(gains)	**0.8**	(0.2)
Operating lease expenses		
– Minimum lease payments	**22.0**	17.3
– Contingent rents	**6.7**	5.7
– Subleases	**(0.2)**	(0.3)
	28.5	22.7
Auditors' remuneration		
– Audit	**1.3**	1.2
– Non-audit services	**1.2**	0.5
	2.5	1.7
Operating profit included the following non-trading items		
– Gain on *One Hyde Park* lease space (refer note 7)	**–**	(10.1)
– Writeback of/(provisions against) asset impairment (refer note 7)	**(1.5)**	1.6

3 Net financing charges

	2012 US$m	2011 US$m
Interest expense		
– Bank loans	**(13.8)**	(13.8)
Commitment and other fees	**(0.8)**	(0.8)
Financing charges	**(14.6)**	(14.6)
Interest income	**3.5**	2.6
Net financing charges	**(11.1)**	(12.0)

4. Share of results of associates

	EBITDA US$m	Depreciation and amortization US$m	Operating profit US$m	Net financing charges US$m	Tax US$m	Net profit/ (loss) US$m
2012						
Analysis by geographical area						
– Other Asia	32.1	(9.1)	23.0	(1.9)	(4.6)	**16.5**
– The Americas	4.5	(2.8)	1.7	(2.5)	(0.2)	**(1.0)**
	36.6	**(11.9)**	**24.7**	**(4.4)**	**(4.8)**	**15.5**
Analysis by activity						
– Hotel ownership	35.3	(11.2)	24.1	(4.2)	(4.7)	**15.2**
– Other	1.3	(0.7)	0.6	(0.2)	(0.1)	**0.3**
	36.6	**(11.9)**	**24.7**	**(4.4)**	**(4.8)**	**15.5**
2011						
Analysis by geographical area						
– Other Asia	28.4	(9.1)	19.3	(2.0)	(4.4)	12.9
– The Americas	4.3	(3.1)	1.2	(4.3)	–	(3.1)
	32.7	(12.2)	20.5	(6.3)	(4.4)	9.8
Analysis by activity						
– Hotel ownership	31.5	(11.5)	20.0	(6.1)	(4.3)	9.6
– Other	1.2	(0.7)	0.5	(0.2)	(0.1)	0.2
	32.7	(12.2)	20.5	(6.3)	(4.4)	9.8

5 Tax

	2012 US$m	2011 US$m
Tax charged to profit and loss is analyzed as follows:		
– Current tax	**15.7**	10.4
– Deferred tax (refer note 13)	**2.0**	8.6
	17.7	19.0
Analysis by geographical area		
– Hong Kong	**11.7**	11.4
– Other Asia	**2.0**	2.6
– Europe	**4.1**	5.0
– The Americas	**(0.1)**	–
	17.7	19.0
Analysis by activity		
– Hotel ownership	**12.5**	13.9
– Hotel management	**5.2**	5.1
	17.7	19.0
Reconciliation between tax expense and tax at the applicable tax rate*:		
Tax at applicable tax rate	**7.3**	5.5
Income not subject to tax	**–**	(3.4)
Expenses not deductible for tax purposes	**2.9**	2.7
Tax losses not recognized	**6.3**	12.4
Recognition of previously unrecognized temporary differences	**–**	0.9
Withholding tax	**1.1**	1.2
Over provision in prior years	**(0.7)**	(0.5)
Other	**0.8**	0.2
	17.7	19.0
Tax relating to components of other comprehensive income is analyzed as follows:		
Actuarial valuation of employee benefit plans	**0.4**	1.0
Cash flow hedges	**(0.8)**	0.1
	(0.4)	1.1

Share of tax charge of associates of US$4.8 million (2011: US$4.4 million) is included in share of results of associates (refer note 4).

*The applicable tax rate for the year was 10% (2011: 7%) and represents the weighted average of the rates of taxation prevailing in the territories in which the Group operates. The increase in applicable tax rate was caused by a change in the geographic mix of the Group's profitability.

6 Earnings per share

Basic earnings per share are calculated on the profit attributable to shareholders of US$72.3 million (2011: US$67.5 million) and on the weighted average number of 998.9 million (2011: 996.1 million) shares in issue during the year (refer principal accounting policy (U)).

Diluted earnings per share are calculated on profit attributable to shareholders of US$72.3 million (2011: US$67.5 million), which is after adjusting for the effects of the conversion of dilutive potential ordinary shares of subsidiaries, associates or joint ventures, and on the weighted average number of 1,001.1 million (2011: 1,002.8 million) shares in issue during the year (refer principal accounting policy (U)).

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

	Ordinary shares in millions	
	2012	2011
Weighted average number of shares in issue	**999.3**	996.7
Shares held by the Trustee under the Senior Executive Share Incentive Schemes	**(0.4)**	(0.6)
Weighted average number of shares for basic earnings per share calculation	**998.9**	996.1
Adjustment for shares deemed to be issued for no consideration under the Senior Executive Share Incentive Schemes	**2.2**	6.7
Weighted average number of shares for diluted earnings per share calculation	**1,001.1**	1,002.8

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

	2012			2011		
	US$m	**Basic earnings per share US¢**	**Diluted earnings per share US¢**	US$m	Basic earnings per share US¢	Diluted earnings per share US¢
Profit attributable to shareholders	**72.3**	**7.24**	**7.22**	67.5	6.78	6.73
Non-trading items (refer note 7)	**(1.5)**	**(0.15)**	**(0.15)**	(8.5)	(0.86)	(0.85)
Underlying profit attributable to shareholders	**70.8**	**7.09**	**7.07**	59.0	5.92	5.88

7. Non-trading items

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

	2012 US$m	2011 US$m
Gain on *One Hyde Park* lease space	**–**	10.1
Writeback of/(provisions against) asset impairment	**1.5**	(1.6)
	1.5	8.5

In 2011, a long-term leasehold interest, granted to the Group by the developer of *The Residences at Mandarin Oriental, London* at no cost, was recognized as a non-trading gain based on its market value less costs relating to the transfer of title.

8 Intangible assets

	Goodwill US$m	Leasehold land US$m	Computer software US$m	Development costs US$m	Total US$m
2012					
Cost	23.9	6.5	15.3	9.4	**55.1**
Amortization and impairment	–	(1.5)	(11.4)	(2.1)	**(15.0)**
Net book value at 1st January	23.9	5.0	3.9	7.3	**40.1**
Additions	–	–	2.5	2.4	**4.9**
Amortization	–	(0.2)	(2.4)	(0.3)	**(2.9)**
Net book value at 31st December	**23.9**	**4.8**	**4.0**	**9.4**	**42.1**
Cost	23.9	6.5	16.7	11.9	**59.0**
Amortization and impairment	–	(1.7)	(12.7)	(2.5)	**(16.9)**
	23.9	**4.8**	**4.0**	**9.4**	**42.1**
2011					
Cost	23.9	6.5	7.8	38.9	77.1
Amortization and impairment	–	(1.3)	(4.7)	(3.7)	(9.7)
Net book value at 1st January	23.9	5.2	3.1	35.2	67.4
Exchange differences	–	–	(0.1)	1.4	1.3
Additions	–	–	3.0	0.9	3.9
Amortization	–	(0.2)	(2.1)	(0.3)	(2.6)
Impairment charge	–	–	–	(0.9)	(0.9)
Transfer to tangible assets	–	–	–	(29.0)	(29.0)
Net book value at 31st December	23.9	5.0	3.9	7.3	40.1
Cost	23.9	6.5	15.3	9.4	55.1
Amortization and impairment	–	(1.5)	(11.4)	(2.1)	(15.0)
	23.9	5.0	3.9	7.3	40.1

Management has performed an impairment review of the carrying amount of goodwill at 31st December 2012. 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 individual hotel budgets prepared on the basis of assumptions reflective of the prevailing market conditions, and are discounted appropriately. Key assumptions used for value-in-use calculations include average growth rates of between 4% to 18% to extrapolate cash flows over a five-year period after which the growth rate is assumed up to 5% in perpetuity, which may vary across the Group's geographical locations, and are based on management expectations for the market development; and pre-tax discount rates of around 10% 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 is required.

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

The remaining amortization periods for intangible assets are as follows:

Leasehold land	10 to 30 years
Computer software	3 to 5 years
Development costs	15 to 40 years

9 Tangible assets

	Freehold properties US$m	Leasehold properties & improvements US$m	Plant & machinery US$m	Furniture equipment & motor vehicles US$m	Total US$m
2012					
Cost	354.0	719.9	94.3	263.0	**1,431.2**
Depreciation and impairment	(51.0)	(130.6)	(54.1)	(157.5)	**(393.2)**
Net book value at 1st January	303.0	589.3	40.2	105.5	**1,038.0**
Exchange differences	10.3	7.8	0.4	(0.2)	**18.3**
Additions	2.0	29.7	4.4	13.9	**50.0**
Disposals	–	–	–	(0.1)	**(0.1)**
Depreciation charge	(3.7)	(16.6)	(6.5)	(23.9)	**(50.7)**
Net book value at 31st December	**311.6**	**610.2**	**38.5**	**95.2**	**1,055.5**
Cost	366.7	756.3	98.9	272.3	**1,494.2**
Depreciation and impairment	(55.1)	(146.1)	(60.4)	(177.1)	**(438.7)**
	311.6	**610.2**	**38.5**	**95.2**	**1,055.5**
2011					
Cost	350.0	673.0	89.7	220.2	1,332.9
Depreciation and impairment	(41.4)	(116.2)	(52.0)	(137.7)	(347.3)
Net book value at 1st January	308.6	556.8	37.7	82.5	985.6
Exchange differences	(2.0)	3.6	(0.4)	(1.6)	(0.4)
Additions	0.1	22.1	8.3	40.6	71.1
Disposals	–	(0.1)	–	(0.1)	(0.2)
Depreciation charge	(3.7)	(14.7)	(5.4)	(23.3)	(47.1)
Transfer from intangible assets	–	21.6	–	7.4	29.0
Net book value at 31st December	303.0	589.3	40.2	105.5	1,038.0
Cost	354.0	719.9	94.3	263.0	1,431.2
Depreciation and impairment	(51.0)	(130.6)	(54.1)	(157.5)	(393.2)
	303.0	589.3	40.2	105.5	1,038.0

Freehold properties include a property of US$99.8 million (2011: US$100.6 million), which is stated net of tax increment financing of US$25.6 million (2011: US$26.4 million) (refer note 18).

Net book value of leasehold properties acquired under finance leases amounted to US$184.5 million (2011: US$184.4 million).

Rental income from properties and other tangible assets amounted to US$11.9 million (2011: US$10.5 million) (refer note 2).

9 Tangible assets *continued*

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

	2012 US$m	2011 US$m
Within one year	**12.5**	9.2
Between one and two years	**10.6**	7.5
Between two and five years	**19.7**	17.4
	42.8	34.1

Certain of the hotel properties are pledged as security for bank borrowings as shown in note 17.

Analysis of additions by geographical area		
– Hong Kong	**10.0**	10.5
– Other Asia	**3.5**	1.9
– Europe	**33.7**	56.3
– The Americas	**2.8**	2.4
	50.0	71.1
Analysis of additions by activity		
– Hotel ownership	**49.4**	70.8
– Hotel management	**0.6**	0.3
	50.0	71.1
Analysis of depreciation by geographical area		
– Hong Kong	**(15.9)**	(15.4)
– Other Asia	**(10.0)**	(10.6)
– Europe	**(20.9)**	(17.2)
– The Americas	**(3.9)**	(3.9)
	(50.7)	(47.1)
Analysis of depreciation by activity		
– Hotel ownership	**(49.5)**	(45.5)
– Hotel management	**(1.2)**	(1.6)
	(50.7)	(47.1)

10 Associates

	2012 US$m	2011 US$m
Listed associate – OHTL PCL	**20.3**	16.1
Unlisted associates	**88.3**	62.3
Share of attributable net assets	**108.6**	78.4
Fair value of listed associate	**81.1**	76.6
The Group's share of assets, liabilities, capital commitments, contingent liabilities and results of associates are summarized below:		
Total assets	**305.8**	273.4
Total liabilities	**(197.2)**	(195.0)
Attributable net assets	**108.6**	78.4
Revenue	**132.7**	122.8
Profit after tax	**15.5**	9.8
Capital commitments	**6.8**	8.7
Contingent liabilities	**–**	–
Movements of associates for the year:		
At 1st January	**78.4**	77.9
Share of results after tax and non-controlling interests	**15.5**	9.8
Share of other comprehensive income after tax and non-controlling interests	**4.8**	(2.7)
Investments in and loans to associates (refer note 24c)	**19.3**	1.2
Dividends received	**(9.4)**	(7.8)
At 31st December	**108.6**	78.4

11 Loans receivable

	2012 US$m	2011 US$m
At 1st January	–	4.7
Exchange differences	–	0.5
Repayment	**(1.5)**	(3.4)
Writeback of/(provisions against) loans receivable	**1.5**	(1.8)
At 31st December	–	–

As at 31st December 2012, the loans receivable comprised (i) a loan of US$2.4 million, bearing interest at EURO LIBOR + 2%; and (ii) a loan of US$1.5 million, bearing interest at 10%; on which full provisions have been made.

12 Pension plans

The Group has a number of defined benefit pension plans, covering all the main territories in which it operates with the major plans relating to employees in Hong Kong and South East Asia. Most of the pension plans are final salary defined benefit plans and are funded. The assets of the funded plans are held independently of the Group's assets in separate trustee administered funds. The Group's major plans are valued by independent actuaries annually using the projected unit credit method.

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

	2012 Weighted average %	2011 Weighted average %
Discount rate applied to pension obligations	**3.4**	4.5
Expected return on plan assets at 1st January	**7.5**	7.5
Future salary increases	**5.0**	5.0

The expected return on plan assets is determined on the basis of long-term average returns on global equities of 5.2% to 13.1% per annum and global bonds of 2.0% to 2.7% per annum, and the long-term benchmark allocation of assets between equities and bonds in each plan.

12 Pension plans *continued*

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

	2012 US$m	2011 US$m
Fair value of plan assets	**68.5**	62.4
Present value of funded obligations	**(57.9)**	(50.1)
Net pension assets	**10.6**	12.3
Analysis of net pension assets		
Pension assets	**11.2**	12.5
Pension liabilities	**(0.6)**	(0.2)
	10.6	12.3
Movements in the fair value of plan assets		
At 1st January	**62.4**	67.3
Exchange differences	**0.3**	0.1
Expected return on plan assets	**4.5**	5.0
Actuarial gains/(losses)	**2.8**	(8.7)
Contributions from company	**2.0**	1.0
Contributions from plan members	**0.8**	0.7
Benefits paid	**(4.2)**	(3.1)
Transfer (out)/in other plans	**(0.1)**	0.1
At 31st December	**68.5**	62.4
Movements in the present value of obligations		
At 1st January	**(50.1)**	(48.1)
Exchange differences	**(0.2)**	(0.1)
Current service cost	**(3.8)**	(3.4)
Interest cost	**(2.2)**	(2.2)
Contributions from plan members	**(0.8)**	(0.7)
Actuarial (losses)/gains	**(5.1)**	1.4
Benefits paid	**4.2**	3.1
Transfer out/(in) other plans	**0.1**	(0.1)
At 31st December	**(57.9)**	(50.1)
The analysis of the fair value of plan assets at 31st December is as follows:		
Equity instruments	**34.7**	29.5
Debt instruments	**20.5**	20.2
Other assets	**13.3**	12.7
	68.5	62.4

12 Pension plans *continued*

The five year history of experience adjustments is as follows:

	2012 US$m	2011 US$m	2010 US$m	2009 US$m	2008 US$m
Fair value of plan assets	**68.5**	62.4	67.3	62.6	53.9
Present value of funded obligations	**(57.9)**	(50.1)	(48.1)	(46.6)	(47.3)
Surplus	**10.6**	12.3	19.2	16.0	6.6
Experience adjustments on plan assets	**2.8**	(8.5)	1.1	8.8	(30.7)
Percentage of plan assets (%)	**4.1**	13.6	1.6	14.1	57.0
Experience adjustments on plan obligations	**(1.8)**	2.5	2.1	3.2	(1.0)
Percentage of plan obligations (%)	**3.0**	5.0	4.4	6.8	2.2

The estimated amount of contributions expected to be paid to the plans in 2013 is US$3.0 million.

The amounts recognized in profit and loss are as follows:

	2012 US$m	2011 US$m
Current service cost	**3.8**	3.4
Interest cost	**2.2**	2.2
Expected return on plan assets	**(4.5)**	(5.0)
	1.5	0.6
Actual return/(loss) on plan assets in the year	**7.3**	(3.7)

The above amounts are all recognized in arriving at operating profit (refer note 2) and are included in cost of sales, selling and distribution costs and administration expenses.

13 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 US$m	Provisions and other temporary differences US$m	Total US$m
2012							
At 1st January	60.6	(3.5)	(4.7)	2.0	1.4	0.6	**56.4**
Exchange differences	0.8	–	–	(0.1)	0.1	–	**0.8**
Charged/(credited) to profit and loss	(1.5)	–	3.1	0.1	0.2	0.1	**2.0**
Charged/(credited) to other comprehensive income	–	0.8	–	(0.4)	–	–	**0.4**
At 31st December	**59.9**	**(2.7)**	**(1.6)**	**1.6**	**1.7**	**0.7**	**59.6**
Deferred tax assets	–	(2.7)	(1.6)	(0.2)	–	(0.2)	**(4.7)**
Deferred tax liabilities	59.9	–	–	1.8	1.7	0.9	**64.3**
	59.9	**(2.7)**	**(1.6)**	**1.6**	**1.7**	**0.7**	**59.6**
2011							
At 1st January	58.7	(3.4)	(11.2)	2.9	1.6	0.5	49.1
Exchange differences	–	–	–	–	(0.2)	–	(0.2)
Charged to profit and loss	1.9	–	6.5	0.1	–	0.1	8.6
Credited to other comprehensive income	–	(0.1)	–	(1.0)	–	–	(1.1)
At 31st December	60.6	(3.5)	(4.7)	2.0	1.4	0.6	56.4
Deferred tax assets	–	(3.5)	(4.7)	(0.1)	–	(0.2)	(8.5)
Deferred tax liabilities	60.6	–	–	2.1	1.4	0.8	64.9
	60.6	(3.5)	(4.7)	2.0	1.4	0.6	56.4

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$47.6 million (2011: US$50.5 million) arising from unused tax losses of US$207.8 million (2011: US$216.3 million) have not been recognized in the financial statements.

Expiry dates for deferred tax assets not recognized in relation to unused tax losses:

	2012 US$m	2011 US$m
Within one year	**2.7**	3.9
Between one and five years	**7.2**	7.6
Over five years	**11.2**	16.3
With no expiry dates	**26.5**	22.7
	47.6	50.5

Deferred tax assets of US$5.2 million (2011: US$5.7 million) have not been recognized in relation to temporary differences in subsidiaries.

Deferred tax liabilities of US$0.4 million (2011: US$0.4 million) arising on temporary differences associated with investments in subsidiaries of US$3.8 million (2011: US$3.8 million) have not been recognized as there is no current intention of remitting the retained earnings of these subsidiaries to the holding companies in the foreseeable future.

14 Debtors and prepayments

	2012 US$m	2011 US$m
Trade debtors		
– third parties	36.8	33.4
– associates	4.7	3.2
	41.5	36.6
– provision for impairment	(1.4)	(1.8)
	40.1	34.8
Other debtors		
– third parties	39.8	28.4
– associates	2.2	2.0
	42.0	30.4
– provision for impairment	(3.9)	(4.0)
	38.1	26.4
	78.2	61.2
Analysis by geographical area of operation		
– Hong Kong	20.4	19.7
– Other Asia	13.5	13.2
– Europe	30.9	16.4
– The Americas	13.4	11.9
	78.2	61.2

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

Fair value:		
Trade debtors	40.1	34.8
Other debtors*	12.9	14.3
	53.0	49.1

* Excluding prepayments, rental and other deposits.

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

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

14 Debtors and prepayments *continued*

At 31st December 2012, trade debtors of US$1.9 million (2011: US$1.9 million) and other debtors of US$3.9 million (2011: US$3.9 million) were impaired. The amounts of the provision were US$1.4 million (2011: US$1.8 million) and US$3.9 million (2011: US$4.0 million), respectively. It was assessed that a portion of the debtors is expected to be recovered. The ageing analysis of these debtors is as follows:

	Trade debtors		Other debtors	
	2012 US$m	2011 US$m	**2012 US$m**	2011 US$m
Below 30 days	**0.1**	0.1	**0.2**	0.4
Between 31 and 60 days	**0.2**	0.5	**–**	–
Between 61 and 90 days	**0.1**	0.1	**–**	0.1
Over 90 days	**1.5**	1.2	**3.7**	3.4
	1.9	1.9	**3.9**	3.9

At 31st December 2012, trade debtors of US$6.7 million (2011: US$4.6 million) and other debtors of US$0.9 million (2011: US$1.5 million), respectively, were past due but not impaired. The ageing analysis of these debtors is as follows:

	Trade debtors		Other debtors	
	2012 US$m	2011 US$m	**2012 US$m**	2011 US$m
Below 30 days	**1.6**	1.7	**0.8**	0.6
Between 31 and 60 days	**2.6**	1.7	**0.1**	0.4
Between 61 and 90 days	**1.0**	0.2	**–**	–
Over 90 days	**1.5**	1.0	**–**	0.5
	6.7	4.6	**0.9**	1.5

The risk of trade debtors and other debtors that are neither past due nor impaired at 31st December 2012 becoming impaired is low as they have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Movements in the provisions for impairment are as follows:

	Trade debtors		Other debtors	
	2012 US$m	2011 US$m	**2012 US$m**	2011 US$m
At 1st January	**(1.8)**	(1.9)	**(4.0)**	(3.4)
Additional provisions	**(0.3)**	(0.6)	**(0.3)**	(0.6)
Unused amounts reversed	**0.6**	–	**0.4**	–
Amounts written off	**0.1**	0.7	**–**	–
At 31st December	**(1.4)**	(1.8)	**(3.9)**	(4.0)

Other debtors are further analyzed as follows:

	2012 US$m	2011 US$m
Other amounts due from associates	**2.2**	2.0
Other receivables	**10.7**	12.3
Financial assets	**12.9**	14.3
Prepayments	**7.3**	7.1
Rental and other deposits	**17.4**	4.4
Other	**0.5**	0.6
	38.1	26.4

No debtors and prepayments have been pledged as security.

15 Cash at bank

	2012 US$m	2011 US$m
Deposits with banks and financial institutions	**381.4**	410.9
Bank balances	**71.0**	57.8
Cash balances	**1.3**	1.4
	453.7	470.1
Analysis by currency		
Euro	**7.5**	4.6
Hong Kong dollar	**15.9**	10.1
Japanese yen	**14.8**	10.4
Swiss franc	**0.7**	3.3
United Kingdom sterling	**9.7**	16.7
United States dollar	**389.5**	412.8
Other	**15.6**	12.2
	453.7	470.1

The weighted average interest rate on deposits with banks and financial institutions is 0.8% (2011: 0.6%) per annum.

16 Creditors and accruals

	2012 US$m	2011 US$m
Trade creditors	**35.4**	32.5
Accruals	**71.9**	68.3
Rental and other refundable deposits	**11.1**	11.1
Other creditors	**12.1**	10.8
Financial liabilities	**130.5**	122.7
Rental income received in advance	**1.0**	1.1
Other income received in advance	**4.3**	4.4
	135.8	128.2
Analysis by currency		
Euro	**15.9**	15.3
Hong Kong dollar	**51.5**	49.3
Japanese yen	**15.2**	12.1
Swiss franc	**5.1**	4.4
United Kingdom sterling	**13.7**	14.8
United States dollar	**26.8**	25.0
Other	**7.6**	7.3
	135.8	128.2

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

17 Borrowings

	2012 Carrying amount US$m	2012 Fair value US$m	2011 Carrying amount US$m	2011 Fair value US$m
Current				
– Bank overdrafts	**0.3**	**0.3**	1.0	1.0
Current portion of long-term borrowings				
– Bank loans	**2.9**	**3.0**	2.7	3.1
– Other borrowings	**6.5**	**6.5**	0.3	0.3
	9.4	**9.5**	3.0	3.4
Current borrowings	**9.7**	**9.8**	4.0	4.4
Long-term borrowings				
– Bank loans	**576.6**	**576.6**	568.3	568.3
– Other borrowings	**2.2**	**2.2**	8.5	8.5
– Tax increment financing (refer note 18)	**1.7**	**1.7**	1.7	1.7
Long-term borrowings	**580.5**	**580.5**	578.5	578.5
	590.2	**590.3**	582.5	582.9

The fair values are estimated using the expected future payments discounted at market interest rate of 0.3% (2011: 1.3%) per annum.

	2012 US$m	2011 US$m
Secured	**552.7**	541.1
Unsecured	**37.5**	41.4
	590.2	582.5

17 Borrowings *continued*

Borrowings of US$552.7 million (2011: US$541.1 million) are secured against the tangible fixed assets of certain subsidiaries. The book value of these tangible fixed assets as at 31st December 2012 was US$647.2 million (2011: US$639.5 million).

The borrowings are further summarized as follows:

	Fixed rate borrowings				
	Weighted average interest rates %	Weighted average period outstanding Years	US$m	Floating rate borrowings US$m	Total US$m
2012					
Euro	5.9	0.7	7.1	–	**7.1**
Hong Kong dollar	2.3	1.6	183.8	184.3	**368.1**
Swiss franc	1.5	19.0	2.3	51.4	**53.7**
United Kingdom sterling	3.0	1.5	32.6	97.9	**130.5**
United States dollar	6.0	4.3	1.7	–	**1.7**
Japanese yen	1.2	–	–	29.1	**29.1**
			227.5	**362.7**	**590.2**
2011					
Euro	5.9	1.7	8.3	–	8.3
Hong Kong dollar	2.2	2.6	183.4	184.3	367.7
Swiss franc	1.7	20.0	2.3	44.2	46.5
United Kingdom sterling	2.9	2.5	31.4	94.7	126.1
United States dollar	6.0	5.3	1.7	–	1.7
Japanese yen	1.2	–	–	32.2	32.2
			227.1	355.4	582.5

The weighted average interest rates and period of fixed rate borrowings are stated after taking into account hedging transactions (refer note 25).

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:

	2012 US$m	2011 US$m
Within one year	**369.8**	355.4
Between one and two years	**216.4**	8.3
Between two and three years	**–**	214.8
Between three and four years	**–**	–
Between four and five years	**1.7**	–
Beyond five years	**2.3**	4.0
	590.2	582.5

18 Tax increment financing

	2012 US$m	2011 US$m
Netted off against the net book value of the property (refer note 9)	25.6	26.4
Loan (refer note 17)	1.7	1.7
	27.3	28.1

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

The District agreed to contribute to the subsidiary US$33.0 million through the issuance of TIF Bonds in addition to US$1.7 million issued in the form of a loan, bearing simple interest at an annual rate of 6%. The US$1.7 million loan plus all accrued interest will be due on the earlier of 10th April 2017 or the date of the first sale of the hotel.

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 loan of US$1.7 million (2011: US$1.7 million) is included in long-term borrowings.

19 Segment information

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

	2012 US$m	2011 US$m
Analysis by geographical area		
– Hong Kong	406.3	410.7
– Other Asia	156.7	153.3
– Europe	527.9	495.9
– The Americas	115.3	96.6
	1,206.2	1,156.5

20 Share capital

	Ordinary shares in millions			
	2012	2011	2012 US$m	2011 US$m
Authorized:				
Shares of US¢5.00 each	1,500.0	1,500.0	75.0	75.0
Issued and fully paid:				
At 1st January	997.3	996.4	49.9	49.9
Issued under share incentive schemes	3.1	0.9	0.1	–
At 31st December	1,000.4	997.3	50.0	49.9
Outstanding under share incentive schemes	(0.4)	(0.6)	–	(0.1)
At 31st December	1,000.0	996.7	50.0	49.8

21 Share premium

	2012 US$m	2011 US$m
At 1st January	180.1	179.0
Issued under share incentive schemes	2.3	1.1
At 31st December	182.4	180.1
Outstanding under share incentive schemes	(0.3)	(0.4)
At 31st December	182.1	179.7

22 Senior Executive Share Incentive Schemes

The Senior Executive Share Incentive Schemes were set up in order to provide selected executives with options to purchase ordinary shares in the Company.

The exercise price of the granted options is based on the average market price for the five trading days immediately preceding the date of grant of the options. Options are vested in tranches over a period of up to five years and are exercisable for up to ten years following the date of grant. Prior to the adoption of the 2005 Plan on 4th May 2005, ordinary shares were issued on the date of grant of the options to the Trustee of the Schemes, Mandarin Oriental Overseas (PTC) Limited, a wholly-owned subsidiary undertaking, which holds the ordinary shares until the options are exercised. Under the 2005 Plan, ordinary shares may be issued upon exercise of the options.

The shares issued under the Schemes held on trust by the wholly-owned subsidiary are, for presentation purposes, netted off the Company's share capital in the consolidated balance sheet (refer note 20) and the premium attached to them is netted off the share premium account (refer note 21).

Movements for the year:

	2012		2011	
	Weighted average exercise price US$	Options in millions	Weighted average exercise price US$	Options in millions
At 1st January	1.51	32.0	1.38	28.9
Granted	1.71	7.1	2.11	5.5
Exercised	0.79	(3.3)	1.01	(1.5)
Repurchased and cancelled	1.76	(0.8)	1.57	(0.9)
At 31st December	1.62	35.0	1.51	32.0

The average share price during the year was US$1.47 (2011: US$1.86) per share.

22 Senior Executive Share Incentive Schemes *continued*

Outstanding at 31st December:

		Ordinary shares in millions	
Expiry date	Exercise price US$	**2012**	2011
2014	0.6	–	0.1
2015	0.8	**0.4**	0.5
2016	1.0-1.4	**2.9**	3.9
2017	1.9	**3.5**	3.8
2018	1.1-1.7	**7.7**	7.8
2019	0.7	**2.0**	4.1
2020	1.4	**6.1**	6.3
2021	2.1	**5.3**	5.5
2022	1.7	**7.1**	–
Total outstanding		**35.0**	32.0
of which exercisable		**17.3**	16.9

The fair value of options granted during the year, determined using the Trinomial valuation model, was US$2.6 million (2011: US$2.5 million). The significant inputs into the model, based on the weighted average number of options issued, were share price of US$1.62 (2011: US$2.02) at the grant date, exercise price shown above, expected volatility based on the last seven years of 30% (2011: 26%), dividend yield of 3.4% (2011: 3.4%), option life disclosed above, and annual risk-free interest rate of 2.0% (2011: 3.4%). Options are assumed to be exercised at the end of the seventh year following the date of grant.

23 Dividends

	2012 US$m	2011 US$m
Final dividend in respect of 2011 of US¢4.00 (2010: US¢3.00) per share	**39.9**	29.9
Interim dividend in respect of 2012 of US¢2.00 (2011: US¢2.00) per share	**20.0**	19.9
	59.9	49.8

A final dividend in respect of 2012 of US¢5.00 (2011: US¢4.00) per share amounting to a total of US$50.0 million (2011: US$39.9 million) is proposed by the Board. The dividend proposed will not be accounted for until it has been approved at the Annual General Meeting. The amount will be accounted for as an appropriation of revenue reserves in the year ending 31st December 2013.

24 Notes to consolidated cash flow statement

a) Other non-cash items

	2012 US$m	2011 US$m
Gain on *One Hyde Park* lease space*	–	(10.8)
Writeback of/(provisions against) asset impairment (refer note 2)	**(1.5)**	1.6
Net foreign exchange losses/(gains)	**0.8**	(0.2)
Share-based payment	**2.6**	2.6
Operating lease adjustments	–	3.9
Others	**(1.2)**	2.5
	0.7	(0.4)

* Gain on *One Hyde Park* lease space of US$10.1 million (refer note 7) is stated after reflecting transaction costs of US$0.7 million from the gross gain of US$10.8 million.

b) Movements in working capital

	2012 US$m	2011 US$m
Increase in stocks	**(0.4)**	(1.7)
Increase in debtors and prepayments	**(4.2)**	(3.4)
Increase in creditors and accruals	**7.7**	23.7
	3.1	18.6

c) Investments in and loans to associates included a loan to Mandarin Oriental, New York of US$19.3 million (2011: US$1.2 million).

d) Analysis of balances of cash and cash equivalents

	2012 US$m	2011 US$m
Cash at bank (refer note 15)	**453.7**	470.1
Bank overdrafts (refer note 17)	**(0.3)**	(1.0)
	453.4	469.1

25 Derivative financial instruments

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

	2012		2011	
	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 – interest rate swaps and caps	–	**15.5**	–	19.2
At 31st December	–	**15.5**	–	19.2

The notional principal amounts of the outstanding interest rate swap and cap contracts at 31st December 2012 were US$249.1 million (2011: US$246.3 million).

At 31st December 2012, the fixed interest rates relating to interest rate swaps and caps vary from 2.9% to 7.0% (2011: 2.9% to 7.0%).

The fair values of interest rate swaps are based on the estimated cash flows discounted at market rates ranging from 0.2% to 1.0% (2011: 0.4% to 1.9%) per annum.

26 Financial guarantee

	2012 US$m	2011 US$m
Guarantee in respect of facilities made available to an associate	**20.1**	20.4

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.

27 Commitments

	2012 US$m	2011 US$m
Capital commitments:		
Authorized not contracted	**8.8**	8.9
Contracted not provided	**14.9**	27.0
	23.7	35.9
Operating lease commitments:		
Total commitments under operating leases		
– due within one year	**20.6**	20.7
– due between one and two years	**20.5**	20.9
– due between two and three years	**19.8**	20.7
– due between three and four years	**19.4**	20.1
– due between four and five years	**19.4**	19.9
– due beyond five years	**332.5**	375.2
	432.2	477.5

No future sublease payments are receivable relating to the above operating leases (2011: nil).

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

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

28 Related party transactions

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

In the normal course of business, the Group undertakes a variety of transactions with its associates and with JMH and its subsidiaries and associates. In addition, the Group paid a management fee of US$0.4 million (2011: US$0.3 million) to Jardine Matheson Limited ('JML'), a subsidiary of JMH, being a fee of 0.5% of the Group's net profit in consideration for certain management consultancy services provided by JML. In 2011, the Group also received rental payment in respect of a residential property from JML based on normal market terms of US$0.6 million. The Group has US$0.1 million payable to JML as at 31st December 2012 (2011: US$0.1 million).

28 Related party transactions *continued*

During 2012, the Group managed five (2011: five) associate hotels and received management fees of US$14.9 million (2011: US$12.4 million) based on long-term management agreements on normal commercial terms. The outstanding balances with associates are set out in debtors and prepayments in note 14.

The Group uses Jardine Lloyd Thompson ('JLT'), an associate of JMH, to place certain of its insurance. Brokerage fees and commissions, net of rebates, paid by the Group in 2012 to JLT amounted to US$0.6 million (2011: US$0.6 million). The Group has no outstanding balance with JLT as at 31st December 2012 (2011: nil).

The Group provides hotel management services to Hongkong Land ('HKL'), a subsidiary of JSH. Total management fees received from HKL in 2012 amounted to US$3.6 million (2011: US$3.0 million), based on long-term management agreements on normal commercial terms.

Details of Directors' emoluments (being the key management personnel compensation) are shown on pages 80 and 81 under the heading of 'Directors' appointment, retirement, remuneration and service contracts'.

29 Summarized balance sheet of the Company

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

	2012 US$m	2011 US$m
Subsidiaries	864.2	862.5
Net current liabilities	(1.1)	(1.0)
Net operating assets	863.1	861.5
Share capital (refer note 20)	50.0	49.8
Share premium (refer note 21)	182.4	180.1
Revenue and other reserves	630.7	631.6
Shareholders' funds	863.1	861.5

Subsidiaries are shown at cost less amounts provided.

30 Post balance sheet event

On 8th February 2013, the Group completed the acquisition of the freehold interest in the building housing Mandarin Oriental, Paris and two retail units from Société Foncière Lyonnaise ('SFL') for €290 million (US$388.9 million). The Group had paid a €10 million (US$13.1 million) advance deposit prior to the year end, with the remaining balance of €280 million (US$375.8 million) paid in February 2013.

As at the balance sheet date (i.e. prior to the acquisition), the Group had a 12-year lease on the hotel which commenced on 18th April 2011 with an option to renew for a further 12 years; while the retail units were leased by SFL to third party tenants.

Principal Subsidiaries, Associates and Managed Hotels

as at 31st December 2012

Principal country	Company name	Main activities	Attributable interest % 2012	Attributable interest % 2011	Issued share capital	Hotel profile
Subsidiaries						
Hong Kong	Mandarin Oriental Hotel Group International Limited	Management	**100**	100	US$12,000	–
	Mandarin Oriental Hotel Group Limited	Management	**100**	100	HK$60,000,000	–
	Mandarin Oriental, Hong Kong Limited	Owner: Mandarin Oriental, Hong Kong	**100**	100	HK$33,000,000	501 rooms. Lease expiry 2895
	Excelsior Hotel (BVI) Limited	Owner: The Excelsior, Hong Kong	**100**	100	US$100	884 rooms. Lease expiry 2842
Japan	Mandarin Oriental Tokyo KK	Owner: Mandarin Oriental, Tokyo	**100**	100	Yen 10,000,000	178 rooms. Lease expiry 2035
Philippines	Manila Mandarin Hotel Incorporated	Owner: Mandarin Oriental, Manila	**96.2**	96.2	Peso 288,918,400	442 rooms. Lease expiry 2026
Indonesia	P.T. Jaya Mandarin Agung	Owner: Mandarin Oriental, Jakarta	**96.9**	96.9	Rup 266,300,230,000	272 rooms. Lease expiry 2023
United Kingdom	Mandarin Oriental Hyde Park Limited	Owner: Mandarin Oriental Hyde Park, London	**100**	100	GBP 4,493,484 GBP 1,578,791 *(Preference share)*	194 rooms. Freehold
Switzerland	Société Immobilière de Mandarin Oriental (Genèva) SA	Owner: Mandarin Oriental, Geneva	**85.3**	85.3	CHF 6,800,000	190 rooms. Lease expiry 2040
	Société pour l'Exploitation de Mandarin Oriental (Genèva) SA		**100**	100	CHF 10,800,000	–
Germany	Dinavest International Holdings B.V.	Owner: Mandarin Oriental, Munich	**100**	100	Euro 3,632,000	73 rooms. Freehold
France	MOHG Hotel (Paris) Sarl	Owner: Mandarin Oriental, Paris	**100**	100	Euro 16,507,500	138 rooms (refer note 30)
United States	Portals Hotel Site LLC	Owner: Mandarin Oriental, Washington D.C.	**80**	80	–	400 rooms. Freehold
Associates						
Singapore	Marina Bay Hotel Private Limited	Owner: Mandarin Oriental, Singapore	**50**	50	S$141,500,000	527 rooms. Lease expiry 2079
Thailand	OHTL PCL	Owner: Mandarin Oriental, Bangkok	**44.9**	44.9	Baht 160,000,000	393 rooms. Various freehold/leasehold
Malaysia	Asas Klasik Sdn Bhd	Owner: Mandarin Oriental, Kuala Lumpur	**25**	25	RM 130,000,000	632 rooms. Freehold
Thailand	Chaophaya Development Corporation Limited	Owner: River City Shopping Complex	**49**	49	Baht 120,000,000	–
United States	Columbus Centre Hotel LLC	Owner: Mandarin Oriental, New York	**25**	25	–	243 rooms. Freehold
United States	Swire Brickell Key Hotel Limited	Owner: Mandarin Oriental, Miami	**25**	25	–	326 rooms. Freehold
Managed Hotels						
Hong Kong	The Landmark Mandarin Oriental, Hong Kong		**–**	–	–	113 rooms
Macau	Grand Lapa, Macau		**–**	–	–	416 rooms
Macau	Mandarin Oriental, Macau		**–**	–	–	213 rooms
China	Mandarin Oriental, Sanya		**–**	–	–	296 rooms
Thailand	Mandarin Oriental Dhara Dhevi, Chiang Mai		**–**	–	–	123 rooms
Czech Republic	Mandarin Oriental, Prague		**–**	–	–	99 rooms
Spain	Mandarin Oriental, Barcelona		**–**	–	–	98 rooms
United States	Mandarin Oriental, San Francisco		**–**	–	–	158 rooms
United States	Mandarin Oriental, Boston		**–**	–	–	148 rooms
United States	Mandarin Oriental, Las Vegas		**–**	–	–	392 rooms
United States	Mandarin Oriental, Atlanta		**–**	–	–	127 rooms
Bermuda	Elbow Beach, Bermuda		**–**	–	–	98 rooms

Independent Auditors' Report

To the members of Mandarin Oriental International Limited

Report on the financial statements

We have audited the accompanying consolidated financial statements of Mandarin Oriental International Limited (the 'Company') and its subsidiaries (together the 'Group') which comprise the Consolidated Balance Sheet as at 31st December 2012 and the Consolidated Profit and Loss Account, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The Company's Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and with the requirements of Section 90 of the Bermuda Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31st December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Bermuda Companies Act.

Report on legal and regulatory requirements

We have nothing to report in respect of the following matters that under the UK Listing Rules we are required to review:

- Directors' Statement in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Other matters

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
London
United Kingdom
7th March 2013

Five Year Summary

Consolidated Profit and Loss Account

	2008 US$m	2009 US$m	2010 US$m	2011 US$m	**2012 US$m**
Revenue	530.0	438.0	513.2	614.2	**648.3**
Operating profit	86.2	23.6	64.9	89.1	**85.9**
Net financing charges	(17.0)	(15.2)	(13.1)	(12.0)	**(11.1)**
Share of results of associates and joint ventures	15.3	(4.8)	4.3	9.8	**15.5**
Gains on disposal of associate and joint venture	–	80.8	–	–	**–**
Profit before tax	84.5	84.4	56.1	86.9	**90.3**
Tax	(18.3)	(1.1)	(12.0)	(19.0)	**(17.7)**
Profit after tax	66.2	83.3	44.1	67.9	**72.6**
Profit attributable to shareholders	66.6	83.4	44.4	67.5	**72.3**
Underlying profit attributable to shareholders	66.6	12.5	44.4	59.0	**70.8**
Earnings per share (US¢)	6.79	8.47	4.48	6.78	**7.24**
Underlying earnings per share (US¢)	6.79	1.27	4.48	5.92	**7.09**
Dividends per share (US¢)	7.00	7.00	5.00	6.00	**7.00**

Consolidated Balance Sheet

Intangible assets	46.4	46.9	67.4	40.1	**42.1**
Tangible assets	936.5	976.6	985.6	1,038.0	**1,055.5**
Associates and joint ventures	84.7	68.4	77.9	78.4	**108.6**
Other investments	3.9	4.3	4.9	6.0	**7.2**
Loans receivable	4.8	3.1	4.7	–	**–**
Pension assets	6.6	16.5	19.3	12.5	**11.2**
Deferred tax assets	16.5	15.5	15.0	8.5	**4.7**
Net current assets	490.0	413.5	385.3	394.9	**382.8**
Long-term borrowings	(653.9)	(557.1)	(574.5)	(578.5)	**(580.5)**
Deferred tax liabilities	(52.7)	(58.9)	(64.1)	(64.9)	**(64.3)**
Pension liabilities	–	(0.5)	(0.1)	(0.2)	**(0.6)**
Other non-current liabilities	(19.2)	(12.7)	(17.5)	(19.2)	**(15.5)**
Net operating assets	863.6	915.6	903.9	915.6	**951.2**
Share capital	49.2	49.4	49.8	49.8	**50.0**
Share premium	168.9	171.3	178.3	179.7	**182.1**
Revenue and other reserves	641.0	690.6	671.2	681.2	**713.8**
Shareholders' funds	859.1	911.3	899.3	910.7	**945.9**
Non-controlling interests	4.5	4.3	4.6	4.9	**5.3**
Total equity	863.6	915.6	903.9	915.6	**951.2**
Net asset value per share (US$)	0.87	0.92	0.90	0.91	**0.95**

Consolidated Cash Flow Statement

Cash flows from operating activities	123.9	81.3	114.2	146.3	**126.0**
Cash flows from investing activities	(57.3)	28.9	(81.4)	(65.0)	**(87.0)**
Net cash flow before financing activities	66.6	110.2	32.8	81.3	**39.0**
Cash flow per share from operating activities (US¢)	12.63	8.25	11.53	14.69	**12.61**

Responsibility Statement

The Directors of the Company confirm to the best of their knowledge that:

a) the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, including International Accounting Standards and Interpretations adopted by the International Accounting Standards Board; and

b) the sections of this Report, including the Chairman's Statement, Group Chief Executive's Review and Principal Risks and Uncertainties, which constitute the management report include a fair review of all information required to be disclosed by the Disclosure and Transparency Rules 4.1.8 to 4.1.11 issued by the Financial Services Authority of the United Kingdom.

For and on behalf of the Board

Edouard Ettedgui
Stuart Dickie
Directors
7th March 2013

Corporate Governance

Mandarin Oriental International Limited is incorporated in Bermuda. The Company was established as an Asian-based hotel group and has since extended its operations to key locations around the world. The Company's equity shares have a premium listing on the London Stock Exchange, and secondary listings in Bermuda and Singapore. The Company attaches importance to the corporate stability that is fundamental to the Group's ability to pursue its long-term development strategy. It is committed to high standards of governance. Its approach, however, developed over many years, differs from that envisaged by the UK Corporate Governance Code (the 'UK Code'), which was originally introduced as a guide for United Kingdom incorporated companies listed on the London Stock Exchange. As provided in the Listing Rules issued by the Financial Services Authority in the United Kingdom, the Company's premium listed status requires that this Report address how the main principles of the UK Code have been applied by the Company, and explain the reasons for the different approach adopted by the Company as compared to the UK Code's provisions. The Company's governance differs from that contemplated by provisions of the UK Code on board balance and refreshment, director independence, board evaluation procedures, nomination and remuneration committees and the appointment of a senior independent director.

The Management of the Group

The Company has its dedicated executive management under the Group Chief Executive. The Memorandum of Association of the Company, however, provides for the chairman of Jardine Matheson Holdings Limited ('Jardine Matheson') to be, or to appoint, the Managing Director of the Company. The managing director of Jardine Matheson has been so appointed. Reflecting this, and the 74% interest of the Jardine Matheson group in the Company's share capital, the Group Chief Executive and the Managing Director meet regularly. Similarly, the board of the Hong Kong-based Group management company, Mandarin Oriental Hotel Group International Limited ('MOHG'), and its finance committee are chaired by the Managing Director and include Group executives as well as the deputy managing director, the group finance director, the group strategy director and the group general counsel of Jardine Matheson.

The Board

The Company currently has a Board of 17 Directors: the Group Chief Executive and Chief Financial Officer; eight executives of Jardine Matheson; and seven non-executive Directors. Their names and brief biographies appear on pages 24 and 25 of this Report. The Chairman has been appointed in accordance with the provisions of the Bye-laws of the Company, which provide that the chairman of Jardine Matheson, or any Director nominated by him, shall be the Chairman of the Company. The composition and operation of the Board reflect the Company's commitment to its long-term strategy, shareholding structure and tiered approach to oversight and management as described in this Report. These factors explain the balance on the Board between executive and non-executive Directors, the stability of the Board, the absence of nomination and remuneration committees and the conduct of Board evaluation procedures. The Board regards relevant business experience and relationships as more valuable attributes of its non-executive Directors than formal independence criteria. Accordingly the Board has not designated a 'senior independent director' as set out in the UK Code. Recommendations and decisions on remuneration result from consultations between the Chairman and the Managing Director as well as other Directors as they consider appropriate.

Among the matters which the Board of the Company decides are the Group's business strategy, its annual budget, dividends and major corporate activities. Responsibility for implementing the Group's strategy is delegated to the Company's executive management, with decision-making authority within designated financial parameters delegated to the MOHG finance committee. In addition, as part of the Company's tiered approach to oversight and management, certain Directors of the Company who do not serve on the board of MOHG and who are based outside Asia make regular visits to Asia and Bermuda where they participate in four annual strategic reviews. All of these reviews precede the Board meetings. These Directors are not directly involved in the operational management of the Group's business activities, but their knowledge and close oversight of the Group's affairs reinforces the process by which business is reviewed before consideration by the Board.

The Board is scheduled to hold four meetings in 2013 and ad hoc procedures are adopted to deal with urgent matters. In 2012 one meeting was held in Bermuda and three were held in Asia. All current Directors who held office in 2012 attended all four Board meetings, save that Julian Hui and Lincoln K.K. Leong attended three meetings and Lord Powell of Bayswater attended two meetings. Ben Keswick and Adam Keswick, who were appointed in April 2012, attended all three Board meetings held following their appointments to the Board. The Board receives high quality, up to date information for each of its meetings, which has previously been considered and approved at meetings of the board of MOHG. This information is also the subject of a strategy review in a cycle of meetings (in Bermuda or Asia, as appropriate) prior to consideration by the Board itself.

The division of responsibilities between the Chairman, the Managing Director and the Group Chief Executive is well established. The Chairman's role is to lead the Board as it oversees the Group's strategic and financial direction. The Managing Director's principal role is to act as chairman of MOHG and of its finance committee, while the responsibility for running the Group's business and all the executive matters affecting the Group rests with the Group Chief Executive.

Directors' appointment, retirement, remuneration and service contracts

Candidates for appointment as executive Directors of the Company, as executive directors of MOHG or as senior executives elsewhere in the Group may be sourced internally, from the Jardine Matheson group or externally using the services of specialist executive search firms. The aim is to appoint individuals who can apply international best practice within their area of expertise.

Each new Director is appointed by the Board and, in accordance with Bye-law 92 of the Company's Bye-laws, each new Director is subject to retirement at the first Annual General Meeting after appointment. Thereafter, the Director will be subject to retirement by rotation pursuant to Bye-law 85 whereby one-third of the Directors retire at the Annual General Meeting each year. These provisions apply to both executive and non-executive Directors, but the requirement to retire by rotation pursuant to Bye-law 85 does not extend to the Chairman or Managing Director.

On 1st March 2012, Lincoln K.K. Leong was appointed as a Director of the Company. On 1st April 2012, Ben Keswick succeeded Anthony Nightingale as Managing Director of the Company and the latter remains as a non-executive Director. Adam Keswick was appointed as a Director with effect from 1st April 2012. On 31st December 2012, Robert Léon retired from the Board. Lord Sassoon was appointed as a Director with effect from 23rd January 2013. In accordance with Bye-law 85, Stuart Dickie, Lord Leach of Fairford, Lord Powell of Bayswater and Giles White retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election. In accordance with Bye-law 92, Lord Sassoon will also retire, and, being eligible, offers himself for re-election. Stuart Dickie has a service contract with a subsidiary of the Company that provides for termination with a notice period of six months. None of the other Directors proposed for re-election has a service contract with the Company or its subsidiaries.

Simon Keswick is to step down as Chairman of the Company on 15th May 2013 and will continue thereafter as a non-executive Director. He will be succeeded as Chairman by Ben Keswick, who will retain his position as Managing Director.

The Company's policy is to offer competitive remuneration packages to its senior executives. It is recognized that, due to the nature of the Group and its diverse geographic base, a number of its senior executives are required to be offered international terms and the nature of the remuneration packages is designed to reflect this.

Directors' fees, which are payable to all Directors other than the Group Chief Executive and the Chief Financial Officer, are decided upon by shareholders in general meeting as provided for by the Company's Bye-laws. A motion to increase the Directors' fees to US$40,000 each per annum and the fees for the Chairman and Managing Director to US$50,000 each per annum with effect from 1st January 2013 will be proposed at the forthcoming Annual General Meeting.

For the year ended 31st December 2012, the Directors received from the Group US$5.7 million (2011: US$6.1 million) in Directors' fees and employee benefits, being US$0.6 million (2011: US$0.5 million) in Directors' fees, US$4.4 million (2011: US$4.7 million) in short-term employee benefits including salary, bonuses, accommodation and deemed benefits in kind, US$0.1 million (2011: US$0.1 million) in post-employment benefits and US$0.6 million (2011: US$0.8 million) in share-based payments. The information set out in this paragraph forms part of the audited financial statements.

Senior executive share incentive schemes have also been established to provide longer-term incentives for executive Directors and senior managers. Share options are granted by the scheme trustee after consultation between the Chairman, the Managing Director and the Group Chief Executive as well as other Directors as they consider appropriate. Share options are granted at the then prevailing market prices and the scheme rules provide that they normally vest after the third anniversary of the date of grant. Grants may be made in a number of instalments. Share options are not granted to non-executive Directors.

The Company purchases insurance to cover its Directors against their costs in defending themselves in civil proceedings taken against them in that capacity and in respect of damages resulting from the unsuccessful defence of any proceedings. To the extent permitted by law, the Company also indemnifies its Directors. Neither the insurance nor the indemnity provides cover where the Director has acted fraudulently or dishonestly.

Directors' responsibilities in respect of the financial statements

The Directors are required under the Bermuda Companies Act 1981 to prepare financial statements for each financial year and to present them annually to the Company's shareholders at the Annual General Meeting. The financial statements should present fairly in accordance with International Financial Reporting Standards ('IFRS') the financial position of the Group at the end of the year and the results of its operations and its cash flows for the year then ended. The Directors consider that applicable accounting policies under IFRS, applied on a consistent basis and supported by prudent and reasonable judgements and estimates, have been followed in preparing the financial statements.

Going concern

The Directors are required to consider whether it is appropriate to prepare financial statements on the basis that the Company and the Group are going concerns. The Group prepares comprehensive financial forecasts and, based on these forecasts, cash resources and existing credit facilities, the Directors consider that the Company and the Group have adequate resources to continue in business for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Code of Conduct

The Group conducts business in a professional, ethical and even-handed manner. Its ethical standards are clearly set out in the Jardine Matheson group Code of Conduct, a set of guidelines to which every employee must adhere. The code requires that all Group companies comply with all laws of general application, all rules and regulations that are industry specific and proper standards of business conduct. The code prohibits the giving or receiving of illicit payments, and requires all employees to be treated fairly, impartially and with respect. It also requires that all managers must be fully aware of their obligations under the Code of Conduct and establish procedures to ensure compliance at all levels within their organizations. The Group has in place procedures by which employees can raise, in confidence, matters of serious concern in areas such as financial reporting or compliance.

Risk management and internal control

The Board has overall responsibility for the Group's system of risk management and internal control. The system of internal control is designed to manage, rather than eliminate, business risk; to help safeguard the Group's assets against fraud and other irregularities; and to give reasonable, but not absolute, assurance against material financial misstatement or loss.

The principal risks and uncertainties facing the Company are set out on pages 84 and 85.

Corporate Governance *Continued*

The Board has delegated to the audit committee of MOHG responsibility for reviewing areas of risk and uncertainty, the operation and effectiveness of the Group's system of internal control and the procedures by which these are monitored. The audit committee considers the system and procedures on a regular basis, and reports to the Board semi-annually. The members of the audit committee of MOHG are Ben Keswick, Mark Greenberg, Adam Keswick, James Riley and Giles White; they have extensive knowledge of the Group while at the same time not being directly involved in operational management. Ben Keswick and Adam Keswick became members of the MOHG audit committee following their appointments to the Board on 1st April 2012, and Ben Keswick succeeded Anthony Nightingale as chairman of the audit committee on that date. Ben Keswick will step down from the audit committee on 15th May 2013, upon his appointment as Chairman of the Company becoming effective, and will be succeeded as chairman of the audit committee by Adam Keswick. The Board considers that the members of the audit committee of MOHG have, collectively, the requisite skills, knowledge and experience to enable it to discharge its responsibilities in a proper manner. The two audit committee meetings held during the year were attended by all the then current members. The group chief executive and chief financial officer of MOHG, together with representatives of the internal and external auditors, also attend the audit committee meetings by invitation.

Executive management is responsible for the implementation of the system of internal control throughout the Group. The internal audit function monitors the effectiveness of the system and the approach taken by the business units to risk. The internal audit function is independent of the operating businesses and reports its findings, and recommendations for any corrective action required, to the audit committee of MOHG. The audit committee of MOHG also reviews the effectiveness of the internal audit function.

The Group has in place an organizational structure with defined lines of responsibility and delegation of authority. There are established policies and procedures for financial planning and budgeting; for information and reporting systems; for assessment of risk; and for monitoring the Group's operations and performance. The information systems in place are designed to ensure that the financial information reported is reliable and up to date.

The Company's policy on commercial conduct underpins the Group's internal control process, particularly in the area of compliance. The policy, as set out in the Code of Conduct, is reinforced and monitored by an annual compliance certification process.

The audit committee of MOHG has also been given the responsibility to oversee the effectiveness of the formal procedures for employees to raise any matters of serious concern, and is required to review any reports made under those procedures that are referred to it by the internal audit function.

Prior to completion and announcement of the half-year and year-end results, a review of the financial information and of any issues raised in connection with the preparation of the results, including the adoption of new accounting policies, is undertaken by the audit committee of MOHG with the executive management and a report is received from the external auditors. The audit committee of MOHG also assesses any reports on frauds identified during the period under review. The external auditors also have access to the full Board, in addition to the Group Chief Executive, Chief Financial Officer and other senior executives.

The audit committee of MOHG keeps under review the nature, scope and results of the external audit and the audits conducted by the internal audit function. The audit committee of MOHG also keeps under review the independence and objectivity of the external auditors, and as part of that process considers and approves the level and nature of non-audit work performed. The terms of reference of the audit committee of MOHG can be found on the Company's website at mandarinoriental.com.

Directors' share interests

The Directors of the Company in office on 25th March 2013 had interests (within the meaning of the Disclosure and Transparency Rules ('DTRs') of the Financial Services Authority (the 'FSA') of the United Kingdom) as set out below in the ordinary share capital of the Company. These interests include those notified to the Company in respect of the Directors' connected persons (as that term is used in the DTRs in relation to companies incorporated outside the United Kingdom).

Simon Keswick	19,858
Edouard Ettedgui	9,450,000
Stuart Dickie	216,867
Lincoln K.K. Leong	142,206

In addition, Edouard Ettedgui and Stuart Dickie held options in respect of 9,700,000 and 2,250,000 ordinary shares, respectively, issued pursuant to the Company's Senior Executive Share Incentive Schemes.

Substantial shareholders

As a non-UK issuer, the Company is subject to the DTRs pursuant to which a person must in certain circumstances notify the Company of the percentage of voting rights attaching to the share capital of the Company that he holds. The obligation to notify arises if that person acquires or disposes of shares in the Company which results in the percentage of voting rights which he holds reaching, exceeding or falling below 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75%.

The Company has been informed of the following holdings of voting rights of 5% or more attaching to the Company's issued ordinary share capital: (i) Jardine Strategic Holdings Limited ('Jardine Strategic') is directly interested in 737,275,281 ordinary shares carrying 73.57% of the voting rights and, by virtue of its interest in Jardine Strategic, Jardine Matheson is also interested in the same ordinary shares; and (ii) Neptune Investment Management Limited is directly interested in 55,593,000 ordinary shares carrying 5.55% of the voting rights. Apart from these shareholdings, the Company is not aware of any holders of voting rights of 5% or more attaching to the issued ordinary share capital of the Company as at 25th March 2013.

There were no contracts of significance with corporate substantial shareholders during the year under review.

Relations with shareholders

The 2013 Annual General Meeting will be held at The Fairmont Southampton, Bermuda on 15th May 2013. The full text of the resolutions and explanatory notes in respect of the meeting are contained in the Notice of Meeting which accompanies this Report. All shareholders are invited to attend the Annual General Meeting and participate in communicating with the Company. The Company holds regular meetings with institutional shareholders. A corporate website is maintained containing a wide range of information of interest to investors at mandarinoriental.com.

Securities purchase arrangements

At the Annual General Meeting held on 9th May 2012, shareholders renewed the approval of a general mandate authorizing the Directors to effect purchases by the Company or its subsidiaries of the Company's own ordinary shares of less than 15% in aggregate of its issued share capital.

Arrangements under which shareholders have agreed to waive dividends

Mandarin Oriental Overseas (PTC) Limited (the 'Trustee') has waived the interim dividend for 2012 in respect of the ordinary shares in which it was interested as the Trustee of the Company's Senior Executive Share Incentive Schemes. The Trustee held no ordinary shares in the Company on the record date for the recommended final dividend for 2012.

Related party transactions

Details of transactions with related parties entered into by the Company during the course of the year are included in note 28 to the financial statements on pages 72 and 73. There were no transactions entered into by the Company during the course of the year to which the related party transaction rules of the FSA in the United Kingdom apply.

Principal Risks and Uncertainties

The Board has overall responsibility for risk management and internal control. The process by which the Group identifies and manages risk is set out in more detail on pages 81 and 82 of the Corporate Governance section of this Report. The following are the principal risks and uncertainties facing the Company as required to be disclosed pursuant to the Disclosure and Transparency Rules issued by the Financial Services Authority in the United Kingdom and are in addition to the matters referred to in the Chairman's Statement and Group Chief Executive's Review.

Economic and financial risk

The Group's business is exposed to the risk of negative developments in global and regional economies and financial markets, either directly or through the impact on the Group's investment partners, third-party hotel owners and developers, bankers, suppliers or customers. These developments can result in recession, inflation, deflation, currency fluctuations, restrictions in the availability of credit, business failures, or increases in financing costs. Such developments may increase operating costs, reduce revenues, lower asset values or result in the Group being unable to meet in full its strategic objectives. These developments could also adversely affect travel patterns which would impact demand for the Group's products and services.

The steps taken by the Group to manage its exposure to financial risk are set out in the Financial Risk Management section in the financial statements on pages 42 to 45.

Commercial and market risk

Risks are an integral part of normal commercial practices, and where practicable steps are taken to mitigate such risks.

The Group operates within the global hotel industry which is highly competitive. Failure to compete effectively in terms of quality of product, levels of service or price can have an adverse effect on earnings. Significant pressure from competition or the oversupply of hotel rooms in any given market may also lead to reduced margins.

The Group competes with other luxury hotel operators for new management opportunities. Failure to establish and maintain relationships with hotel owners or developers could adversely affect the Group's business. The Group also makes investment decisions in respect of acquiring new hotel properties. The success of these investments is measured over the longer term and as a result is subject to market risk.

Mandarin Oriental's continued growth depends on the opening of individual hotels. Most of the Group's new hotel developments are controlled by third party owners and developers and can be subject to delays due to issues attributable to planning and construction, sourcing of finance, and the sale of residential units. In extreme circumstances, such factors might lead to the cancellation of a project.

Pandemic, terrorism, and natural disasters

The Group's business would be impacted by a global or regional pandemic as this would impact travel patterns, demand for the Group's products and services and could also affect the Group's ability to operate effectively. The Group's hotels are also vulnerable to the effects of terrorism, either directly through the impact of an act of terrorism or indirectly through the impact of generally reduced economic activity in response to the threat of or an actual act of terrorism.
In addition, a number of the territories in which the Group operates can experience from time to time natural disasters such as typhoons, floods, earthquakes and tsunamis.

Key agreements

The Group's business is reliant upon joint venture and partnership agreements, property leasehold arrangements, management, license and services agreements or other key contracts. Cancellation, expiry or termination, or the renegotiation of any of these key agreements and contracts, could have an adverse effect on the financial performance of individual hotels as well as the wider Group.

Intellectual property and value of the brand

Brand recognition is important to the success of the Group and significant resources have been invested in protecting its intellectual property in the form of trade marks, logos and domain names. Any material act or omission by any person working for or representing the Group's operations which is contrary to its standards could impair Mandarin Oriental's reputation and the equity value of the brand, as could any negative publicity regarding the Group's product or services.

Regulatory and political risk

The Group's business is subject to a number of regulatory environments in the territories in which it operates. Changes in the regulatory approach to such matters as employment legislation, tax rules, foreign ownership of assets, planning controls and exchange controls have the potential to impact the operations and profitability of the Group's business. Changes in the political environment, including prolonged civil unrest, could also affect the Group's business.

Shareholder Information

Financial calendar

2012 full-year results announced	7th March 2013
Share registers closed	25th to 29th March 2013
Annual General Meeting to be held	15th May 2013
2012 final dividend payable	22nd May 2013
2013 half-year results to be announced	1st August 2013*
Share registers to be closed	26th to 30th August 2013*
2013 interim dividend payable	16th October 2013*

* *Subject to change*

Dividends

Shareholders will receive their dividends in United States dollars, unless they are registered on the Jersey branch register where they will have the option to elect for sterling. These shareholders may make new currency elections for the 2012 final dividend by notifying the United Kingdom transfer agent in writing by 26th April 2013. The sterling equivalent of dividends declared in United States dollars will be calculated by reference to a rate prevailing on 8th May 2013. Shareholders holding their shares through The Central Depository (Pte) Limited ('CDP') in Singapore will receive United States dollars unless they elect, through CDP, to receive Singapore dollars.

Registrars and transfer agent

Shareholders should address all correspondence with regard to their shareholdings or dividends to the appropriate registrar or transfer agent.

Principal Registrar

Jardine Matheson International Services Limited, P.O. Box HM 1068, Hamilton HM EX, Bermuda

Jersey Branch Registrar

Capita Registrars (Jersey) Limited, 12 Castle Street, St Helier, Jersey JE2 3RT, Channel Islands

Singapore Branch Registrar

M & C Services Private Limited, 112 Robinson Road #05-01, Singapore 068902

United Kingdom Transfer Agent

Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, England

Press releases and other financial information can be accessed through the internet at mandarinoriental.com.

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